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REPORT ON CASH FLOWS AND THE INFORMATION GIVEN FOR THE BANK MANAGEMENT

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Abstract

The article focuses on the additional value of accounting information that can be given to the users of financial statements by a properly prepared statement of cash fl ows. It is based on the finding that the professional literature is inconsistent in distinguishing liquidity and profi tability information, and consequently also in distinguishing between the ratios calculated on that basis. It therefore stimulates an improvement in the quality of accounting information with a direct statement of cash fl ows, based on tracing instead of calculating the actual cash fl ow. On the basis of fi nancial statements, including a direct statement of cash flows, the ratio analysis of fi nancial statements should be approached from both aspects of profitability and cash return. The cash fl ow ratios would serve as a control mechanism over the assumptions used when preparing the balance sheet and income statement within the chosen fi nancial reporting framework

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Introductory observations

The modern trends in the development of the accounting information system for management needs, in general, should, on one hand, monitor the movements - the transformation of the *assets* and the *sources of assets* at the disposal of the legal entities, while on the other hand, opposing the *total expenditures with the total income* realized within a certain period of time, to determine valorized success or failure of the overall operation, ie. financial result.

It is known that such transformation of assets and resources can be seen from the Balance Sheet, while the insight into the Income Statement compares the size of the total incomes and expenditures for valorizing the financial result. However, despite such opportunities, such reports give a limited amount of information on the cash flows of the enterprise in the current accounting period. For example, if we look at the initial Balance Sheet of the enterprise on 01.01 and the last on 31.12, we can have information on the *balance of assets* (this new assets are acquired and disposed by the enterprise), i.e. information on the *balance of liabilities* (the number of liabilities that represent debts and the number of liquidated liabilities).

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On the other hand, the Income Statement provides information *on the resources* of the enterprise, but not a specific overview of the funds provided by business activities. We have concluded the following:

- *None of these reports shows a detailed overview of all cash inflows and outflows, i.e. the sources and the method of using cash in the accounting period.*

Taking into consideration such knowledge of the Balance Sheet and the Income Statement, in practice, the need arises, the managers precisely in their communication, management and decision making,as a necessity, to use the ***cash flow statement***. This need is confirmed by the adoption and application of the International Financial Reporting Standard IAS 7 - *Cash Flow Review.*

Cash Flow reports

In the terminology of the cash flow statement, the term "money" is a broader expression, while the term "cash" covers only the money in the cash register and the gyro account as well as the payment instruments which are recorded on the cash account in the Balance Sheet. For these reasons, we think that - ***a report on cash flows***is a more appropriate term and it will be used in our future and research work.

As the name itself shows, it is a **report that should give us full idea of the cash flows in the company, i.e.to show on what basis the company realized cash flow during the year, and on what basis cash outflows were made**.

According to that, the cash flow statement is an integral part of the financial statements, which, together with the other information, enables the beneficiaries (more specifically the management) to assess the changes in the net assets of the enterprise and to perceive liquidity and solvency so that they can manage the cash flows more efficiently and effectively, in order to adapt to the newly emerging changes in the enterprise.

When talking about this,in his research, Rusevski T.said: "In order to achieve this goal, the cash flow statement publishes information on: (1) the cash effects of the business operations during the accounting period, (2) the investment transactions, (3) financial transactions, and (4) the net increase or decrease in cash during the accounting period. "

Hence, the management of the enterprise through the relevant information received from the cash flow statement should have a complete overview of the cash receipts and cash payments of the enterprise during the accounting period. This implies that **the cash flow statement provides information on the needs of management in relation to the operating, investing and financial activities of a particular enterprise.**

What is characteristic of this financial report and which must always be kept in mind is that it covers the positions that mean cash flow and cash outflow and calculates the impact that these items had on the amount of available cash. In the context of this, Arsov S. will point out the following: "Be careful: cash, not net profit!" (Arsov , 2008, p. 23.)

> Information obtained from the cash flow statement allows the management to make a difference between **the profit** in the Income statement and the**net cash** in the Balance sheet at the end of the accounting period.

The analytical significance of the cash flow statement is enormous, which is why the number of enterprises that make it on a regular basis is growing.* In order to better understand the way of compiling it, we will use the equations that reflect the balance in this financial report.

