

# Analysis of Enterprise's Cash Flows - Problems and Solutions in the Conditions of Crisis

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## Summary:

The relevance of the issue of the enterprise's cash flow analysis is determined by a number of circumstances. The analysis of incoming, outgoing and net cash flows, depending on the formation sources (operating, investing and financing), ensures efficient information for analysis and assessment of both current and future cash flows, as well as profitability, liquidity, solvency and financial flexibility of an enterprise. In the conditions of financial crisis such issues are crucially important since the information contained in the Profit and Loss Account does not reflect the time of incoming and outgoing cash flows and the impact of operations on liquidity and solvency.

The present article is aimed at forming a methodology for cash flow analysis, its role both in the methodology for the analysis of the enterprise's financial position and its place in the overall methodology for the financial and business analysis of enterprise's operations.

This article provides methodological guidelines for performing an analysis

of company cash flow: an analysis of availability and use of cash and of solvency, liquidity and cash flow efficiency.

**Key words:** net cash flow; profitability; liquidity.

**JEL:** M49.

## Introduction

Under the current conditions organizations carry out business on competitive global markets. The impact of the financial and economic crisis creates problems and poses risks pertaining to their assets and liabilities (obligations). An important factor for the survival of organizations is their ability to generate cash and to establish conditions for their timely receipt. These objective circumstances confirm the need and highlight the importance of the organization's cash flow analysis.

The analysis of the organization's financial statements gives users (internal and external) important and varied information about its financial position, financial stability and balance, as well as about the risk of insolvency and bankruptcy.

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## 1. Information about the analysis

Cash flow analysis may be defined as the systematization and processing of the elements of the financial business analysis method for collecting information about the organization's cash, cash equivalents and cash flows, about its status, structure, dynamics and efficiency. The organization's Statement of Cash Flows is the main source of information for the needs of the analysis. It is prepared in compliance with applicable accounting standard and is an integral part of the organization's financial statements for the reporting period the financial statements are prepared for. Therefore the analysis of information in the Statement of Cash Flows is an important component of the methodology for the analysis of the organization's financial position. This conclusion is based on the following major premises:

- The information contained in the Profit and Loss Accounts and statements of cash flows. The main function of the profit and loss account is to present the financial result from the organization's operations during one reporting period (calendar year). This profit and loss account presents incomes and costs at the time of their posting. No other element of the organization's financial statement measures the financial result in this way. At the same time, it is worth noting that the profit and loss account do not necessarily contain information about the real movement of organization's cash. This is due to the application of the accounting principles for continuous posting and comparability between income and expense when entering the business operations carried out by the organization that are relevant to the incurrence of income and expense. We can assume that the information from the Profit and Loss Account does not fully reveal the time of incoming and outgoing cash flows (movement of cash and cash equivalents), as well as the impact of completed business operations on the status and dynamics of liquidity and creditworthiness. Information about cash and cash equivalents, about their movement and changes, as well as about the net cash flows (in general and by type of activities) is contained in the organization's Statement of Cash Flows;
- The information contained in the Profit and Loss Account, the balance sheet and the Statement of Cash Flows. The balance sheet contains information about the assets controlled by the organization, from which future benefits are expected. It further contains information about the ways these assets are financed (with equity and/or borrowings). The Profit and Loss Account presents information about incomes, expenses and financial result from the organization's operations during the reporting period, and the Statement of Cash Flows – the movement and change of cash and cash equivalents during the reporting period, which are classified as cash flows from operating, investing and financing activity. The operating activity is the major activity through which the organization generates income, and together with any other activity, it cannot be classified as investing or financing. The investing activity comprises the acquisition and sale of fixed assets and other

investments, which are not included in cash equivalents, while financing is the activity that results in changes in the amount and structure of the organization's paid-in equity and borrowings.

