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## FINANCIAL PERFORMANCE MEASUREMENT COMPARATIVE STUDY ON THE AVAILABILITY AND PROFIT OF SATURN PLC DURING THE YEARS 2010 – 2014

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### ABSTRACT

**T**he present study shows things that lead to the establishment of a clear comparison between availabilities and profit. The main purpose of this work is to better reflect the results of Saturn PLC., depending on the requirements of the stakeholders. The work addresses issues of performance measurement in order to establish a comparison between availability and net profit. For the specified purpose, indicators were analyzed based on the case study of Saturn PLC, thus, the results of the paper show that the availability of work and profit are closely related to the company analyzed and these have quite low values in all five years for which the analysis has been completed.

**Keywords:** financial performance, cash, profit, comparison, Saturn PLC, financial statements

## Introduction

"Performance is the result of objectives from an organized system to think" (Marius Torok). Starting from this statement this work was carried out to see all the ways to determine availability and net profit and also to compare the listed indicators. The main objective of this scientific approach is establishing the performance measurement means of the company.

The research methodology by which we worked on the current study consisted of documentation, observation, data collection and the actual development of work. Research respects certain principles that are based on the link between theoretical and practical, the link between quantity and quality and last but not least between evaluative and observant judgments. The chosen theme is of particular importance in Romania in the current period because acute financial crisis brought negative influence on companies in performance analysis. Documentation we used is theory, which I consulted in various books and research studies of various authors nationally and internationally, and for the case study we focused on Saturn PLC, where the financial statements and their annexes made calculations possible. After finding this information, we passed on to their observation to establish what matches the study, and to data collection for the practice, after which we could pass to drafting the work itself. We believe that the work complies with the guidelines and also brings major novelty in the field of economic literature, this approach not having been met in this way before.

## 1. Performance Measurement Study

Considering the concept of performance important for an enterprise, we present a few definitions given over time by different researchers in economics. Performance is defined by Georgopoulos and Tannenbaun (1957) as the equivalent to organizational effectiveness, representing the degree to which an organization as a social system and in view of some resources and limited means achieves his goals without excessive effort from its members. The criteria used for assessing performance are: productivity, flexibility, inter-organizational tensions.

A. Knemakhem believes that performance measurement is "a system of control techniques designed to ensure that achievements of the various responsibility centers of an enterprise comply with the rules established for each of them, to apply positive or negative sanctions whether achievements shifted significantly from the chosen rules" (A. Knemakhem, 1971)

The concept of performance is associated with three concepts (L. Olimid, 1998):

- The economy (procurement of necessary resources at the lowest cost)
- Efficiency (either to maximize the obtained results starting from a given amount of resources or to minimize the amount of resources for a default result)
- Effectiveness (results obtained to achieve provided results).

Performance measurement may in no case be limited to the knowledge of a result. Performance must not be confused with indicators or the measures they describe. (Julia Jianu, 2007, pp. 23-24)

By the performance of availabilities we understand their efficient use, meaning that they will have to cover obligations to third parties and the banks, and when they are additional, launched on a financial market. Profit performance is defined as meaning that profit should be allocated at the end of the period and is also a component of the self-financing capacity. In order to compare availabilities to profits, we analyze in the following the two indicators specified for the company Saturn PLC in Alba Iulia.

## 2. Description of the Studied Company

The company Saturn PLC Alba Iulia in Romania is a private company limited by shares, the majority shareholder being the company CIMU LTD Cinisello Balsamo (MI) - Italy. The company was founded in 1972, it began producing in 1975, and is one of the most important Romanian foundries for iron castings. The main activity of the company is the production of iron castings, delivered cleaned, rough machined, painted and tension relieved. Typology of production that it performs includes: parts for tool-machines (frameworks, enclosures, shafts, tables, fixed and mobile tables, uprights, face plate, fixed and mobile sleepers, etc.); castings for metallurgical equipment (ingot molds, and bridges and foundry funnels casting bells, shielding for coals); counterweights for tool-machines, forklifts, cranes and gantries; other parts (flywheels, crowns, etc.). Over 90% of production is exported to EU countries. The company has implemented the quality system according to EN ISO 9001:2008 certified by TÜV Süddeutschland Germany in 1998 and recertified in 2004 and 2008. ([www.saturn-alba.ro](http://www.saturn-alba.ro))

Treasury cash flow analysis has become "an urgent need to complement the analysis of financial condition of the entity because it turned out that not always the existence of an accounting profit is simultaneously a guarantee for repayments and avoids in this way risk bankruptcy. Also, an accounting loss does not necessarily mean a flattening default and bankruptcy risk. Using accrual accounting can lead to situations where an entity realizes an accounting profit substantially, but still reaches insolvency and finally becomes even bankrupt." (Monica Violeta Achim, Sorin Nicolae Borlea, 2012 p. 333) That said we have to distinguish between the two terms, profit and cash from the analyzed company for periods of five calendar years.