In fact, we start from the well known equality in the previous part of our research where the equilibrium in the balance sheet is achieved when *the assets are equal to the capital and liabilities*. Mathematical equivalence can be shown on the following way:

Δ Assets = Δ Capital + Δ Liabilities

From this, it can be seen that the change in the size of the assets is equal to the sum of the changes on the side of the liabilities.

If we divide our assets into two parts, we get the following:

Δ Money + Δ Non-monetary asset = Δ Capital + Δ Liabilities

Hence the final equality is also performed:

D Money = Δ Capital + ΔLiabilities - Δ Non-monetary assets

From the equality it can be noted that any increase in non-monetary assets has a negative effect on cash and vice versa, any reduction has a positive reflection. With the elements of the liabilities (capital and obligations) we get the opposite proportions. Any increase in them leads to an increase in cash, and any reduction to cash reductions. Such a statement can be shown in tabular form as follows:

	CASH	
	increase	decrease
Assets	-	+
Liabilities	+	-

,(Arsov, 2008)

The published information about the sources, the use of the net increase or decrease of cash helps *managers* as internal users of information from the financial statements to know what is happening with their most liquid assets. While *investors* and *creditors* seem to maintain their balance on their checkbook and ask themselves how to prepare the tax return requirement that have to be returned on a cash basis. In other words, they are expected to understand the reasons and consequences of cash flows and net increase or decrease in cash.

1. Determination of cash flows depending on the activities of the enterprise

During the business year, we often ask ourselves the following questions:

- *Where do the money come from in our company?*
- *Why do we use the money in our company?*
- *What change occurred in the balance of cash during the accounting period?*

More comprehensive elaboration of the cash flow statement, through the classification of the activities presented in it, is the most appropriate answer to the previously asked questions.

Cash inflows and outflows during the accounting period in the cash flow statement are determined according to three different activities of the enterprise, such as *operational*, *investment* and *financial*.

1.1.Determining cash flows from operating activities

Operational activities represent **the main activity by which the enterprise generates incomes, without any investment or financial activities**. In other words, these main activities of the company provide incomes that make its material and financial basis from where the profits are formed at the end of the accounting year.

The volume of cash inflows and outflows arising from operating activities are a *keyindicator of the efficiency* of the enterprise. By efficiency we mean generating a sufficient amount of assets during the accounting period, in order to ensure smooth operational capability of the enterprise such as the following:

- ability to pay off loans;
- ability to pay for the dividends;
- ability to invest in new assets without engaging external sources of funding.

In the context of this, it is important to say that the information on the cash flows operating activities that are based on the passed period, so-called. *"historical information"* (S.N.) can be used in parallel with other current information, for planning future operating cash flows.

From the previously stated facts about the importance of the company's operational activities, the following can be concluded:

Cash inflows from **operating activities** of the enterprise during the accounting period are mainly realized from its basic operations and bring the biggest amount ofincomes and money assets.

As an example of more significant inflows and outflows of cash from operating activities are the following:

- incomes from sale of products and services;
- advances, claims and liabilities on this basis;
- inflows and outflows on the basis of taxes, contributions, salaries, insurance;
- purchase and sale of trading securities;
- all those activities that can be considered as part of the regular activities of the company.

(IAS 7, p. 158)

1.2.Determination of cash flows from investment activities

Investment (investing) activities relate to the **acquisition and disposal of long-term assets and all other investments that are not included in cash equivalents**. Such activities correspond to transactions such as indebting and collection of loans, credits and similar, in order to acquire tangible assets (land, buildings and equipment), as well as disposal of investments in the form of a liability or own capital.

Actually, investment deposits initiate managerial decisions in the enterprise associated with ongoing cash outflows on one hand and for cash inflows in the coming years on the other side. Such decisions are made with a single goal - *realization of future revenues in the enterprise.* In addition to this conclusion in paragraph 16 of IAS 7 it reads the following: "... cash flows represent the size of the generated resource expenses that are intended to generate future gains and cash flows."

The conclusion is clear:

The amount of cash flows arising from **investment activities** publishes information on cash inflows, allowing management to determine the relationship between the

time period of cash outflows (longer for long-term activities) and receiving incomes in order to increase revenue or expenditure reduction.

(IAS 7, p.159)

As an example of more significant inflows and outflows of cash from investment activities are the following:

• acquisition and disposal of fixed assets;
• payment on the basis of debt and equity securities;
• granting loans (except for financial institutions where the activity is operational);
• arrangements for options, forward contracts and compensation agreements except those for business and commercial purposes.