The information in the organization's Profit and Loss Account, the balance sheet and the Statement of Cash Flows is interrelated. The organization services its assets with cash. Therefore assets are classified as short-term, fixed and financial assets. Such classification of assets allows for distinguishing cash flows from operating, investing and financing activity, respectively, i.e. there is an objective relation between the information contents of the balance sheet items and the positions in the organization's Statement of Cash Flows. This relation is expressed in the cash effect of business operations with short-term, fixed and financial assets completed during the reporting. In parallel, the balance sheet items in the group of short-term assets represent the organization's current obligations at a specific time, which are also related to incurrence and posting of expenses, expressed in the Profit and Loss Account, and in a number of cases there is no movement of cash in practice. Furthermore, the balance sheet items in the group of short-term receivables are related to the incurrence and posting of incomes which are presented in general in the Profit and Loss Account, and not always in the Statement of Cash Flows at the same time, since there are no incoming cash flows.

The information contained in the

analysis of cash flows as an element of the methodology for analysis of the organization's financial position requires the correct interpretation and systematization of the data in the organization's Profit and Loss Account, balance sheet and Statement of Cash Flows.

## 2. Theoretical and practical aspects of the analysis methodology

Cash flow from operating activity may be considered as "accounting expression of existing combination of realized income and outgoing cash flows from periodic operating transactions".<sup>1</sup> Net cash flow from such activity, calculated as the difference between the amounts of incoming and outgoing cash flows during the reporting period may be positive and negative (see Figure 1).

The positive net flow is a source of benefits for the organization, which are specifically expressed in the increase of its assets' value (both fixed assets in the form of cash, and non-monetary fixed and other short-term assets). On the other hand, this is directly related to the financial result from sales. The main source of information about the financial result from sales (operations) is data from accounting items from group 70 "Revenue from sales". Furthermore, the Profit and Loss Account contains information about both net amount of the sale revenues and about the cost of sales.<sup>2</sup> The positive financial result is not always an indicator of the formation of positive net cash flow from operating activity.

In the conditions of financial crises,

<sup>1</sup> Vasilev V., About Cash Flow Analysis in the Insurance Company, Svishtov, Dialogue Magazine, book 1, 2010, p. 34

<sup>2</sup> Expense forming full cost are classified by segments, and data by calculation items for operations may show cost, which comprises the main production expenses

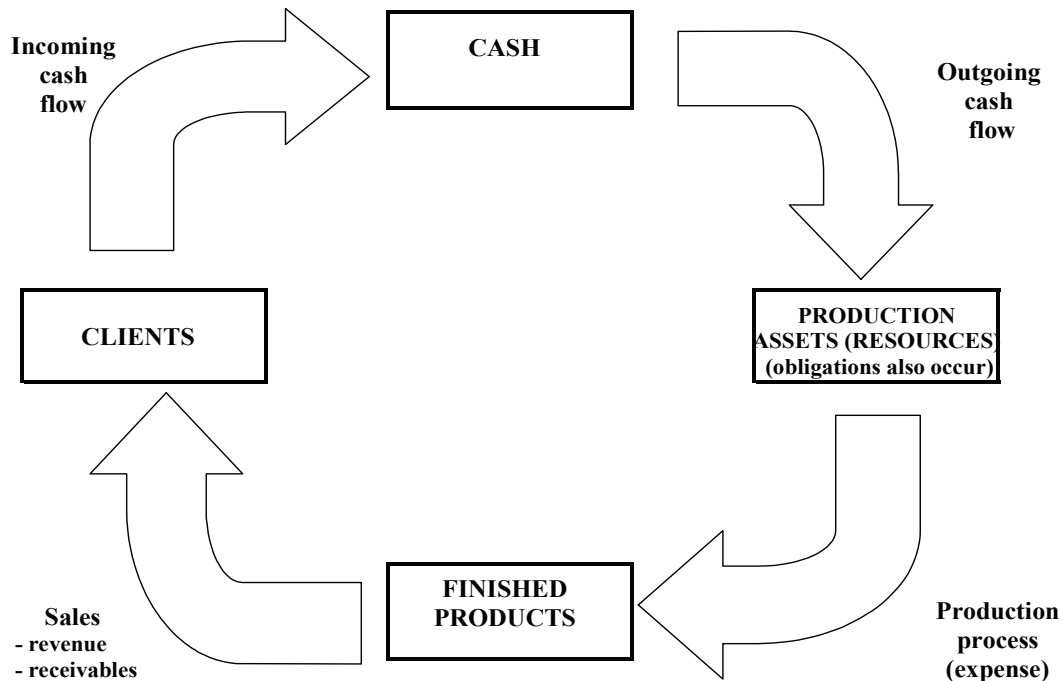


Fig. 1

indebtedness among organizations significantly increases. Quite often in business practice, organizations cannot collect their receivables from the clients for already completed sales. The big relative share of receivables from sales in the total amount of short-term assets is an essential factor, which may adversely affect the net cash flow from operating activities.

