TREASURY MANAGEMENT - SCOPE OF FINANCIAL MANAGEMENT

FRANCA DUMITRU, MARIA MORARU
"TIBISCUS" UNIVERSITY OF TIMIŞOARA, FACULTY OF ECONOMICS
1/A DALIEI STREET, TIMIȘOARA. 300558
francadumitru@yahoo.com, mariamoraru@yahoo.com

Abstract:
The enterprise is a system that has human, physical and financial resources used to produce goods and services, designed to ensure the maximization of the enterprises' value or the wealth of its owners.
Financial management includes all operations which provide the necessary capital funds, regardless of the source and method of purchasing, procurement and distribution of financial results and how to use the funds and capital of an enterprise. Its specific activities are extremely diverse and information is essential in the decision-making process.

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Financial management includes all management processes of the enterprises' pecuniary resources, using in this direction analytical methods and operational tools to ensure its effective integration in the financial environment.

The fundamental purpose of financial management is to maximize the value of an enterprise and, of course, the property value to its shareholders. For this, financial management has the following objectives: monitoring and maintaining solvency or financial stability of the company, ensuring quality and performance level achieved by the company in its activities and protection against financial risks.

Financial management is a function of the company that aims to ensure the regular operation of the funds needed for investment in current and fixed assets, on time and with low costs, without compromising the independence from third parties and possibilities for economic action. On the other hand, this function operates at control level of proper use of funds and the profitability expected to be achieved.

Financial management can be approached as a series of decisions and activities which contribute to the regulation and adjustment of financial flows and funds, as well as management of financial resources of the enterprise.

"Financial management is the ensemble of activities for monetary resources management of the enterprise. Broadly speaking, we can distinguish short-term financial management, assets and liabilities and treasury assets and financial management of medium and long-term, assets and permanent liabilities (from the top of the balance sheet).

Implementing financial management begins with forecasts related to investment and financing plan and treasury budget estimates, following their development the role of financial management is to select the most convenient methods and means of financing and after that to address methods and criteria for analyzing the company's financial position.

The main operational tasks of financial management are distributed on the three key phases of a cycle of financial management.

In the first phase of diagnosis or financial analysis, the situation and the financial activity of the enterprise are assessed in the purpose of obtaining information that will be used in taking measures to eliminate errors and use advantages.

Secondly, this cycle includes a stage of formulation and implementation of financial decisions. These decisions concern investment and financing operations in medium and long term management and operations with short-term effects that define treasury management.[1]

But all these measures must be compatible with the objective of financial risk insurance.

The third phase consists of monitoring and control of projects started, noticing deviations from original plans. It should lead to the initiation of corrective actions either by correcting the trajectory and the proximity of the initial projects, either by amendment or revision of the initial projects.

Financial control has an important role in financial management. Financial control activity involves comparing and determining the differences between forecasts and achievements expressed in financial stability and profitability and determining the measures necessary to eliminate dysfunctions, to redress the financial situation.

The sources of information required are provided by accounting and a series of documents such as balances, monthly statements and statistical information. In its implementation, financial management relies on accounting, business law, statistics, mathematics and marketing.

If certain financial activities have also a study character to estimate the decision-making, analysis, directing financial options, the financial management activity is practical: treasury management, focus of funding and control over investments.

▪ **Strategic forecast** in financial management is used especially in large units and it represents the companies' great effort for sizing long term relationships with third parties. It is materialized by financial plans which aim products that will unfold, markets on which the products will unfold and choosing the variant: production of goods or sales.

▪ **Operational forecast** aims to establish the medium-term resources necessary to achieve the set strategy (material, human and financial resources). The forecast of material and financial resources is reflected in the investment and financing plan which sets out the company's future working capital, being used more often compared to human resources forecast.

For an effective financial management it is necessary to take into account at least the following two principles: acceleration flows and cost reduction.

The **acceleration of operating flow** principle implies increasing available funds that the company could place back, if the acceleration is accompanied by savings in interest, materials, labor and additional benefits.

Financial management must consider, all the time, the **management cost** and the **opportunity cost** of funds held.

Management cost, in a financial structure (acquisition cost, production cost, inventory holding costs, trade costs), represents the cost directly related to the decision to create funds.

The opportunity cost of a resource or a need is is represented by collections that the resource or need might generate in the best possible competitive solution.

