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# THE MEANING OF THE DETERMINATION OF THE TRADING COMPANY'S TREASURY

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## Abstract

*The trading company operates on the basis of integrated programs within the branches or of the national economy. Any economic entity, trading company or branch of activity must make its own forecast of the treasury, so that the inputs and outputs, the balance, as well as the operating budgets are those that have an effect on the situation at a given time of the company. In this respect, the assets and liabilities of the treasury are analyzed, as well as the content of the treasury budget and their preparation with a certain forecast horizon. In the analysis of the treasury, account must be taken of the balances that exist at a given time, but also of the short-term and somewhat longer-term treasury planning. Of course, the forecast of the treasury of a trading company is an element with significance in the management activity of that company.*

**Keywords:** *forecast, treasury, assets, liabilities, cash balance, operating budget*

**JEL Classification:** C53, G17, G31

## Introduction

The treasury has the following characteristics: an essential element and, at the same time, the main restriction of the financial management of the company; in it the results of the way of carrying out the activity and of respecting the financial balance are materialized; not always a company that ends the exercise with benefit also has a positive treasury (availability in the bank and in the house). This is due to the discrepancy between the accounting records of income and expenses and their maturity as receipts and payments, a gap that can be decisive for the financial fate of the enterprise; the increasing concerns for the management of the treasury are motivated by some phenomena of economic accounting, both macro and micro-economic, the increase of the inflation, the interest rate, as well as the decrease of the rates of profitability and the degree of self-financing. A first definition given

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to the treasury is „the surplus of financing sources that arise from the entire economic activity, respectively the difference between the working capital and the need for working capital”. However, this definition is more theoretical in nature, based on the theory of financial equilibrium of the enterprise, but is less operational for efficient treasury management.

### **Literature review**

Anghelache, Anghel, Samson and Stoica (2017) analyzed a number of forecasting methods. Anghelache, Partachi, Anghel (2017) studied aspects of economic growth forecasting. Anghelache (2015) presented the main theoretical and practical notions of economic forecasting. Anghelache, C. (2008) highlighted the statistical indicators used in the economic analyzes. Arcidiacono and Miller (2011) presented notions of estimating models with unobserved heterogeneity. Benjamin, Herrard, Houée-Bigot and Tavéra (2010), Pesaran, Pick and Pranovich (2013) examined the forecasting activity on the basis of econometric models. David-Sobolevski (2015), Spătaru (2011) analyzed aspects of the company's results. Eckela, Philip and Grossman (2008) examined forecast risk attitudes. Ladiray (2006) studied the elements of forecasting activity. Müller (2007) studied the estimation of long-term variation. Weizsacker (2010) performed a test of economic activity expectations.

### **Methodology, data, results and discussions**

A more complete definition of the treasury can be given by the sum of its constituent elements as assets and liabilities of the treasury. The basic element in this new definition is liquidity (cash availability), but next to them, the financial assets of the treasury appear, and in the liabilities - the banking contests, in the form of the treasury and discount credits.

The relationship to determine the treasury is:

$$\text{Cash} + \text{Liquidities} = \text{Cash financial assets} - \text{Cash liabilities}$$

#### **a. Composition of treasury assets and liabilities**

Considering that both positive and negative treasury incur management costs (opportunity, by not leveraging the cash surplus and financing costs through new loans of the cash deficit), the treasurer function is one of the most responsible for the company's fate.

Among the objectives of the treasury management can be mentioned: avoiding losses on settlement days at the collection and bank payments of the company; increasing the operability of collecting the receivables of the

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company, without carrying out the policy towards the clients; balanced and clear scheduling of the maturity of the payment obligations of the company; obtaining the best credit and at its lowest real cost; ensuring a zero balance of the treasury, which incurs neither financing nor opportunity costs; optimization of the use of the surplus of cash by the best placement of the liquidities, which will ensure the optimum profitability, the security and the liquidity.