The debt crisis has another adverse effect. In a number of situations organizations face certain difficulties in repaying their current obligations, thus causing an increase of short-term liabilities' share in the total amount of liabilities. These and other situations in real business determine the need for an analysis of objectively existing relations between the data in the Profit and Loss Account, the Balance Sheet and the Statement of Cash Flows. On this basis

an organization's financial position may be profoundly analyzed in all aspects. For this purpose we need a preliminary comparative description of the information about operations, which is contained in the different elements of the organization's financial statements (see Table 1).

Such a classification of information is essential to the analysis of the organization's financial position in respect of its ability to generate cash flows from operations. Moreover, these flows are mainly caused by the organization's main operations, the revenues which represent the biggest relative share in the organization's revenues. For analysis purposes information about cash flows from operations should be transformed from accounting to monetary basis (see Table 2).

Such transformation is obligatory since the cash flows from the organization's

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Table 1.

Items in the Profit and Loss Account	Corresponding items in the balance sheet	Corresponding positions in the Statement of Cash Flows (operations)
1. Net amount of sales revenue	1. Sales receivables (Clients)	1. Cash receivables from sales of products, goods and services
2. Expense for materials and hired services	2. Payables to suppliers	2. Cash payments to suppliers
3. Expenses for staff remunerations	3. Employee payables	3. Cash payments to employees
4. Employee benefits	4. Payables to social security companies	4. Cash payables to social security companies
5. Other revenue	5. Other short-term receivables	5. Cash receivables from royalties, charges, commissions and other revenue
6. Other expense	6. Other short-term payables	6. Cash payables to other creditors
7. Financial revenue	7. Receivables from interests	7. Cash proceeds from interests
9. Tax expense	8. Payables for interests	8. Cash payables for interests
	9. Payables to the budget	9. Cash paybles for taxes
	10. Receivables from the budget for overpaid income taxes	10. Cash proceeds from income taxes refunded from the budget
	11. Recivebales from the budget for VAT refund (tax credit under the Law of VAT)	11. Cash proceeds from refunded value added tax (VAT)

operations do not basically include revenue and expense elements, which does not currently affect the availability, structure and dynamics of cash and cash equivalents. What is relevant in this case is the changes that occur upon the transformation of data from accounting to monetary basis. The increased amount of sales receivables may be interpreted as a result of the increased demand for satisfaction of clients with the products offered by the organization. However, this fact may be due to the

organization's poor management and inability to collect the clients' payables for already completed sales in a timely manner.

Furthermore, the increased amount of inventories (in the form of materials required for main operations) may be due to the organization's expectations of an increase in the volume of offered finished products as a result of stronger market demand. However, this might be due to bad times for the organization's business, such as incorrect budget estimates for the need of

Table 2.

Accounting basis	Transformation	Monetary Basis
1. Net amount of sales revenues under all invoices issued during the respective period	- reduction of receivables from sales (-) → or - increase of receivables from sales (+) →	- incoming cash flow from clients (+) or - no movement of cash
2. Expenses on materials and hired services	- reduction of payables to suppliers (-) → - increase of payables to suppliers (+) → or - purchase of materials (increase of inventories) → - spending of materials (reduction of inventories) →	- outgoing cash flow to suppliers (-) - no movement of cash or - outgoing cash flow (-) - no movement of cash
3. Employment expenses including - for remunerations - for social insurance	- reduction of payables (-) → - increase of payables (+) →	- outgoing cash flow (-) - no movement of cash
4. Financial expenses	- reduction of payables for interests (-) → - increase of payables for interests (+) →	- outgoing cash flow (-) - no movement of cash
5. Tax expenses	- reduction of payables to the budget (-) → - increase of payables to the budget (+) →	- outgoing cash flow (-) - no movement of cash

materials for operations or wrong forecasts of sales, which increases the amount of finished products in stock. Therefore, the presentation of information on a monetary basis allows for focusing the attention on profitability, short-term liquidity and long-term creditworthiness of the organization, as well as on the objective relations between them.