1.3.Determining cash flows from financial activities

The financial activities, roughly seen in the cash report, include *liability* items as well as transactions that cause changes in the company's *own capital*. Observed through the prism of two parts, the financial activities would look like the following:

(1) obtaining funds from the owners, which means an obligation for the enterprise while allowing the holders of the assetsinformation on their return or loss;

(2) borrowing money from creditors, as well as returning the same.

The broader elaboration of such reports indicates that the financial activities include: liabilities upon loans, issued bonds, equity bonds based on inflows and outflows from stocks, financial leases, mortgages as well as other short-term and long-term loans.

2. <u>Preparation of a cash flow statement</u>

The preparation of the cash flow statement can be made by applying the **indirect and direct method.**Where the difference occurs only in the determination of the cash flows from operating activities, while the remaining phases are identical in both methods.

The process of preparing a cash flow statement is done in **five steps**:

Step 1:
We determine the difference between the opening and closing balances of the Balance Sheet positions and we see the effect on the inflow / outflow of cash.

Step 2:
Determining net cash flows from *operating activities* based on the three sources of information listed below. In doing so, it is necessary to eliminate the items from the Income statement in which there are no inflows and outflows of cash.

Step 3:
Determination of net cash flows from *investment activities* on the basis of changes in balance sheet positions that are not part of the operating activities of the particular enterprise.

Step 4:

Determination of net cash flows from *financial activities* on the basis of changes in balance sheet positions that are not part of the operating activities of the particular enterprise.

Step 5:
Completion of the cash flow statement.

The information on the preparation of the report come from the following three sources:

(1) **Comparative Balance Sheet** - which provides information on changes in the assets, liabilities and equity at the beginning and at the end of the accounting period;

(2) **Income statement of the current accounting period** - which provides information on the amount of collected and used cash during the accounting period;

(3) **Selected information for a variety general ledger transactions** - which provide analytical data to determine how the cash was collected and used.

In order to explain the procedure for preparing a cash flow statement, we will use one example. For this purpose, we will use balance sheets and success of **AD "Naumoski"** from Skopje. We present the balance sheet in a different form.

JSC "Naumoski"
INCOME STATEMENT
For the period from 01.01. until 31.12. 2006 and 2007

Ord. no	Position	
1.	Net incomes from sale	698.000
2.	Costs on sold products	520.000
3.	**Gross profit**	178.000

4.	Operative costs (including amortization of 37.000 denars)		147.000
5.	Operative income		31.000
6.	**Other incomes (expenditures)**		
	Expenditure for interest	(23.000)	
	Income from interest	6.000	
	Profit from sale of investments	12.000	
	Capital loss	(3.000)	(8.000)
7.	**Profit before taxation**		23.000
8.	Profit tax		7.000
9.	**Net profit**		**16.000**

JSC "Naumoski"
BALANCE SHEET
on 31.12. 2006, 2007

ASSETS	**2007**	**2006**	**+**	**-**
Current assets				
Money	46.000	15.000		31.000
Customer demands (net)	47.000	55.000	8.000	
Reserves	144.000	110.000		34.000
Payed costs in advance (AVR)	1.000	5.000	4.000	
Total current assets	**238.000**	**185.000**		53.000
Investments disposable for sale	115.000	127.000	12.000	
Real estates, plantsand equipment				
Real estates	715.000	505.000		210.000
Accumulated amortization	-(103.000)	-(68.000)		-(35.000)
Total real estates, plants and equipment	**612.000**	**437.000**		175.000
Total assets	**965.000**	**749.000**		216.000
LIABILITIES				
Current liabilities				
Liabilities towards suppliers	50.000	43.000	7.000	
Separated liabilities	12.000	9.000	3.000	
Liabilities for profit tax	3.000	5.000		2.000
Total current liabilities	65.000	57.000	8.000	
Long- term liabilities				
Liabilities upon bonds	295.000	245.000	50.000	
Total liabilities	360.000	302.000	58.000	
SHAREHOLDER ASSETS				
Regular shares, 5 denars nominal value	276.000	200.000	76.000	
Payed capital above nominal value, regular shares	189.000	115.000	74.000	
Retained income	140.000	132.000	8.000	
Total capital	605.000	447.000	158.000	

Total liabilities and shareholder assets	**965.000**	**749.000**	216.00

Other transactions that affect non-current accounts during 2007 are the following:

1. Investments worth MKD 78,000 were purchased.
2. There are investments that cost 90.000 for 102.000 denars.
3. Real estates for 120.000 denars was purchased.
4. Real estates with purchase value (expense) of 10,000 denars and accumulated depreciation of 2,000 denars for 5,000 denars are sold.
5. Bonds with a nominal value of 100.000 denars in non-monetary exchange for real estate have been issued.
6. MKD 50,000 were repaid at nominal value at their maturity.
7. 15,200 ordinary shares with a nominal value of 5 denars for 150,000 denars were issued.
8. A cash dividend in the amount of MKD 8,000 has been paid.