### 2.1. Cash Flow Analysis

In accordance with IFRS (International Financial Reporting Standards - IFRS 2011), cash flows or treasury flows represent "inflows and outflows of cash and cash equivalents during a financial year. Cash comprises cash in the sales register, at banks and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". Cash flow available is "cash flow remained available to the company to remunerate equity investors in the company or shareholders and creditors. As a result, in estimates we keep account of the origin of attracted funds and flows allocation needed to ensure continuity and development of the company's business". (Victor Dragotă, Anamaria Ciobanu, Laura Obreja, Mihaela Dragotă, 2003, p. 230)

The cash flow statement should present cash flows during the period classified by operating, investing and financing activities (Sorin Nicolae Borlea, p. 36) and can be determined by direct method, the indirect method or "Treasury Flow Statement" can be consulted, a form issued by the company concerned.

#### 2.1.1. Cash Determination by Using the Direct Method in the Case of Saturn PLC

The direct method involves "identifying and registering in the treasury flow statement of receipts and gross payments in cash or cash equivalents performed by the enterprise. As a general rule, offs between receipts and payments are not allowed so as net values to be included in the cash flow statement. (Coordinator Nicolae Baltes, 2013, p. 272)

International Accounting Standard (IAS) 7 recommended enterprises to highlight information on

treasury flows by using the direct method because it is believed that it provides the most detailed information on the components of net operating treasury flow. That said, further on we present the way of determining the availability by using the direct method and the resulting values in the case of Saturn PLC for the period under study:

- Management cash-flow

*Management cash flow = Proceeds from sales - Supplies payments - Payments for employees - Interest payments – Taxes payments - Payments from other operating activities*

Table no. 1 Cash flows from operating activities using the direct method

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Indicators	No. rws.	Year				
		2010	2011	2012	2013	2014
Turnover	01	53,706,452	77,689,319	87,639,614	75,023,350	97,721,836
Δ receivables	02	2,322,513	7,191,616	-1,609,201	0	4,156,221
VAT receivables	03	388,459	444,376	311,458	353,085	0
Δstocks	04	1,251,164	3,279,951	933,954	-203,159	713,705
Δsupplies	05	2,449,184	6,568,471	-3,094,990	-2,317,651	2,448,882
VAT supplies	06	197,807	1,048,747	592,504	448,577	238,601
Wage expenses	07	17,263,353	22,221,354	24,378,943	22,507,538	24,647,100
Δsalary arrears	08	1,341,645	4,639,330	94,035	-406,579	261,997
Material expenses + Other operating expenses	09	37,231,047	0	58,066,985	44,788,992	61,349,133
Interest expenses	10	296,836	461,759	460,185	404,656	345,694
Tax expenses	11	436,221	202,693	1,226,928	752,468	2,312,398
ΔTax debts	12	398,422	177,370	149,402	312,653	299,885
<b>Management Cash-flow (rw. 01 - rw.02 - rw.03) - (rw.09 + rw.04 - rw.05 - rw.06) -(rw.07 - rw.08) - rw.10 - (rw.11 - rw.12)</b>	<b>13</b>	<b>-1,096,083</b>	<b>56,321,488</b>	<b>1,611,313</b>	<b>4,456,770</b>	<b>7,446,950</b>

Source: Saturn PLC financial statements and the author's processing

- Investments cash flow

*Investments cash flow = Proceeds from property sales (tangible, intangible and financial assets) + Interest + Received dividends - Purchases of property related payment*

Table no. 2 Cash flows from investing activities using the direct method  
 -lei-

Indicators	No. rw.	Year				
		2010	2011	2012	2013	2014
Receipts from the sale of assets	01	0	0	0	0	688,073
Interests	02	0	0	0	0	0
Collected dividends	03	0	0	0	0	0
Payment related to acquisition of property	04	949,782	1,637,938	1,744,096	775,041	3,963,180
<b>Investment Cash-flow (rw. 01 + rw. 02 + rw.03 - rw.04)</b>	<b>05</b>	<b>-949,782</b>	<b>-1,637,938</b>	<b>-1,744,096</b>	<b>-775,041</b>	<b>-3,275,107</b>

Source: Saturn PLC financial statements and the author's processing

- Financing cash flow

*Financing Cash flow = Increase of capital (cash) - Repayments of capital (cash) + contracts of new loans (and favorable exchange rate differences) - Repayments of borrowings (including unfavorable exchange rate differences) - Payment of dividends*

Table no. 3 Cash flows from financing activities using the direct method  
 -lei-