A thorough analysis should be made of investing and financing cash flow. This is

due to the objective fact that, on one hand, all activities are important and there is a logical internal relation among them, and on the other hand – they are not identical and vary with regard to their effect on the overall activity and the financial position of the organization. The Statement of Cash Flows is an important source of data for the different activities performed to generate cash. The organization's ability to generate cash and cash equivalents in the long run is a key

prerequisite for achieving financial stability, which is of crucial importance in the conditions of a financial crisis. The organization's failure to generate cash in the long run is an objective prerequisite for creating risks for the company and later on exposing it to the risk of insolvency or bankruptcy.

The investing cash flow is mostly the amount of expenses incurred for the acquisition of assets designated to generate future revenues and cash flows. Therefore, the outgoing cash flow from investing activity describes the cash payments effected by the organization for new investments, and the incoming cash flow from this activity represents the cash receivables obtained in the process of management of existing investments.

The financing cash flow comprises cash operations relevant to both the owner's activity and the servicing of creditors. The incoming financing cash flow comprises cash receivables from: issue of shares (ordinary or preference); issue of bonds and notes, the extended short and long-term loans. The outgoing financing cash flow comprises the following cash payments: payments of dividends and other allocations among owners, payments under security transactions, and payments under short-term loans and the principals of long-term loans.

Interpreting the information contained in the organization's financial statements, we should note that the data presented in the Statement of Cash Flows are characterized with lower level of subjectivism and distortion, compared to those presented in the Profit and Loss Account.

The above arguments give reasons to claim that the methodology for cash flows analysis is an element of the overall

methodology for the analysis of the organization's financial position.

### **3. Methodological guidelines for cash flow analysis**

The following methodological stages in the organization's cash flow analysis are studied:

- Analysis of organization's available cash needed for its normal functioning;
- Analysis of the use of cash by types of activities;
- Analysis of the cash flows' efficiency.

#### ***3.1. Availability and use of cash – analysis guidelines***

The analysis and the assessment of the organization's availability of cash, required for its regular functioning, is a starting point. This is especially important in the conditions of dynamically changing market conditions and competition and amid the financial crisis. At this stage, the analysis is performed in the following directions: the analysis of the cash flows' dynamics, including the analysis of cash available at the end of the reporting period; the analysis of the incoming and outgoing cash flows by segments; the analysis of the cash flows' structure; the analysis of sustainability (factual rhythm) of the incoming cash flow from clients; the analysis of the present value of future cash flows.

The analysis of cash flows used by the organization by segments may be performed in the following directions: the analysis of the collection rate of receivables from clients; the analysis of indebtedness; the analysis of the repayment of liabilities to suppliers (term for repayment of liabilities).

### 3.2. Cash flow efficiency – analysis guidelines

The analysis of cash flows' efficiency may be performed mainly for the purposes of studying the liquidity, turnover and profitability of the net cash flow from operating activity. The text below highlights some aspects of the cash flows' efficiency analysis.

#### Static analysis

##### 3.2.1. Analysis of liquidity of the net cash flow from operating activity

The liquidity of the net cash flow from operating activity may be analyzed in different aspects:

**A) Short-term liquidity.** This is the organization's ability to repay its short-term payables with cash generated from operating activity. Disturbing the short-term liquidity is a prerequisite for the occurrence of short-term liquidity risk. Short-term liquidity may be analyzed by a system of indicators:

#### a) Short-term liquidity coefficient.

This indicator is calculated in the following way:

$$\frac{\text{Net cash flow from operating activity}}{\text{Short-term payables}} \quad (1)$$

The short-term liquidity coefficient measures the organization's ability to repay its short-term payables without raising additional capital or selling part of its assets. Such a conclusion is based on the fact that the net operating cash flow is an expression of available cash from the organization's operating activity after it has already satisfied its needs for working capital.