Step 1:

Determining the *difference* between the opening and closing balances of the balance sheet positions and analyzing the effect on the inflow / outflow of cash

Such a step is made in the very initial Balance Sheet. It is noticeable that on the balance sheet we added two columns on the right side. In these columns we calculate the differences between the values of individual items in 2007 and 2006. Such amounts obtained as differences between the values of individual items in 2007 and 2006 are placed in the column (+) / (-), guided by the following principle: **any increase in assets (in 2007 compared to 2006) is a cash outflow, and any reduction is a cash flow. In the case of the liabilities, this principle is reversed.**

Also, you can notice that the value of the position - *real estate*, *plants* and *equipment* (NPO) is divided in their purchase value and accumulated depreciation, unlike the original Balance Sheet (Masterthesis, p.76) where only their present value is given.

Step 2:

Setting net cash flows from *operating* activities based on the three above mentioned sources of information. In doing so, it is necessary to eliminate the items from the Income statement in which there are no inflows and outflows of cash

We have already said that about this step from the making process we have two methods available. The direct method gives more information than the indirect, but the indirect is easier to apply and therefore has gained considerable popularity. It is for these reasons, due to the simplicity and applicability, that we, in the practical part, will talk about his elaboration.

The *indirect method* starts from the **net profit** and continues with its corrections. First of all, the **amount of depreciation** is added to the net profit. This is because in the Income Statement the depreciation is deducted as an expense from the income, but it is a non-monetary expense, i.e. does not cause a cash outflow. With its return to the amount of net profit, the amount that is charged as incomes on sales is actually added.

The next step is consisted of determining the inflows and outflows arising from short-term funds and short-term sources. The principle has already been described: **any increase in**

the assets (in 2007 compared to 2006) is a **cash outflow**, and any **decrease is a cash inflow**. In the case of **obligations**, this principle is **reversed**.

We will apply these steps to our example. We only transfer the amounts of the last two columns with an appropriate sign. In doing so, we must be careful when choosing to cover only items of operational activities. We do not use the money item because the determination of their change is the goal of this report.

JSC "Naumoski"
CASH FLOW FROM OPERATIONAL ACTIVITIES
For the year ending on 31.12.2007

Net profit		**16.000**
Corrections for compliance of net income with the net cash provided from operative activities:		
- Expenditures from depreciation(35.000 + 2.000)	37.000	
- Profit from sales of investments(102.000 - 90.000)	-(12.000)	
- Capital loss(8.000 - 5.000)	3.000	
Change in the current assets and current liabilities		
- Decreasing the customers' demands	8.000	
- Increasing reserves	-(34.000)	
- Decreasing payed cost in advance (ABR)	4.000	
- Increasing liabilities towards supplies	7.000	
- Increasing separated liabilities	3.000	
- Decreasing liabilities for profit tax	-(2000)	**14.000**
Net cash flows from operative activities		**30.000**

Summarized, the determination of cash flows from operating activities takes place in accordance with the following scheme:

Net profit from the current year	
+	depreciation
+/-	decreasing/increasingof turnover assets
+/-	decreasing/increasing of short – term liabilities
=	**Cash flow from operative activities**

Step 3:

Determination of net cash flows from *investment* activities on the basis of changes in balance sheet positions that are not part of the operating activities of the particular enterprise

Cash flows from investment activities include the inflows and outflows of cash that arise on the basis of investments in fixed assets or their sale, as well as on the basis of investments in other enterprises or long-term securities and their sale. This includes the collection of interest and dividends from the investments made.

From the example of JSC "Naumoski", transactions related to the investment activities (for which additional information is given) during 2007 are the following:

1. Investments worth MKD 78,000 were purchased.
2. There are investments that cost 90.000 for 102.000 denars.
3. Real estates for 120.000 denars was purchased.
4. Real estate with purchase value (expense) of 10,000 denars and accumulated depreciation of 2,000 denars for 5,000 denars are sold.
5. Bonds with a nominal value of 100.000 denars in non-monetary exchange for real estate have been issued.