All these coordinates of the treasury management are derived from the general object of the finances of the company, respectively the increase of the value of the equity. The management of the treasury, therefore, brings together all the decisions, rules and procedures that ensure, at the lowest cost, the maintenance of the instantaneous financial balance of the enterprise.

b. The contents of the treasury budget

The object of a treasury policy is the control of the financial flows, the synchronization of the receipts with the payments, to permanently ensure the payment capacity of the company. The budget of the treasury has as function the forecast of the receipts and payments, starting from the planning of the expenses, from which the non-payment ones are excluded (such as the depreciation and the calculated provisions) and from the planning of the revenues, from which the non-receivable ones are excluded (respectively the stored production, credit sales, etc.).

The receipts, in general, will include: immediate payment sales; collecting sales on credit from the previous period; securities sales; sales of fixed assets; obtaining a loan or selling a new issue of securities; collection of rents, interest, dividends and other income.



The payments will also include the predictable payment of the following debts: payment of sight and credit purchases (from the previous period); payment of salaries and prizes; payment of operating, administration and sales expenses; payment of taxes and duties to the state budget; purchases of fixed assets; payment of interest and outstanding installments; repurchase of securities issued by the company; payment of dividends to shareholders or withdrawal of funds by owners. Depending on the data available and the interests of financial management, treasury forecasts can be made in monthly, quarterly, half-yearly or annual budgets.

The accuracy of the estimates is lower for larger time horizons. also, depending on the way of taking into account the receipts and payments, a gross treasury budget can be distinguished, comprising all the receipts and payments of the period and a net budget, obtained by adjusting the net profit with the incomes and expenses that do not entail receipts, respectively , payments, resulting in the foreseeable evolution of the financial situation of the company.

### c. Preparation of the treasury budget

The phases of the elaboration of the treasury budget are: Forecasting of receipts and payments. Determination and coverage of cash balances resulting from comparing receipts with payments: determining cash balances, before hedging; credit coverage of the cash deficit or placement of the cash surplus; elaboration of the final treasury budget.

The elaboration of the treasury budget is the last stage of the process of budgeting the enterprise and the treasury will naturally be the result of the forecasts from the other budgets - of sales, supplies, personnel expenses, investments, administration, etc. The elaboration of the treasury budget implies the existence of three records and forecast documents: the opening balance sheet of the management (the balance of the year ended); the forecast results account; the forecast balance sheet

Revenue of the period =	$S_0$ (initial claims) + of the period	Planned revenues	$S_1$ (final receivables)
Payments period =	$S_0$ (initial debts) + of the period	Planned expenses	$S_1$ (final debts)
			
Treasury budget	Treasury balance	Forecast income statement	Forecast balance sheet

### d. The establishing the forecast horizon

The forecast horizon of the treasury is different, depending on the objectives pursued by the financial management and according to the maturities of the receipts and payments of the company. A treasury budget may be concluded for one year, if the annual treasury profit is pursued or if the company is small and has maturities in receipts and quarterly payments or greater than 90 days.

The forecast horizon can be of several months (4-6 months), if the aim is to optimize the short-term financing or the maturities are monthly and greater than 30 days. Finally, most often, the time horizon is from one day to one month, in which the daily chart of the receipts and payments with chenzial, decadal and semidecadal maturities is followed.

The forecast of the receipts, being based on the sales figure, must take into account permanently its distribution by months as well as the changes that will take place in the sales structure and the degree of solvency of the clients of the company that will influence the gap between the terms of deliveries and those of the receipts. . depending on the economic branch, there is a gap between 30 and 90 days between the time of sales and the corresponding

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collection. These discrepancies determine a staggering in time of the collection of the monthly income that will be entered in the treasury budget.