#### b) Receivables collectibility coefficient.

This indicator is calculated in the following way:

$$\frac{\text{Incoming cash flow from clients}}{\text{Available receivables from clients as at 31.12 of the previous year} + \text{Net amount of sales revenues}} \quad (2)$$

This indicator measures the amount of cash received from clients for each one lev of net sales revenues during the reporting period and the availability of receivables from sales as at the beginning of the same period. We consider appropriate to use this indicator in parallel with the indicator that measures the average term of collectibility of receivables from clients (from sales).

#### c) Period for working capital funding.

This indicator characterizes the time that the organization needs to ensure the required working capital. The working capital may be funded from internal and external sources.

The period for funding ( $Tf$ ) the working capital from internal sources is calculated by applying the following formula:

$$Tf = Tmz + Tv \quad (3)$$

where:  $Tmz$  is the inventory turnover time;  $Tv$  is the average period for the collection of receivables from clients.

This indicator measures the time required by the organization for internal (own) funding of the working capital.

The need of internal funding ( $F$ ) of working capital is calculated by applying the following formula:

$$F = Tf - Td \quad (4)$$

where:  $Td$  is the average term for repayment of payables to suppliers.

The shorter period for internal funding



of working capital reveals the formation of bigger cash flow from operating activity. This fact may have two dimensions resulting in the occurrence of two different business situations, which requires making a profound analysis and the correct decisions, especially in the conditions of financial crisis. On one hand, the organization may not have the crucial need to internally fund its working capital, since a well working and secure system of a fast collection rate of receivables from clients is in place, and at the same time inventory turnover is accelerated. In similar cases, the possibility for occurrence of short-term liquidity risk and liquidity crisis is quite low. On the other hand, the organization may purposefully delay its payments to suppliers in order to ensure external funding of its working capital. Such business decisions should be well considered and determined since they create objective conditions for the occurrence of short-term liquidity risk. And this could be quite dangerous in the conditions of financial crisis.

**d) Operating cash flow for working capital funding:**

$$\frac{\text{Net cash flow from operating activity}}{\text{Period of working capital funding}} \quad 5)$$

This indicator characterizes the amount of the net cash flow generated from operating activity for daily average funding of the working capital required for the organization's regular activity.

**B) Long-term liquidity.** It is defined as the organization's ability to repay its long-term liabilities with cash generated from operating activity. Disturbing the long-term liquidity is a prerequisite for the occurrence

of long-term liquidity risk. Long-term liquidity may be analyzed by a system of indicators:

**a) Relative share of long-term payables (liabilities) within the total amount of organization's payables:**

$$\frac{\text{Long-term payables}}{\text{Total payables (liabilities)}} \quad (6)$$

**b) Debt-to-equity ratio:**

$$\frac{\text{Total payables (liabilities)}}{\text{Equity}} \quad (7)$$

**c) Interest cover coefficient:**

$$\frac{\text{Operating profit}}{\text{Expense on interests}} \quad \text{or} \quad (8)$$

$$\frac{\text{Net cash flow from operating activity}}{\text{Expense on interests}} \quad (9)$$

This indicator, calculated on the basis of the net cash flow from operating activity, is reduced in value, compared to the same indicator calculated in terms of operating profit. At first sight both the operating profit and the net cash flow from operating activity are formed within one and the same activity – the operating activity. But the amount of operating profit depends on the impact of the number of factors (revenues and expenses from operating activity) that may not be expressed in terms of cash. The amount of net cash flow from operating activity and its dynamics in time is subject to the impact of factors that represent the real movement of cash within the operating activity only (incoming and outgoing cash flows from this activity). This gives us grounds to come to the conclusion that the interest cover coefficient should be calculated on the basis of the organization's net cash flow from operating activity. This is how any distortion of the efficient information is avoided and the manager

may make the proper decision for the long-term liquidity management.

