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Study Regarding the Legal, Accounting and Tax Treatment on the Liquidation of the Company

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ABSTRACT

The latest legal regulations which became effective in June 2008, but amended and supplemented up to date, significantly shortened the time required for the deregistration of a company. Winding / liquidation procedure may be voluntary or required by circumstances. From a legal point of view, it is regulated, but there are problems in terms of accounting and tax matters. From an accounting perspective, the consequences are different in case of LLCs, if they have one or more partners. In tax terms, it is necessary to study each item of equity capital, from its establishment until its liquidation.

Introduction

In this article, to start with, it is being reviewed, in legal terms, the causes and the steps to be taken in the dissolution of a company.
Why a company should be dissolved / liquidated? Causes of closing a business are:
(i) decision of the shareholders / partners; (ii) decision of the court; (iii) by virtue of the law.

By dissolving a company, it ceases its legal personality. Dissolution is represented by a set of operations that usually results in the liquidation of the company assets.

Law 31/1990 on trading companies, republished in 2008 records general causes and specific causes of dissolution.

General causes are stipulated by Article 227, first paragraph of this Law. They consist of:
- ✓ passing of the time set for the company validity and its non-renewal;
- ✓ unable to achieve its scope of business (dissolution by law);
- ✓ decision of the general meeting of shareholders / partners (voluntary dissolution);
- ✓ decision of the court;
- ✓ declaration of nullity of the company;

- ✓ insolvency of the company causing bankruptcy;
- ✓ cases stipulated by the articles of incorporation of the company.

Specific reasons take into account the legal form of the company.

- Article 228 of Law 31/1990, republished, states that the joint stock company is dissolved when:
  - it is found that accounting loss is greater than half of the share capital;
  - share capital is reduced below the legally minimum level;
  - number of shareholders falls below the legal minimum
- **Partnership limited by shares** is dissolved in the same conditions as the joint stock company, on the minimum amount of share capital and the minimum number of shareholders.
- Article 229 of Law 31/1990, republished, states that the **general partnership** dissolves due to bankruptcy, insolvency, exclusion, withdrawal or death of one or more partners, when these causes determine that the number of partners reduces to one and the possibility of continuation the business with their heirs is non-existent.
- **Limited partnership** dissolves due to bankruptcy, insolvency, exclusion, withdrawal or death of the general or limited partner.
- **Limited liability company** dissolves when:
  - it is reported the loss of half of the share capital or reducing it's under the legal threshold of 200 lei;
  - after bankruptcy, insolvency, exclusion, withdrawal or death of one or more partners, their number decreased to 1.

From these rules, the following exceptions may occur:

- ➢ within a 9-month period from the date of reporting the loss or decrease of the share capital , it is completed or reduced to the legal limit;
- ➢ in the Articles of incorporation was registered a clause for continuation of activity with the heirs of the deceased person;
- ➢ partner remained after initiation of bankruptcy proceedings for the other partners, of their insolvency, exclusion, withdrawal or death, decide to continue conducting business as a sole partner limited liability company.

Contents

Dissolution of the company may take place with or without liquidation. As a general rule, dissolution will take place without liquidation, when it is decided total division or merger of the company. The dissolution of a limited liability company with sole partner is also provided by law without liquidation, in which case the net assets of the company are forwarded to the sole partner.

Law 31/1990 on trading companies, republished, stipulates in Article 232, the need for the registration of dissolution of companies in the Trade Register and publishing it in the Official Gazette, unless the dissolution is the consequence of the fact that the time set for the validity of the company passed.

If dissolution is caused by bankruptcy, it will be released by the Court invested with the bankruptcy proceedings.

Throughout the liquidation specific operations the legal personality of the company will be maintained.

Next, we will deal with the voluntary dissolution of the company. In order to close a business, i.e. its liquidation, it is necessary to follow three steps: (i) dissolution, (ii) liquidation and (iii) deregistration of the company. In view of the voluntary dissolution of the company, the following steps shall be followed:

- ➢ Preparing and drafting the liquidation report;
- ➢ Preparing the balance sheet prior to liquidation;

- Liquidation of the company, registration of liquidation operations in the accounting records, preparing the balance sheet after liquidation and submitting it to the Trade Register;
- Deregistration of the company from the Trade Register.

Voluntary liquidation of the company can be done with or without liquidator. In case of appointment of a liquidator, he/she takes over the rights and obligations of directors, whose mandates cease.

The liquidator shall prepare the liquidation report by private signature, which mentions the share of net accounting assets (equity capital) between partners.