Analysis of transactions

1. The following was the original writing:

Investments 78.000
Money..78.000
Purchase of investments

Analysis:cash outflow for the purchase of investments in the amount of 78,000denars.

2.The following was the original writing:

Money..102.000
Investments..90.000
Profit from sale of investments...12.000
Sale of investments

Analysis:cash flow from investments sale in the amount of 102.000 denars.

3. The following was the original writing:

Real estates 120.000
Money..120.000
Real estate purchase

Analysis:cash outflow for real estates purchase in the amount of 120.000 denars.

1. The following was the original writing:

Money 5.000
Accumulated depreciation...2.000
Capital loss...3.000
Real estates..10.000
Investments sale

Analysis:cash outflow for real estates sale in the amount of 5.000 denars.

2. The following was the original writing:

Недвижности 100.000
Liabilities upon bond...100.000
Exchange of bonds for real estates

Analysis:This transaction is non- monetary.

Since these are items from the assets of Balance Sheet, when determining them, the principle follows**: each increase means outflow, and any reduction - cash flow**. Based on the previous analysis of the transactions, the cash flows of JSC "Naumoski" from the investment activities will be shown on the following way in the cash flow statement:

Cash flow from investments activities		
Investments purchases	-(78.000)	
Investments sale	102.000	
Real estates purchase	-(120.000)	
Real estates sale	5.000	
Net cash outflows from investments activities		**-(91.000)**

Step 4:

Determination of net cash flows from *financial activities* on the basis of changes in the balance sheet positions that are not part of the operating activities of the particular enterprise

This group of activities of the enterprise is consisted of cash flows arising from activities related to providing the necessary financial resources, as well as servicing the liabilities arising from the financing. These *include inflows based on long-term loans, long-term bond issues and stocks*, as well as *payment of dividends for issued shares*. There is a dilemma in the theory and practice regarding the classification of interest payments on long-term loans. According to IAS, paid interest and dividends can be classified both as operating and financial flows, while interest payments and dividends as operating or investment flows.

From the example of JSC "Naumoski", transactions related to financial activities during 2007 are the following:

3. 50.000 denarswere paid upon nominal value at their maturity.
4. 15,200 ordinary shares with a nominal value of 5 denars for 150,000 denars were issued.
5. A cash dividend in the amount of 8,000 denarshas been paid.

Analysis of transactions

6. The following was the original writing:

Liabilities upon bonds 50.000
Money..50.000
Payed liabilities

Analysis:Cash outflow for bonds payment in the amount of 50.000 denars.

7. The following was the original writing:

Money........................... ....150.000
Regular shares(15.200*5)..76.000
Payed capital above the nominal value – regular shares.....................74.000
Issued shares

Analysis:Cash inflow of 150.000 denars.

8. The following was the original writing:

Retained income 8.000
Money...8.000
Payed dividend

Analysis:Payed cash outflow of 8.000 denars.

Based on the previous analysis of the transactions, the cash flows of JSC "Naumoski" from the financial activities will be shown in the following way in the cash flow statement:

Money flows from financial activities		
Bonds payment	-(50.000)	
Regular shares issuing	150.000	
Dividend payment	-(8.000)	
Net cash outflows from financial activities		**92.000**

Step 5:
Compilation of the cash flow statement

Once the cash flows from certain types of activities are calculated, it remains only to aggregate in the final cash flow statement. As a result, the cash flow statement has the following structural content:

JSC "Naumoski"
REPORT ON THE CASH FLOWS
For the year ending on 31.12.2007

(in denars)

Cash flows from operative activities		
Net profit		**16.000**
Corrections for compliance of net profit with net cash provided from operative activities:		
- Expenditures from the depreciation(35.000 + 2.000)	37.000	
- Profit from investment sale(102.000 - 90.000)	-(12.000)	
- Capital loss(8.000 - 5.000)	3.000	
Change in the current assets and current liabilities		
- Decreasing the demands from customers	8.000	
- Reserves increasing	-(34.000)	
- Decreasing costs payed in advance (AVR)	4.000	
- Increasing liabilities upon the suppliers	7.000	
- Increasing separated liabilities	3.000	
- Decreasing liabilities for profit tax	-(2000)	**14.000**
Net cash flows from operation activities		**30.000**
Cash flows from investment activities		
Investments purchase	-(78.000)	
Investments sale	102.000	
Real estates purchase	-(120.000)	
Real estates sale	5.000	
Net cash outflows from investments activities		**-(91.000)**
Money flows from financial activities		
Bonds payment	-(50.000)	
Regular shares issuing	150.000	
Dividend payment	-(8.000)	