Indicators	No. rw.	An				
		2010	2011	2012	2013	2014
Capital Increases	01	0	0	0	0	0
Capital Repayments	02	0	0	0	0	0
New loan contracts + Exchange rate differences	03	12,367,067	41,846,213	47,592,785	31,131,259	24,522,873
Cash on delivery loan	04	12,827,000	37,845,186	48,935,596	32,067,199	28,638,253
Dividends payment	05	0	0	0	0	0
<b>Financing Cash-flow (rw.01 - rw.02 + rw.03 - rw.04 - rw.05)</b>	<b>06</b>	<b>-459,933</b>	<b>4,001,027</b>	<b>-1,342,811</b>	<b>-935,940</b>	<b>-4,115,380</b>

Source: Saturn PLC financial statements and the author's processing

At first glance, cash flow, calculated by the direct method, in most cases, recorded minus values, ie less than 0. In terms of how to determine the cash management activity, we take the example of 2014 and detail it as follows: Proceeds from sales = CA - Δreceivables - VAT receivables, where Δreceivables = 3,516,933-680,695 + 552,062 + (3,422,151 - 2,657,354) + (4,942 to 1,818) = 4,156,221 lei. The following items were determined as follows: Supply Payments = Material Expenses + Service providers expenses - Δstocks - Δsupplies where: Δstocks = (4,041,899-4,862,059) + (1,940,349-1,760,824) + (26,544 - 28,141) + (720,864-939,460) + (215,511 -186,194) + (7,124,050-6,128,386) + (2,256,174-1,488,566) - (351,538-129,459) + (4,391-368) = 713,705 lei, Payments for employees =Salary costs - Δsalary debts, where: Δsalary debts = (584,957-487,032) + (11,782 - 12,355) + (2,642 - 1,828) + (26,698-124,803) + (437,895-400,428) + (202,530-154,960) + (106,237-78,467) + (112,055-82,459) - (10,392-50,367) + (5,404-7,702) +

$(8,731-6,792) + (8,721-6,778) + (5,096 -3,761) + (298,560 - 221,921) = 261,997$  lei, Paid interest = Interest expenses –  $\Delta$ interest debts, where: Interest costs =  $194,635 + 151,059 = 345,695$  lei, Other payments =  $31,087,774 + 15,352,186 + 989,817 + 128,329 + 8,934,927 + 69,082 + 1,737,880 + 26,951 + 50,835 + 160,987 + 226,285 + 56,917 + 227,704 + 86,162 + 73,956 + 1,899,144 + 23,804 + 216,392 = 61,349,133$  lei and the Payment of benefit tax = Tax expenses –  $\Delta$ tax related debts where: Interest Expenditure =  $319,191 + 171,695 + 203,122 + 1,618,390 = 2,312,398$  lei and  $\Delta$ Tax related debts =  $(491,315-191,907) + (2,394-2,794) + (975-98) = 299,885$  lei.

Please note that the rest of indicators that help determine cash from investing activities and financing activities do not have to be calculated as we proceeded with management activity, indicators being found in the annual financial statements and the method of calculation of each activity can be observed in each table.

### 2.1.2. Determination of cash by the indirect method in the case of Saturn PLC

The indirect method is an alternative of direct method used for the determination of net treasury flows arising from operating activities. It is envisaged that by practicing on accrual accounting income and expenses are recorded as incurred and not at the time of receipt or payment, and in the result calculation some items of monetary income and expense are considered, not involving inflows or outflows of treasury, which makes the difference between the size of the result achieved and the size of the treasury flows increase. (V. Dragotă, A. Ciobanu, L. Obreja, Dragotă M., 2003, p. 224)

The indirect method is to adjust net profit with items of income and expense associated with treasury flows from investing or financing activities with effects of the transaction in non-cash nature and reducing or increasing payments and commitments in cash or cash equivalents from operations. (A. Țăran Moroșan 2012, pp. 197-210)

Determination of cash in the case of Saturn PLC for the period 2010 - 2014 by the indirect method is as follows for each activity:

- Management cash-flow

*Management cash-flow = Net profit + Depreciation expense + Net provisions - Profit on disposal of fixed assets - Financial income - Variations in the need for working capital*

Table no. 4 Cash flows from operating activities using the indirect method

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Indicators	No. rw.	Year				
		2010	2011	2012	2013	2014
Net Profit	01	374,896	1,674,618	2,220,064	263,145	6,936,169
Depreciation charges	02	965,459	917,424	1,076,545	1,720,299	1,781,031
Net provisions	03	0	0	0	0	764,797
Financial incomes	04	829,142	1,225,463	1,852,719	2,242,353	1,809,693
The need for working capital	05	24,660,622	25,785,678	25,618,255	23,743,741	24,949,646
Variation in the need for working capital	06	626,745	1,125,056	-167,423	-1,874,514	1,205,905
<b>Management Cash-flow (rw.01 + rw.02 + rw.03 - rw.04 - rw.06)</b>	<b>13</b>	<b>-1,096,083</b>	<b>56,321,488</b>	<b>1,611,313</b>	<b>4,456,770</b>	<b>7,446,950</b>