The liquidation balance will be recorded with the Public Finance Administration and then with the Trade Register. Also, at the Public Finance Administration will be submitted the incorporation certificate of the company, provided by the Trade Register Office, accompanied by all its annexes. At the time of deregistration of the company from the Trade Register Company, the file will be completed with a tax certificate stating that the company does not record tax liabilities. Briefly, the steps to be followed, concentrated into two phases are:

Step 1: Dissolution Phase

- Registration request;
- AGA decision stating the dissolution of the company and the appointment of the liquidator;
- Liquidator's statement that he/she meets this capacity;
- Liquidator's specimen signatures;
- Proof of payment of stamp duty and fee at the Trade Register.

The Amending Act shall be published in the Official Gazette and, after 30 days it proceeds to the next step, if there was no opposition by third parties. In case of an opposition, the de-registration request may be filed, after the opposition rejection decision becomes irrevocable or it was proceeded to payment / guaranteeing debts and acceptance of the situation by creditors. However, the term is still 30 days.

Step 2: De-registration Phase

- De-registration request;
- Balance sheet prior to liquidation;
- Liquidation project, calculation of liquidation and income tax result, project of allotting the net accounting asset to partners and taxation of some equity items;
- Liquidator's report;
- Incorporation certificate and its annexes;
- Tax certificate;
- Proof of payment of stamp duty and fee at the Trade Register.

Case Study

We shall consider the case of a limited liability company, with two partners, individuals (one holds 80 % of the share capital and the other 20%). To this end, we shall start from a simplified balance, which includes the following items before the liquidation operation:

Buildings	300,000	Share capital	440,000
Depreciation of buildings	(300,000)	Revaluation reserve	100,000
Commodities	460,000	Legal reserve	80,000
Adjustment at the depreciation of goods	(10,000)	Other reserves	20,000
Customers	200,000	Retained earnings	50,000
Uncertain customers	40,000	Profit of the fiscal year	210,000
Adjustment to customer depreciation	(20,000)	**Equities**	**900,000**

Bank cash	430,000	Trade payables	160,000
		Corporate tax	40,000
Total assets	**1.100.000**	**Debts and equities**	**1.100.000**

The fiscal year income, fully taxable was in the amount of 1,200,000 lei and expenditures of 950,000 lei, fully deductible. It resulted an accounting gross profit of 250,000 lei, of which, after deducting the corporate tax amounting to 40,000 lei, it resulted an accounting net profit of 210,000 lei.

Decision of voluntary liquidation, due to exceeding the time set for the validity of the company, will register:

a). building sale, liquidation price 50,000 lei, VAT 24 % ;
b). sale of trading stock, sale price 440,000 lei, VAT 24 %;
c). collection of current receivables from the sale mentioned at sections a) and b) and from the balance;
d). payment of trade and tax payables.

It will be determined the liquidation result and, if it is reported as profit, corporate tax is calculated, then the equity items will be taxed, after a careful review of their nature and history. In this regard, we shall enter the liquidation procedures in the accounting records:

1) *Sale of building:*

461 ,,Sundry debtors"	=	**%**	62.000
		7583 ,,Proceeds from disposal of assets and other capital transactions"	50.000
		4427 „Output VAT"	12.000

2) *De-recognition of fully depreciated assets:*

2812 „Depreciation of buildings"	=	**212** „Buildings"	300.000

3) *Liquidation of trade stock:*

4111 "Customers"	=	**%**	545.600
		707 ,,Sale of goods purchased for resale"	440.000
		4427 „Output VAT"	105.600

4) *Discharge of commodities from administration:*

607 ,,Goods for resale"	=	**371** ,,Goods purchased for resale"	460,000

5) *Reversal impairment, superfluous:*

397 ,,Adjustments for depreciation of commodities"	=	**7814** ,,Income from adjustments for depreciation of current assets"	10.000

6) *Collecting current and balance receivables (62.000 + 545.600 + 200.000):*

5121 ,,Cash at bank in lei"	=	**%**	807.600
		461 ,,Sundry debtors"	62.000
		4111 „Customers"	745.600

7) *Reversal impairment of contested debts:*

491 "Impairment of customer receivables"	=	**7814** ,,Reversal of write-down of current assets"	20.000

8) Registration of loss for the customer contested debts:

654 ,,Bad debts written off"	=	**4118** ,,Doubtful customers or customers involved in litigation"	40.000

9) Payment of trade and tax payables:

%	=	**5121** ,,Cash at bank in lei"	200.000
401 ,,Suppliers"			160.000
4411 ,,Current income tax"			40.000