An effective financial management requires determination of the financial needs of society, establishment of investment in fixed assets, stocks dimensioning taking into account the relationship with suppliers, production cycle and the risk of failing the value

[1] Mardiros D.N., Scorţescu F.I. – Contabilitate publică, Editura Ion Ionescu de la Brad, Iaşi, 2007

of proposed goods. It is also necessary to analyze the customer credit policy based on market conditions and opportunities for expansion.

1. CONTENT OF TREASURY MANAGEMENT

Treasury Management (or short term management) represents a wide range of financial management. Treasury is an essential element and at the same time, the main restriction of the financial management of the company. Treasury reflects the decisions related to financial stability, as well as the positive and negative results of the enterprise's activity. A company making a profit after a year does not always have a positive treasury, that is, reserves in the bank and / or in petty cash. Weaknesses arising in treasury management are, as the statistics show one of the leading causes of bankruptcy.

Short-term management involves finding solutions for balancing the cash flows, determining cash deficits or surpluses, their coverage and placement and insurance against risks arising at treasury level.

Treasury management establishes and monitors the needs of financial funds for operational tasks, based on a budget of revenues and expenses, determines the short-term loans that will be used, amount and costs.

For small and medium-sized enterprises the most important financial issues are related to the operating cycle management needs and their way of financing. For large enterprises the area of financial problems is more extensive, they develop a financial policy regarding the use of many sources of funding that will be applied in subsequent years: financial structure, debt policy, the forecast profitability of projects funded etc.

Treasury management[2] intends to use some means to optimize receipts and payments and to maintain financial balance of the company, meaning anticipation of balance between receipts and payments, between the needs of resource exploitation and own resources plus the borrowed - balance that takes into account both flow rate and periodicity or rate that is to be held. Short-term management has two main requirements:

1. to minimize the cost of capital, if treasury is negative and it should resort to credits, and maximize capital profitability, if treasury is positive and short-term investments should be carried out;
2. obtaining a maximum flexibility to achieve a financial balance (obtaining the needed funds and usage or placement of the surplus).

At the beginning, in Romania, the treasury was part of the enterprises' financial-accounting department, being confused with the petty cash service of the enterprise and it was viewed in a purely accounting manner. With the advent of foreign companies and capital market development, large companies have organized separate cash compartments, which ensure the company's liquidity and efficient placement of surpluses, evaluation of funding sources, developing and tracking budgets and treasury plans.

In its activity, the company generates actual flows and cash flows and the treasury of the latter provides the link between inputs and outputs, representing the availability resulting from treasury receipts and payments.

Cash refers to the means of payment at hand plus deposits required to maintain accounts at various commercial banks to cover payments. Cash in the petty cash

[2] Pitulice C., Glăvan M. – Contabilitatea instituţiilor publice din România, Editura Contaplus, Ploieşti, 2007

represents an asset of the company with a well-defined value when it covers the conduct of operations and business activity.

It becomes[3] very expensive if the company will obtain it through loan. The lack of cash, even if the company has other material values, may cause failures and even bankruptcies. From here arises the conclusion that all companies are required to provide householders and their cash more wisely.

Cash is an "unproductive" asset in the sense that although it is necessary to make payments, cash itself does not produce interest. So the cash held in petty cash and the one held in current accounts should be reduced to the minimum necessary.

National security and cash management involves conducting a systematic check on it. Cash control must cover cash collection, management and settlement to prevent losses from errors, fraud or waste.

The main tasks of the treasury are:

1. forecasting and providing various input flows into the treasury and output flows out of the treasury.

In the treasury cash inflows and outflows must be forecasted to determine the degree to which the treasury may deal with unexpected situations and to synchronize cash flow, this meaning that cash receipts must coincide with cash outflows thus maintaining treasury is at a minimum level.

2. ensuring the company's liquidity.

The company needs cash for its transactions, overdue daily purchases, thus providing liquidity represents one of the most important tasks of the treasury. Liquidity is a company's ability to meet overdue obligations and resume operating expenses.

3. investing the excess cash after analyzing the different types of investments.

If the input flow is higher than the output flow, the treasury operates with placements during the surpluses. Regarding short-term investments the following areas should be considered: high efficiency, good liquidity and low risk. As such placements which cumulatively meet the three conditions don't exist; the company will have to accept some compromise, following especially one aspect or another.