The payments forecast is made starting from the forecast of the annual expenses and from the predictable staggering of the payments related to these expenses. In principle, the forecast of payments is made similar to that of the receipts, taking into account the different nature of the expenses, which will determine a number of particularities, both regarding the forecast of their annual size and the timing of payment maturities. For example, supplies of materials are planned based on existing stocks and forecasts of supplies from the program of manufacturing or marketing the goods. The maturity of the payment of the supplies is established similar to the one of the receipts.

Personnel expenses (salaries plus social expenses) are planned according to the enterprise's labor force policy, in the context of the financial objectives pursued. The payment deadline for net wages is usually fixed, while the payment of social expenses is monthly.

Fiscal obligations (taxes and duties) are determined according to the size of the income (profit) of the enterprise. Payment terms are usually monthly.

In the forecast of payments, account will be taken of the predictable maturities of payments from the other budgets (investment budget, production etc.).

The balance of the treasury, as a result of comparing receipts with payments, may be deficient or surplus.

The forecast deficit of the treasury is to be covered by new cash or discount loans, selected according to the size of their real cost. Before applying for loans, we are required to take some measures, including: the advance of some receipts (reducing the duration of the client-loans or requesting the collection in advance of some sales) and the legal postponement of some payments (extension of the credits-supplier); temporary reduction of payments by renouncing (for the time being) some expenses; making some revenue from extraordinary activity, etc.

The forecast surplus of the treasury may be the consequence of a working capital too large determined by the commitment of long-term debts without immediate use (in principle, it is forbidden to attract long-term capital to be placed in the short term). Second, the cash surplus may come from a lower working capital need than the working capital. This need is determined by the much higher maturity of the payments generated by the operating activity, than that of the receipts (the case of companies with trading activity). The treasurer of the company will follow a placement of the surplus of cash in conditions of high profitability, low risk and high liquidity.

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The cost of the receivables committed to cover the cash balance generates additional payments that increase the necessary financing, and the treasury placements bring with it income that increases the receipts. Therefore, when determining the final cash balance, these last influences will be taken into account.

If the placement of the surplus of liquidity is an objective with a special significance in the activity of the treasurer, then the reduction of the financial expenses, related to the treasury credits, represents a basic task of this, achievable by: committing loans only when their need is justified; choosing the credits that best adapt to the concrete situation of the company; obtaining the most favorable conditions for granting loans regarding the cost, the maximum ceiling and the flexibility of the credit, etc.

In conclusion, the treasurer's activity in establishing financing forecasts can be summarized in the following three main directions: assessing the actual cost of each loan (depending on the duration of use) and establishing a hierarchy of loans; quantifying the effects available, by their nature; selecting the sources of financing that generate the least cost of financing.

A relevant forecast of the treasury is made at an annual level, with breakdown by months and a breakdown by weeks, for the first two or three months of the plan year.

#### e. Analysis of cash balances

Before applying for loans to cover the deficient forecast balance, it is necessary to take some measures that derive from a natural logic of treasury management.

- It is acted for the advance of some receipts (by reducing the volume and / or the duration of the commercial credits granted to the clients or by requesting the collection in advance of some sales) and for the delay (in legal conditions) of some payments (extension of the credits-supplier).

- It is trying to give up, for the moment, the execution of some expenses (investments, dividends, etc.).

- Actions for the achievement of exceptional receipts (sale of fixed or current assets available, etc.).

The deficit balance resulting from these measures is to be covered by new cash and discount loans, the selection and dosage of which is the treasurer's "art" to optimize the size of their real cost.

Regarding the fruition of a surplus position of the treasury, an analysis of the origin of this surplus forecast balance is required first. It can come either from a working capital too large, as a result of contracting financial debts without immediate use, or from a need for a lower working capital (caused

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by a payment maturity much higher than the collection due - the case of retail companies).

In the first case, the question of negotiating (choosing) between the cost of financial debt (long-term) and the yield of short-term investments is raised, although, in principle, the two operations are not compatible (no long-term capital draws are made to be placed). short term).