Source: Saturn PLC financial statements and the author's processing

- Investment cash flow

$Investment\ cash\ flow = (Real\ estate\ assets + Depreciation\ 1) - (Real\ estate\ assets + Depreciation\ 0) +/-\ on-going\ investment\ expenses + Financial\ income = Variation\ in\ gross\ assets + Financial\ Income$

Table no. 5 Cash flows from investing activities using the indirect method

-lei-

Indicators	No. rw.	Year				
		2010	2011	2012	2013	2014
Real estate assets balance	01	9,525,636	10,669,857	12,484,786	10,932,600	12,969,124
Real estate assets balance	02	10,095,707	9,525,636	10,669,857	12,484,786	10,932,600
Depreciation 1	03	965,459	30,920	1,076,545	1,720,299	1,781,031
Depreciation 0	04	897,249	36,692	917,424	1,082,154	1,720,299
Investment expenses	05	1,451,643	499,489	-229,954	1,689,082	1,177,851
Financial incomes	06	0	0	0	0	0
<b>Investment Cash-flow [(rw.01 + rw.03) -(rw.02 + rw.04) + rw.05 + rw.06]</b>	<b>07</b>	<b>-949,782</b>	<b>-1,637,938</b>	<b>-1,744,096</b>	<b>-775,041</b>	<b>-3,275,107</b>

Source: Saturn PLC financial statements and the author's processing

- Financing cash flow

$Financing\ cash\ flow = Variation\ in\ capital\ funding - Dividends + Debts\ Variation + Variation\ due\ to\ exchange\ differences$

Table no. 6 Cash flows from financing activities using the indirect method

-lei-

Indicators	No. rw.	Year				
		2010	2011	2012	2013	2014
Variation in the share capital	01	0	0	0	0	0
Dividends	02	0	0	0	0	0
Variation in debts	03	-324,703	-343,043	-324,658	-401,887	-110,329
Variation in the exchange rate difference	04	-135230	4344070	-1018153	-534053	-4005051
<b>Financial Cash-flow (rw. 01 - rw.02 + rw.03 +/- rw.04)</b>	<b>05</b>	<b>-459,933</b>	<b>4,001,027</b>	<b>-1,342,811</b>	<b>-935,940</b>	<b>-4,115,380</b>

Source: Saturn PLC financial statements and the author's processing

In the case of the indirect method, of determining cash flow, we see that its results for each activity is the same as for the direct method. We note that cash for the business management in 2008, it recorded negative values and in the years to follow positive values, the highest value being held in 2011, which implies that operating cash, as it is called can achieve the best work conditions that lead to a better management of the company Saturn PLC. In the case of investment activity, the 5 year values are negative, which means that the company has not allocated resources for investment and financing cash is in the red, with a positive value only in 2011.

Similarly, we note that in the case of the cash flow in the management activity if the indirect method needed processing, since there are some differences between the exposed formula and the form Statement of Treasury Flows. In 2012, the need for working capital = assets - operating Debt = 31,457,130 - (16,371,928-5,496,663) = 24,238,069 lei, and after processing the need for working capital it was equal to 25,618,255 lei and the variation in the need for working capital used the following formula: The need for working capital 1 - need of working capital 0, so that for 2013, the calculation is as follows: 25,618,255-23,743,741 = -167,423. A particular case occurs in the cash from investing activities for which the classic calculation formula [Property 1 - (Assets - Depreciation 0 + Provisions) + Financial income] = Variation in gross assets + Financial income, does not check, so it was necessary to amend the formula set forth above.

### **2.1.3. Establishment of Cash Flows under the Cash Flow Statement of Saturn PLC**

Management uses "treasury flow statement" to determine the liquidity of the entity, to determine its dividend policy and plan investment and financing needs. According to experts in the field "for any manager, cash-flow must be an ongoing concern for adopting a financial strategy to keep the company in business" (Ioan Bătrâncea, Analysis of the Economic Entity Treasury, 2008, p. 113).

Cash flows are divided into three categories of activity: management, investment and financing. Management activities related to cash is "the most important, being used for the following purposes: making current management payments, the acquisition of new assets through self-financing and / or for the repayment of loans and to pay shareholders dividends and creditors with interest". (Irina - Ștefana Cibotariu, 2008, p. 298)

The investment activity is "the acquisition and disposal of fixed assets and other investments not included in cash equivalents. The separate disclosure of treasury flows arising from investing activities is important because they represent the extent to which expenditures have been made for resources intended to generate future income and cash flows". (Monica Violeta Achim, Sorin Nicolae Borlea 2012, p. 336)

The third category is the funding activity, "which has the effect of changes in the size and composition of equity and company debts. The separate disclosure of these flows is important because it is useful in predicting future applications of treasury flows from those who finance the enterprise." (Adriana Florina Popa, 2011, p. 291)