**d) Long-term liquidity coefficient:**

$$\frac{\text{Net cash flow from operating activity}}{\text{Total payables (liabilities)}} \quad (10)$$

The long-term liquidity coefficient measures the organization's ability to repay its payables with the proceeds from operating activity, without raising additional capital or selling part of its asset. If the coefficient (in percentage) is bigger than 20%, the organization's financial position may be considered stable. In such situation the risk of long-term liquidity crisis is minimum.

*3.2.2. Analysis of the cash flows' profitability*

**A) Profitability of net cash flow from operating activity on the basis of sales revenue:**

$$\frac{\text{Net cash flow from operating activity}}{\text{Sales revenue}} \quad (11)$$

This indicator measures the organization's ability to turn sales revenues into cash flows. We consider appropriate to calculate this indicator on the basis of the gross amount of the sales revenue. This opinion is determined by the twofold role of the value added tax, specified in a different line in the sales invoices issued by entities entitled to tax credit under the Law of the Value Added Tax. On one hand, it is classified as a basic balance sheet item in the asset part of the balance sheet within the group of short-term receivables from clients, and on the other hand, its amount is presented in the liability part in the group of short-term payables of the organization. Of course, we should take in consideration the

statutory term for the payment of the due value added tax in favour of the national budget. Frequently in business practice there are situations when receivables from clients, including VAT, are available for the organization (there is no incoming cash flow), and at the same time it makes transfers for the due tax to the budget or settles payments to suppliers under the invoices for supplies that also include the amount of VAT (there is an outgoing cash flow). Such differences in the time of incoming and outgoing cash flows from operating activity are quite dangerous in the conditions of crisis. This is an actual prerequisite to worsen the debt crisis among business agents.

**B) Profitability of net cash flow from operating activity on the basis of operating profit:**

$$\frac{\text{Net cash flow from operating activity}}{\text{Operating profit}} \quad (12)$$

This indicator measures the objective relation between the operating profit and the operating cash flow.

**C) Rate of return of the net cash flow from investing activity:**

$$\frac{\text{Net cash flow from investing activity}}{\text{Total amount of assets}} \quad (13)$$

This indicator characterizes the amount of net cash flow from investing activity for each one lev of investments in assets.

The economic crisis and the financial instability have an adverse effect on most organizations' investing activity. We consider this indicator appropriate to measure the efficiency of the organization's investing activity.

**Dynamic analysis**

*3.2.3. Analysis and evaluation of investment project financial efficiency (dynamics of time value of money)*

**A) Net present value method**

This method is based on the question of whether the amount of discounted net cash revenue for the entire economic life of the investment project exceeds the amount of discounted investment expense. The amount of the net present value of an investment that has more than one cash flow is calculated with the following formula:

$$NPV = -C_0 + \frac{C_1}{(1+r)} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_n}{(1+r)^n} \quad (14)$$

A decision is made on the basis of the obtained results as follows:

- if  $NPV > 0$ , the project is approved;
- if  $NPV < 0$ , the project is rejected;
- if  $NPV = 0$ , the project is at the critical border (profitable or unprofitable) and additional analysis is required.

The positive net present value expresses the effective use of resources. It measures the absolute growth of the capital of owners (shareholders) who have invested their funds in the investment project. The optimization criterion in this particular case is the selection of the project with maximum positive amount of the net present value.

The negative net present value shows that expenses exceed revenues from the investment project at a specific discount rate. The conclusion is that the project cannot contribute to the increase of owners' (shareholders') capital and the investment should be rejected.

If the net present value is zero, the investment project will not affect the amount

of owners' capital, and therefore it should be further analyzed with regard to the potential risks and with view of making the proper decision to approve or to reject such investment.

The strengths of the net present value method are as follows:

- It measures the absolute growth of owners' capital.
- It comprises and evaluates cash flows in dynamics throughout the economic life of the investment project and reflects the different time value of money.
- It can be further used to analyze and evaluate a package of investment projects.

The weaknesses of the net present value method are mainly related to the practical and applied aspects of finding the required rate of return, as well as the impossibility to compare investment projects of different scales.