In the second case, the most frequently encountered (in financial management) pursues a treasury placement as profitable, less risky and with better liquidity. In order to optimize the investments, the manager considers the conditions offered by the capital, monetary and financial market. The following treasury investments can be made: non-negotiable monetary investments (the placement contracts cannot be sold by discounting, endorsing or trading on the stock exchange): term deposits, cash vouchers, redemption operations, etc .; negotiable monetary investments: certificates of deposits, treasury bills, treasury bills, etc .; financial investments: shares, bonds, options, etc.

In principle, the longer an investment is made, the more profitable it is, but less liquid and vice versa.

#### f. Short-term treasury planning

The three main phases of the planning process are the budgeting phase, the actual planning phase and the a priori control phase.

#### g. Operating and non-operating budgets

They generally refer to the elements we conventionally find in a profit and loss account, except for the exceptional items that are unpredictable; for this reason they are for the most part, in connection with the items at the bottom of the balance sheet.

The budgets outside the exploitation refer to the relative data, to the strategic operations of the company, respectively the movements of funds that must return in all the following months and in any case in that year as a result of the investment, long-term financing decisions, etc. which are retained in the multiannual financial plan. These data can be divided into two categories as they refer to resources or strategic allocations.

The budgets of the strategic resources include in particular: the budget of the capital increases; the budget of new long-term loans; the divestment budget (or the divestitures of tangible fixed assets and the assignments of financial assets can be separated, for example).

The strategic allocation budgets include in particular: the investment budget which is sometimes referred to as the annual equipment plan when it



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refers to the purchase of land, buildings, cars, etc .; the budget of the repaid loans; budget of capital reductions; the dividend budget.

Even if cash is important, it would be very restrictive and incomplete to limit forecasts only to liquidity flows. It appears to be indispensable to have an overview of the forecasts regarding the elements of expenses and incomes as well as the headings of assets and liabilities. Also, before drawing up a treasury budget, it is advisable to know the forecast financial statements.

An income statement, whether it is forecast or historical, can obviously be presented in different ways; each, depends on the internal use intended as a result of good management. On this basis, a model can be developed based on some classical conceptions of analytical accounting.

The elaboration of a forecast balance requires the knowledge of the elementary accounting relations. Here are some examples:

- Net tangible assets at the end of period  $t$  are equal to the net tangible assets of period  $t-1$  to which are added the investments (in gross value) of the period and from which the endowments of the period are depreciated and the assignments or divestments of the period at their book value .

- The stocks of finished products, for example, at the end of the period  $t$  are equal to the stocks of finished products in  $t-1$ , to which are added the purchases, of raw materials and the added value and from which the cost of return (directly) from the figure is deducted Business.

- Customers and accounts attached (suppliers and accounts attached) at the end of the period are equal to the balances from  $t-1$  to which are added the sales (or purchases) of the period and from which the receipts (or payments) of the period are deducted.

- The own funds at the end of the period  $t$  are equal to the own funds in  $t-1$ , to which are added the capital increases of the period and the reserves set up from the income statement of the period and from which the capital reductions and the losses of the reported period are deducted (the period below).

Similar accounting procedures will be applied to all other headings or sub-headings of the balance sheet, except for active and / or passive cash items.

This exception indicates that, for these elements of liquidity (and assuming that a treasury budget would not have reached such a stage of planning), therefore, no direct information is available. indeed, the treasury is, by definition, the result of all the movements related to the other balance sheet items.

In this logic, it is clear that through the treasury items, the forecast balance will be balanced. Technically, the approach is as follows:

- the predictable value of all balance sheet items is determined, except for availability items, short-term investments and bank loans;



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- an amount corresponding to the level of a “minimal” collection is assigned to the availability box, which the company wishes to keep permanently during the period;

- on the basis of these data, the total of the asset (including the minimum availability) and the total of the liabilities are compared: if the total of the liabilities is higher than the total of the asset, there is a surplus of liquidity that may be the object of the investments and which will determine the increase of the active treasury; if it is the reverse, there is a liquidity breakdown that will have to be (at least initially, subject to other financing solutions) covered by short-term bank loans, which will constitute passive treasury.