To analyze the cash flow in dynamics by type of operating, investment and financing activities, the general trend of treasury flows was studied between the years 2010-2014 and is presented as follows:

Table no. 7 Statement of treasury cash flows in the case of Saturn PLC

-lei-

Type of cash flow	No. rw.	Year				
		2010	2011	2012	2013	2014
<b>Operating activities cash flows (rw.02-rw.09)</b>	<b>01</b>	<b>-1,096,083</b>	<b>-775,367</b>	<b>1,611,313</b>	<b>2,632,495</b>	<b>7,446,950</b>
<b>Total receipts, out of which: (rw.03 to 08)</b>	02	56,447,164	78,362,147	97,546,645	84,781,362	100,409,239
- Proceeds from the sale of real execution of works and services	03	52,766,578	73,265,021	92,342,888	82,232,892	99,609,019
- Proceeds from advances to customers	04	0	0	9,587	150,070	46,041
- Proceeds from operating subsidies	05	0	0	0	0	0
- Proceeds from the operating activities of sundry debtors	06	0	0	0	0	0
- Other claims received	07	3,596,094	4,535,089	4,523,208	2,342,405	703,414
- Other receipts from operating activities	08	84,492	562,037	670,962	55,995	50,765
<b>Total payments, out of which: (rw.10 to 18)</b>	09	57,543,247	79,137,514	95,935,332	82,148,867	92,962,289
- Payments to suppliers of goods and services	10	39,399,433	55,932,343	69,546,696	58,365,867	64,953,469
- Payment of advances to suppliers	11	0	0	0	0	282,119
- Wage payments	12	9,590,259	11,609,386	12,952,275	12,050,426	13,161,701
- Payments on social security and social protection	13	6,110,557	7,933,092	8,844,480	8,416,110	8,696,605
- payments on taxes and fees	14	1,494,534	2,484,478	3,405,091	2,424,354	4,904,398
- Payments on collateralization	15	0	0	0	0	0
- Payments on other operating expenses	16	499,475	641,547	631,188	489,044	521,513
- The dividend payment	17	0	0	0	0	0
- Other payments on operating activities	18	448,989	536,668	555,602	403,066	442,484
<b>Cash flows from investing activities (rw.20-rw.26)</b>	<b>19</b>	<b>-949,782</b>	<b>-1,637,938</b>	<b>-1,744,096</b>	<b>-775,041</b>	<b>-3,275,107</b>
<b>Total collections, out of which: (rw.21 to 25)</b>	20	0	0	0	0	688,073
- Proceeds from sale of fixed assets	21	0	0	0	0	0
- Proceeds from the sale of investment assets	22	0	0	0	0	0
- Proceeds from the sale of financial investments	23	0	0	0	0	0
- Proceeds from receivables	24	0	0	0	0	0
- Other receipts from investment activities	25	0	0	0	0	688,073
<b>Total payments, out of which: (rw.27 to 29)</b>	26	949,782	1,637,938	1,744,096	775,041	3,963,180
- payments to suppliers of property	27	512,473	1,191,088	1,297,785	356,363	3,592,980
- payments to purchases of financial assets	28	0	0	0	0	0
- Other payments on investing activities	29	437,309	446,850	446,311	418,678	370,200
<b>Financing activities cash flows (rw.31-rw.36)</b>	<b>30</b>	<b>-459,933</b>	<b>4,001,027</b>	<b>-1,342,811</b>	<b>-935,940</b>	<b>-4,115,380</b>
<b>Total collections, out of which: (rw.32 to 35)</b>	31	12,367,067	41,846,213	47,592,785	31,131,259	24,522,873
Favorable exchange rate difference	32	771,135	966,021	1,071,822	237,119	486,665
- Proceeds from bonds issuance	33	0	0	0	0	0
- revenues from other financial loans	34	11,593,198	40,879,481	46,519,854	30,892,986	24,035,314
- other collections on financing activity	35	2,734	711	1,109	1,154	894
<b>Total payments, out of which: (rw.37 to 40)</b>	36	12,827,000	37,845,186	48,935,596	32,067,199	28,638,253
Unfavorable exchange rate difference	37	1,122,503	1,201,800	1,263,376	580,918	595,198
- Payments for bonds compensation	38	0	0	0	0	0
- refundment of other financial loans	39	11,637,530	36,440,201	47,392,168	31,242,336	27,848,420
- other payments on financing activities	40	66,967	203,185	280,052	243,945	194,635
<b>Cash at the beginning of period</b>	<b>41</b>	<b>2,624,608</b>	<b>118,810</b>	<b>1,706,532</b>	<b>230,938</b>	<b>1,152,452</b>
<b>Cash flow - total (rw.1+rw.19+rw.30)</b>	<b>42</b>	<b>-2,505,798</b>	<b>1,587,722</b>	<b>-1,475,594</b>	<b>921,514</b>	<b>56,463</b>
<b>Cash at the end of period (rw.41 to rw.42)</b>	<b>43</b>	<b>118,810</b>	<b>1,706,532</b>	<b>230,938</b>	<b>1,152,452</b>	<b>1,208,915</b>