4. assessment and evaluation of different short-term financing sources for covering the cash deficit.

An optimal debt regarding treasury seeks a low credit line and an increased flexibility of use of that lending opportunities. It is necessary to consider the interest level, number and amount of various bank commissions (for commitments, for non-use). The sources of capital procurement necessary for short-term financing are: equity capital, attracted capital and borrowed capital.

5. cash budgeting and cash planning.

The budget is the instrument of short-term financial decision. It regroups the forecasts for resources and cash payments and it is based on treasury calculations: month, date and duration of necessary credits or possible investment.

Given that the positive treasury, as well as the negative one lead to management costs (opportunity by not using cash surplus and financing by new credits of cash deficits), the position of treasurer is one of the most responsible for the fate of the company.

2. FUNDAMENTAL ELEMENTS OF TREASURY MANAGEMENT

The fundamental elements of treasury management are:

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[3] Dascălu C., Nişulescu I., Caraiani C., Ştefănescu A., Pitulice C.- Convergenţa contabilităţii publice din România la Standardele Internaţionale de Contabilitate pentru Sectorul Public, Editura CECCAR, Bucureşti

- accelerating receipts and reducing the unused funds existing in bank accounts;
- choosing the means of payment adapted to the company's needs;
- treasury optimization.

Accelerating receipts is a concern that begins from the moment in which the negotiation of the economic contract takes place, when deadlines and payment instruments that are to be used are determined. Along the way, the supplier may act towards accelerating recovery, attracting customers to pay faster by offering instead bonuses or rebate quotas since the deliveries are made.

The duration between the supply of goods and collection of their value is also influenced by the bank interests. If the interest is low, companies tend to increase the duration of debt payback and in the case of a high interest rate the tendency is to reduce the duration of trade credit.

Choosing real time payment and adequate settlement instruments may allow input funding acceleration or timing (elongation) for payment deadlines. For example, payment by checks made by the client does not mean that the supplier can immediately dispose of that sum.

The time that elapses between the payment order given to the bank by a client and the collect of that amount in the supplier's account is called in literature, float. This term represents the number of days in which money can be found in the postal and banking circuits. In other words, float represent the ensemble of the amounts entered in the banking system, appeared without appearing in the enterprise's credit account to dispose of them, or all the amounts debited in the company's account which remained available to the bank. Float depends on the materials and administrative elements, as well as the duration of the postal circuit of documents and banking practices.

Treasury optimization[4] is based on three principles: the judicious use of credits, after having first been selected the cheapest and most flexible ones, promoting techniques for placement of surplus cash, avoiding, if possible, some of the payable accounts (which are remunerated) or of receivable accounts which involve costs.

An optimal debt regarding treasury seeks a low credit line and an increased flexibility of use of that lending opportunity. When the cost is assessed it is necessary to consider both the interest and the number and amount of various bank fees (commitment, non-use, days-value, etc.). As a tactical line you can choose either for a credit more expensive but more flexible, or for a less expensive one but less flexible, depending on the credit beneficiary's interests.

To optimize treasury the company must organize its relations with the bank on how to avoid, wherever possible, at the same time, to have multiple accounts open, some with debit balances, reflecting a less efficient usage of funds (availability in the accounts bring only the bank interest rate subsidy) and other credit balances, meaning borrowed funds, which carry a higher cost than the bank discounted interest rate.

Treasury management control seeks the discovery of errors in management and evaluation of potential gains. Basically, treasury management control consists of following the progress of the various accounts of the company. Maintaining some debit balances can be generated either by netting bank accounts, either taking some required loans, or insufficient investments of the surplus funds. Maintaining debit balances can be generated either by not mobilizing some loans or by short-term major investment.

CONCLUSION

An effective control of treasury management, allows the assessment of potential treasury gains, that are likely to be obtained in terms of a zero treasury, meaning that

[4] Tudorache S., Chiţu A. G., Glăvan M., Şendroiu C., Pitulice C. – Contabilitatea instituţiilor publice după sistem contabil, Editura Irecson, Bucureşti, 2005

when the merger of clearing accounts with debit and credit balances was made in time, when the funding in the period of account surpluses was reduced, or when, in times of cash deficit, the most inexpensive and flexible loans were used.

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