- Therefore, by balancing the forecast balance with this game of adjusting the treasury.

#### h. The hierarchy of the main cash flows

The distribution between operations and outside operations allows the establishment of a logic that perfectly corresponds to the structure of the decisions of the company.

The net monthly flows represent arithmetically the result of the algebraic sum of the positive and negative operating flows outside the exploitation. Economically, they designate the balance of the only operations of each month, regardless of the initial situations of the “assets” in the cash register of the company, of the treasury placements and of the short-term “discoveries” contracted at the credit establishments. The proposed variation, respectively, the classification of operations into operations and off-operations, as well as the monthly distribution of receipts and payments, allows an economic classification, as follows:

Operating revenues - Operating expenses = Final operating balance (1)
Non-operating revenue - Non-operating expenses = Financial balance outside operation (2)
(1) + (2) = Monthly net cash flows

Traditionally, the need for a minimum collection is justified by the following reasons: transaction: it is about eliminating the synchronization of the receipts and expenses due to certain factors on the production and marketing operations; precaution: treasury problems arising from the bankruptcy of customers, social problems, errors of forecast on the level of sales, etc .; Speculation: “reserves” must be available in order to buy raw materials in a very large quantity in order to benefit from a price reduction.

Minimum cash receipts act as a liquidity constraint in the treasury budget; it thus appears as a need for funds that must be covered imperatively.

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i. Cash flow forecasting

The cash flow is drawn up after estimating the annual budget of the company because the forecasted cash flow is made on the basis of the estimated revenue and expenditure budget. It is possible to forecast the cash flow in the short, medium and long term.

In the short term, the daily cash requirements of the company are covered. The period that is drawn up is usually for a period of between one week and three weeks.

In the medium term, the possible future requirements are identified and the long-term forecast is refined. The forecast is associated with the budget of incomes and expenses, the cycles of incomes and capital.

In the long term it is used to identify the need for cash over 5 years and is in accordance with the business plan.

The cash flow performance is achieved by permanent monitoring of the forecasts and the actual values realized.

For an optimal cash flow it is recommended: rigorous inventory to identify unsold goods and to avoid blocking the money; a reserve fund of money for avoiding blockages and inability to pay; payments must be made on time so that in the meantime they can be sold from the merchandise and thus avoid the blocking of the paid and unsold goods; constant verification of price changes; increase the activity of the company only when there are the necessary financial resources.

The financial compartment has relationships with the internal control and quality control department in terms of delivering products to customers at the highest quality level.

The quality monitoring of the products reflects the possible existing deviations, the causes of these deviations and the implementation of some methods of eliminating these deviations, the reduction to an accepted level of the rejections and the notification of the decision-making bodies of the company in order to make appropriate decisions. There is a program for tracking the complaints received from the clients and solving them as amicably as possible. The financial accounting service takes measures to penalize people who do not fulfill their duties or do not properly record in the documents the documents attesting the events and transactions carried out by the company.

The financial accounting department also has links with the personal-wage service due to the clear record of the personnel involved in the productive process as well as those involved in the administration. This link expresses the way of accounting for salaries, withholdings from salaries due to the state.

The accounting financial compartment has links with the commercial compartment, especially with the supply service, in order to ascertain: if the

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necessary supplies have been made; the operative record of the work points; delays in delivering production to customers.

### Conclusions

It follows from the study of this article that the problem of forecasting the treasury of the trading company is one of the highest importance for any economic agent, who wants to carry out a concrete activity, well founded and well insured from the point of view of the existing treasury resources. Secondly, without the existence of production factors and primarily financial resources, the activity of any trading company is not in full accordance with the wishes of the management. The analysis and forecast of the treasury is made in close accordance with the forecast of the results of the entire activity that the trading company carries out during the period considered.

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