Source: Saturn PLC financial statements and the author's processing

Thus, in the exercised financial arrangements, cash flows have been positive, with a surplus of cash in certain periods and deficit in other years, but ensuring continuity of operational, investment and the financing activities in 2015, without the occurrence of gaps in the early part of the year (usually at risk for negative flow in most enterprises due to slowdown in payments early this year).

During those five years, the treasury has recorded fluctuations on types of activities except 2010 and 2012 when cash flow was negative, the treasury flow recording positive values and an upward trend. As we have seen, regardless of the manner of determining cash flows, for all three types of activity, the resulted values expressed in lei do not differ from one calculation method to the other, but are the same.

## **2.2. Analysis of the Net Profit along the Financial Year**

The notion of profit is "seen, accepted and understood differently by economists in terms of the global outlook, as a result from the economic effort (cost of production) and the effect resulted in revenue". (Gheorghe I. Ana, 1998, pp. 11-12)

P. Heyne considers profit as "the difference between total revenue and total expenditure. Total expenditure in the author's conception, should include the so-called supplementary wage costs as owner's salary, the rent, the building which is the shareholder's property". (P. Heyne, Bucharest, 1991)

Net profit is informally called "the bottom line, as is usually found on the bottom line of the company profit account. It is commonly found as synonym for net income and net earnings as a measure of profitability representation of a company in terms of accounting for all costs. In a survey of nearly 200 senior marketing managers, 91% responded that they found "net profit" very useful". (Farris, Paul W.; Neil T. Bendle, Phillip E. Pfeifer, David J. Reibstein, 2010)

Regarding how to determine the profits reflected in the financial statements of a company, we state that it may be either a component of equity which is found in the form of balance sheet or are determined using the income and expenses from operating, financial and extraordinary activities, situation encountered in the Profit and Loss Account, and there is also an annex to financial statements called the statement of "profit distribution", annex prepared by the company where there can be observed how the profit is distributed.

### **2.2.1. Profits, Component of Equity according to the Balance Sheet at Saturn PLC**

According to the theory of static balance, in which the result was only shown in the balance sheet, the dynamics theory explains the formation of the result through the profit or loss account, as the natural difference between revenues and expenditures of various types performed by an economic entity. (Teodor Hada, Adela Socol, 2003, p. 9)

In the dynamic theory, E. Schmalenbach was the one who first noticed the possibility of research, regarding the return in a period of balance sheet assets and liabilities as based on their relation to the elements of the operating accounts. In such a sense, the dynamic balance is defined as "balance drawn to measure earnings for a period that does stand out property developments between two given dates, under the effect of production and relative costs of production". (EG Snozzi 1965, p. 5) With a view to seeing how equity is shared, as a whole which includes the profit or loss of Saturn PLC, we present the situation of the five analyzed years:

Table no. 8 Situation on profit as equity component in the balance sheet of Saturn PLC  
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Indicator Names	No. rw.	Year				
		2010	2011	2012	2013	2014
Registered capital	01	4,945,203	4,945,203	4,945,203	4,945,203	4,945,203
Share premium account	02	0	0	0	0	0
Revaluation reserves	03	4,209,651	4,934,807	6,247,322	2,064,252	1,821,397
Reserves	04	13,263,313	13,845,080	15,614,502	22,024,011	22,976,584
Reported profit or loss	05	250,509	250,509	250,509	250,509	250,509
<b>Profit or loss from the financial year</b>	<b>06</b>	<b>374,896</b>	<b>1,674,618</b>	<b>2,220,064</b>	<b>263,145</b>	<b>6,936,169</b>
Distribution of profit	07	25.808	83.429	0	0	0
<b>Equity</b> (rw.01 + rw.02 + rw.03 + rw.04 + rw.05 + rw.06 - rw.07)	08	23,017,764	25,566,788	29,277,600	29,547,120	36,929,862

Source: Saturn PLC financial statements and the author's processing

The above data shows that the share of the equity is owned by capital, premium share, revaluation reserves and other reserves, retained earnings resulting from the financial year and, where appropriate, profit distribution.

We consider necessary the emergence of profit or loss in the balance sheet as well, strictly as a component of equity as it is also a source of funding that is available to the company. It can be seen from the table, that the situation of equity is positive for the company because from one year to the other equity continues to grow, reaching from 2010 until 2014 13,912,098 lei.