**B) Internal rate of return**

This method is based on defining the value of the internal rate of return (IRR). On the basis of its value, we can evaluate the financial efficiency of investment projects. The internal rate of return is the discount rate when the amount of discounted positive (incoming) cash flows is equal to the amount of the negative (outgoing) cash flows related to the investment project. Therefore, the internal rate of return is the discount percent when the net present value is zero. If we use the formula for calculation of the net present value, the internal rate of return is the discount percent in the following equation:

$$-C_0 + \frac{C_1}{(1+IRR)} + \frac{C_2}{(1+IRR)^2} + \dots + \frac{C_n}{(1+IRR)^n} = 0 \quad (15)$$

In order to analyze and evaluate the efficiency of the investment project by

means of the indicator describing the internal rate of return, we need to know the market interest rate. In this case we can use the interest rate of a loan granted by the respective bank as a market interest rate.

On the basis of the value of the internal rate of return we can draw conclusions and make decisions or refuse to invest in the project, as follows:

- if  $IRR > r$ , the project is approved;
- if  $IRR < r$ , the project is rejected;
- if  $IRR = r$ , the project is at the critical border (profitable or unprofitable) and additional analysis is required, including risk analysis.

*3.2.4. Models for the analysis and evaluation of value added tax based on cash flows.*

**A) Model for the analysis and evaluation of cash flow return on investment (CFROI).**

The indicator describing the cash flow return on investment is a modified version of the internal rate of return (IRR). It can be applied in the analysis and evaluation of cash flow return on already made investments. CFROI is calculated as a percentage ratio between the cash flow received by the organization for a specific period of time and the amount of investment made by the same organization:

$$CFROI = \frac{GCF-ED}{GI}; \quad (16)$$

$$GCF = NI_j + i \times (1 - T) + Dj; \quad (17)$$

$$GI = NA + CDA + CAI; \quad (18)$$

$$ED = \frac{(GI - SV) \times WACC}{(1+WACC)^n - 1} \quad (19)$$

where: GCF is the Gross Cash Flow;  
ED is the Economic Depreciation;  
GI is the Gross Investment;  
Dj is the Depreciation charged for the year;  
NA is the Net Assets;  
CDA is the Cumulated Depreciation on Asset;  
CAI is the Current Adjustment to Inflation;  
SV is the Salvage Value;  
WACC is the weighted average cost of capital, %  
n is the estimated useful lives of the assets in the years since the initial investment.

In this particular case, the economic depreciation is considered even annual deduction aimed at covering the recoverable value of amortized assets, i.e. the expenses for their recovery at the end of their project life.

Efficiency is evaluated by means of comparative analysis of CFROI and the indicator describing the cost of capital.

The weighted average cost of capital (WACC) is calculated with the following formula:

$$WACC = \frac{E}{V} \times Re + \frac{D}{V} \times Rd \times (1 - TaxRate) \quad (20)$$

where: E is the market value of shares;  
D is the market value of bonds;  
V is the organization's market value, whereas  $V = E + D$   
E/V is the relative share of shares' market share (E) in the organization's market value (V);  
Re is the cost of equity;  
D/V is the relative share of bonds' market in the organization's market value (V);  
Rd is the cost of borrowings;  
Tax Rate (TR) is the tax rate in %

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On the basis of the two indicators (CFROI and WACC) we can draw conclusions and make justified and proper management decisions.

If  $CFROI > WACC$ , the organization investment is made to work efficiently and give value added to the owners (shareholders).

### **B) Model for analysis and evaluation of cash value added (CVA).**

The indicator describing the cash value added expresses the difference between the cash return on invested capital and the average cost of capital, i.e.  $CFROI - WACC$ , in absolute value.

If  $CFROI > WACC$ , the organization ensures value added.

## Conclusion

The global financial and economic crisis requires that organizations should be restructured and should redirect their resources to more efficient productions and services. The good and sound management of cash is of crucial importance here. As a reaction to the crisis, organizations should use fresh cash from different operational programs of the European Union in a rational manner. Furthermore, the governments of the European Union member states and the European Central Bank take measures to provide accessible conditions for crediting businesses. Such actions are directed at improving financial management,

recovering stability and establishing conditions for the economic growth of organizations and the economy in general.

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