Net cash outflows from financial activities	**92.000**
Net increasing of cash and cash equivalents	**31.000**
Money and money equivalents at the beginning of the year	**15.000**
Money and money equivalents at the end of the year	**46.000**

This prepared cash flow statement enables the liquidity, solvency and financial flexibility to be evaluated by the company's management.

3. Use of the information from the cash flow statement

The notion that "*published information about a positive cash flow is a fortune for the company's management*" is correct. For the management, the information about positive net profit reflects the successful performance or, in the medical sense, if we compare the company with the human organism, and the profit with health, we will conclude that the body works well when all the organs contribute to good health, but the funds are the bloodstream without which one could not survive.

This comparison in one way gives us the right to make a conclusion that the company can not survive without the money assets, and the *net profit* is a good reflex for success, but let's not forget that it is conditioned by the inflow and outflow of *money assets*, especially for small businesses and enterprises in the process of expansion. But on the other hand, medium and large enterprises do not have to neglect such information. In theory and practice, a number of research studies show that more than 50% of the small-scale population surveyed in the United States shows that the business collapse is due to cash-flow factors. In our country, this conclusion goes in broader dimensions. From what we have already noted, you are surely wondering about the following: *What is the main financial reason for the destruction of certain businesses?* ***It's liquidity.***

As a matter of fact, the liquidity points to the fact that the positions of assets and liabilities in the balance sheet that are closest to cash are liquid, which implies their transformation into cash in the near future. Creditors who are external users of the financial statements and are in direct contact with the management of the enterprise must carefully check the contents of the cash flow statement because they have concerns about the return of the funds placed by the management.

Positive information for the creditors in the accounting period is the fact that the enterprise realizes net money assets by operating activities. This means that the high amount of net money assets from operating activities results in high liquidity that allows for great independence in its own financing. In this case, the company does not need borrowing because it has its own ability to settle its obligations. Conversely, if in the company we have negative or low amounts of net money assets generated from operating activities, this will lead to low liquidity and borrowing through loans or credits, i.e. emission and placement of long-term securities on the capital market.

The business environment imposes such a situation in which we must know how to recognize the significance of the information in the financial statements no matter from what kind of perspective their analysis is made. Therefore, when analyzing the cash flow statement, creditors are asked questions related to the success in providing net assets in the enterprise from operating activities, as well as issues related to the trends and the reasons for the positive and negative net money assets provided with operational activities.

From the above stated indicators of liquidity as an indicator, as well as on the relations between net money assets and operational activities, the following can be concluded:

1. ***Distinction must be done*** in the information obtained for the ***net profit*** and information received for **net money assets**with operational activities;
2. ***Many enterprises, especially small and those in expansion, declare bankruptcy.*** The reason for this situation lies in the mismanagement of information on cash flows, where such enterprises show high amounts of profit, but negative net money assets from operating activities;
3. As skilled users of the information from the financial statements, the reasons for poor liquidity, i.e. the negative amount of money assets from operating activities of the business entity should be demanded in the ***significant increase in receivables and / or reserves***. In that direction, Rusevski T. goes on to say: "The company could easily experience the so-called cash crunch because it tied all of its cash into demands and reserves."(Rusevski, 2001, p.39)
4. We need to know that the ***financial liquidity indicator*** is obtained when net money assets from operating activities is put in relation to average current liabilities.

Indicator for
Financial flexibility = net money assets
average current liabilities

The size of the indicator is inversely proportional to the liquidity (higher indicator, lower liquidity and vice versa).
While the indicator for covering the debts with own money assets, is an occurrence for measuring the ***financial flexibility*** of the company and it is put into operation in order to provide information from the report on cash flows. This indicator shows the ability of an enterprise to repay liabilities from net money assets provided by operating activities.

Indicator for
Financial liquidity = net money assets from operating activities
average current liabilities

The size of the indicator is inversely proportional to the financial flexibility (greater indicator, lower financial flexibility for payment of matured liabilities).

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