Regarding the net result of the financial year it can be seen that Saturn PLC only recorded profit in the period under review, the highest value occurring in 2014 and the lowest value, with some surprise wave appears only a year before, namely in 2013, greatly decreasing value.

Please note that regardless of where the net result is located in financial statements prepared by the company concerned, its values are identical in the five consecutive years taken for analysis.

### 2.2.2. Determination of Profit according to the Profit and Loss Account at Saturn PLC

The net result of the financial year is "the synthetic indicator that measures the overall performance of an enterprise. When the result is reflected in the profit, it increases the equity of the entity, while, when reflecting the loss, reduces equity. In either case, we find the aggregate - profit or loss - now in the balance. Knowing the absolute size of the accounting result shown in the balance sheet is not sufficient to analyze the company's performance". (Maria Berheci, 2010, p. 380)

Financial results may be in the form of (Monica Violeta Achim, 2008, p. 323):

- Profits, whether in a specific period, usually a financial year, revenues exceed expenses,
- A loss if in a specific period of, usually, a financial year, expenditures exceed revenues.

In the case of Saturn PLC the distribution of income and expenditures which form the net result of the financial year are presented in Table 9:

Table no. 9 Statement of profit and loss in the Profit and loss account in the case of Saturn PLC

-lei-

Name of Indicators	No. rw.	Year				
		2010	2011	2012	2013	2014
Operating Income	01	56,567,666	82,537,470	89,932,549	74,182,054	101,387,396
Operating expenses	02	55,837,938	80,304,635	86,581,817	73,308,487	92,472,797
<b>Operating profit or loss</b> (rw.01 - rw.02)	03	729,728	2,232,835	3,350,732	873,567	8,914,599
Financial income	04	1,809,693	2,242,353	1,852,719	1,225,463	829,142
Financial expenses	05	2,023,252	2,448,260	2,333,806	1,643,978	1,189,182
<b>Financial profit or loss</b> (rw.04 - rw.05)	06	-213.559	-205.907	-481.087	-455.052	-360.040
Extraordinary income	07	0	0	0	0	0
Extraordinary expenses	08	0	0	0	0	0
<b>Profit or loss from the extraordinary activity</b> (rw.07 - rw.08)	09	0	0	0	0	0
Total income (rw.01 + rw.04 + rw.07)	10	58,377,359	84,779,823	91,785,268	75,407,517	102,216,538
Total expenses (rw.02 + rw.05 + rw.08)	11	57,861,190	82,752,895	88,915,623	74,952,465	93,661,979
<b>Gross profit or loss</b> (rw.10 - rw.11)	12	516,169	2,026,928	2,869,645	455,052	8,554,559
Income tax	13	141,273	352,310	649,581	191,907	1,618,390
<b>Net profit or loss of the financial year</b> (rw.12 - rw.13)	14	<b>374,896</b>	<b>1,674,618</b>	<b>2,220,064</b>	<b>263,145</b>	<b>6,936,169</b>

Source: Saturn PLC financial statements and the author's processing

The main share in total profit or gross loss is held by the profit or loss from operations, which also has exclusive values greater than 0, because in the case of the financial activity resulting values are less than 0, and in the case of extraordinary activity they are equal to 0.

It is noted that, from 2010 until 2012, the net profit situation of the financial year is on the rise, but a worrying situation was recorded in 2013, when profits fell sharply, mainly due to the volume of expenditures that was quite high and that exceeded the incomes recorded. However the situation in 2014 is a favorable net result, the company recorded a higher profit, up to about two times higher than the following year ranked according to the level of profit.

In this way, the Profit and Loss Account presents a systematic way of determining net profit indicator showing the situation at the end of year within the company, which, in the case of Saturn PLC, is good, because during the years 2010 - 2015, after the company has paid all expenses, it remained "with profit", pursuing to decide on the distribution of profit and on its final destination.

### 2.2.3. The Distribution of Profits at Saturn PLC

In the present methodology and practice, legal decisions on profit distribution is "limited, which does not entirely belong to the enterprise undertaking that it works with any public or private capital. For companies with private capital, profit distribution becomes arbiter of the General Assembly, but not entirely as for such ownership the state will is manifested by law as well, on depreciation, funds set aside and deductible expense elements".

Once you have covered all tax obligations and the like, defined by law, the remaining profit is net profit on which the decision belongs entirely to private capital enterprises. (Nicoleta Bărbuță-Mișu, 2009, p. 41)

Below, we continue to present the profit distribution yield of the company Saturn PLC in Alba Iulia:

Table no. 10 The profit distribution in the case of Saturn PLC

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Destination	No. rw.	Year				
		2010	2011	2012	2013	2014
<b>Net profit to distribute</b> (rw. 02 to 05)	01	<b>25,808</b>	<b>83,429</b>	<b>0</b>	<b>0</b>	<b>0</b>
- legal reserves	02	25,808	83,429	0	0	0
- cover of accounting losses	03	0	0	0	0	0
- dividends	04	0	0	0	0	0
- other distributions	05	0	0	0	0	0
<b>Undistributed profit</b>	<b>06</b>	<b>349,088</b>	<b>1,591,189</b>	<b>2,220,064</b>	<b>263,145</b>	<b>6,936,169</b>

*Source:* Saturn PLC financial statements and the author's processing

The net profit of 374,896 lei, registered on 31.12.2010 drew to the legal constitution of reserves worth 25,808 lei and the 349,088 lei gap remains as retained earnings, the destination being approved by the General Meeting of Shareholders, the same situation occurring in 2011 as well.

In the following analyzed years, the recorded net profit remained at the date of drawing the financial statements as retained earnings, the destination being necessarily approved by the General Assembly of Shareholders.

The company's management proposal for allocating net income in the years in which profit was not distributed was for reinvestment.

### 3. Comparing Cash Flow to Profit in the case of Saturn PLC

Establishing a comparison between cash and profit is important because the company can outline a clear picture of what resources it has in a year and what remains at the end, and the dynamic analysis offers more increased power of indicator comparison.

That being said, the calculations resulted in the statement of cash flows and profit or loss for the financial year between 2010 and 2014 are presented as follows:

Table no. 11 Cash Flow comparison to profit or loss in the financial year

-lei-

Indicators	2010	2011	2012	2013	2014
<b>Total cash flow</b>	<b>-2,505,798</b>	<b>1,587,722</b>	<b>-1,475,594</b>	<b>921,514</b>	<b>56,463</b>
Cash at the beginning of period	2,624,608	118,810	1,706,532	230,938	1,152,452
Cash at the end of period	118,810	1,706,532	230,938	1,152,452	1,208,915
<b>Profit or loss from the financial year</b>	<b>374,896</b>	<b>1,674,618</b>	<b>2,220,064</b>	<b>263,145</b>	<b>6,936,169</b>

*Source:* Saturn PLC financial statements and the author's processing

Saturn PLC records quite low availabilities in the period under review, however, existing amounts should not be jeopardized, by these availabilities, the company might try to develop or invest in the stock market the accumulated cash. We underline the importance of cash flow as an "unhealthy" cash flow leads the company to its bankruptcy. In this case, there is net profit, however, availabilities problems can occur even when the company is profitable and we believe that Saturn PLC should permanently analyze their feeds to see where and when problems arise. We believe that the emergence of the financial crisis led to a decrease in cash and profit, however, care must be taken that the company does not decay or reach a precarious situation.

However, we should not jump to conclusions because the company Saturn PLC, the only one in Romania that deals with cast iron pieces, functions as expected, also registering profit.

### Conclusions

After all specified, it appears that comparison of availabilities with profit is appropriate for Saturn PLC as it helps the company to establish some firm opinions about the situation of the company while their ignorance can lead to adverse effects that may affect the smooth running of the company activity.

Of the many definitions of the concept of performance, we believe that, firstly, an enterprise must establish its efficiency and effectiveness. The performance is the degree to which a company manages to satisfy both the internal environment on the one hand, and the external environment through an optimal combination of effectiveness and efficiency. Performance is considered a state of competitiveness of the enterprise achieved through a level of effectiveness and productivity (efficiency) that ensure a sustainable presence in the market.

Cash flow monetarily expresses the result of the difference between receipts and payments from beginning to the end of the year. The net profit expresses an accounting potentiality of present and future receipts being calculated as the difference between revenues and expenses booked in accountancy within the respective year. Only under conditions of zero growth of the company and the renewal of annual depreciation, net profit is equal to cash flow. In conditions of economic growth different from zero, cash flow takes the influence of this increase on net profit. (Ion Stancu, 2003, p. 104)

Cash flow analysis performed by three modalities, ie the direct method, the indirect method and by the form drawn up by Saturn PLC as "Treasury Flow Statement" presented the cash position for the period 2010-2014, where it was observed that their situation is not very good in any of the activity (management, investment and financing). The values recorded in the case of availability are low which means that the company does not have many resources, but nevertheless should try to manage the cash it has without being forced to turn to bank loans, which would represent some debt of the company.

On the other hand, within the comparison, we had net profit which was determined by income and expenditures of the financial company Saturn PLC, but it could be seen that the net result of the financial year appears in the balance sheet as a component of equity, and also in an annex to the financial year statements called "Profit Distribution" where it could be seen that profits was assigned as legal reserves only in 2010 or 2011. The calculations revealed that the company registers in the case of this indicator as well, rather low values, which indicates the impossibility of development in the near future of the company.

Our proposal for Saturn PLC, would be to try to develop their marketing policy which would lead to providing more iron castings.

That being said, we believe the study conducted as being a motivating one for researchers in economics and for businesses that want to measure performance by comparing the availability - profit indicators.

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