10) Incorporating income into profit:

%	=	**121** ,,Profit or loss for the period"	520.000
707 ,,Sale of goods purchased for resale"			440.000
7583 ,,Proceeds from disposal of assets and other capital transactions"			50.000
7814 ,,Reversal of write-down of current assets"			30.0

11) Closing expenditure account:

121 ,,Profit or loss for the period"	=	**%**	500.000
		607 ,,Goods for resale"	460.000
		654 ,,Bad debts written off"	40.000

12) Registration of VAT payable:

4427 „Output VAT"	=	**4423** ,,VAT payable"	117.600

Once done with the liquidation procedure, it shall then proceed to the calculation of the liquidation result:

•	Liqudation income	520.000 lei
(-)	Liquidation expenditures	(500.000 lei)
=	Liquidation accounting profit	20.000 lei
(-)	Tax deductions	(30.000 lei)
(+)	Expenditures not deductible for tax purposes	40.000 lei
=	**Liquidation tax profit**	**30.000 lei**
•	**Corporate tax**	**4.800 lei**

13) Registration of corporate tax:

691 ,,Income tax"	=	**4411** ,,Current income tax"	4.800

14) Reimbursement of corporate tax on earnings:

121 ,,Profit or loss for the period"	=	**691** ,,Income tax"	4.800

15) VAT payment:

4423 ,,VAT payable"	=	**5121** ,,Cash at bank in lei"	117.600

16) Payment of corporate tax due:

4411 ,,Current income tax"	=	**5121** ,,Cash at bank in lei"	4.800

Balance before performing the partition comprises:

Bank cash	915.200	Share capital	440.000
		Revaluation reserve	100.000
		Legal reserve	80.000
		Other reserves	20.000
		Profit carried forward	50.000
		Fiscal year profit	225.200
Total assets	**915.200**	**Equities**	**915.200**

We shall review each equity item, in order to set the tax debts, knowing that partners are individuals.

The share capital represents the contribution brought by the new company partners.
Revaluation reserves were taxed to the extent of depreciation registration only for the amount of 40.000 lei; therefore, corporate tax of 16 % shall apply on the difference.

Legal reserves were established when the corporate tax rate was 25 %. Consequently, the corporate tax shall be deducted by 25%.

Other reserves amounting to 20,000 lei represented a tax facility for the amount of 15,000 lei of 12.5 % for the export businesses of the company with the collection of receivables, and 5,000 lei were made up of net profit. Therefore, the amount of 15,000 lei is taxed by 12.5 % (25 % corporate tax - 12.5 % tax facility).

Retained earnings and profit carried forward represent net amounts and therefore, they shall not be taxed on profits.

According to Article 22, fifth paragraph of the Fiscal Code, **reduction** or **cancellation** of any **provision** or the **reserve** that was previously deducted shall be included in taxable income, whether the reduction or cancellation is due to change in the destination of provision or reserve, allocation of provision or reserve to participants in any form, liquidation, dissolution, merger of taxpayer or any other reason.

•	Legal reserve (80.000 lei * 25%)	20.000 lei
(+)	Revaluation resere (60.000 lei * 16%)	9.600 lei
(+)	Other reserves (15,000 lei * 12,5%)	1.875 lei
=	**Corporate tax related to income similar items**	**31.475 lei**

17) Registration of corporate tax:

691 ,,Income tax"	=	**4411** ,,Current income tax"	31.475

18) Reimbursement of corporate tax on earnings:

121 ,,Profit or loss for the period"	=	**691** ,,Income tax"	31.475

19) Payment of corporate tax due:

4411 ,,Current income tax"	=	**5121** ,,Cash at bank in lei"	31.475

Following the taxation of profit, considering the items similar to income, shareholders' equity decreases to 883.725 lei.

20) Registration of equity to be allotted before taxation of income earned by the associated individuals:

%	=	**456** ,,Transactions with shareholders / associates related to capital”	883.725
1012 ,,Subscribed capital paid”			440.000
105 ,,Revaluation reserve”			100.000
1061 ,,Legal reserve”			80.000
1068 ,,Other reserves”			20.000
117 ,,Retained earnings”			50.000
121 ,,Profit or loss for the period”			193.725

Cash allocations made in connection with the liquidation of a legal person shall not be considered dividends, within the meaning of Art. 7, first paragraph, section 12 of the Fiscal Code.
However, in the case of individuals who receive income from the liquidation of the legal person, such income represents investment income, see Art. 65, first paragraph, letter e) of the tax code). Furthermore, Art. 66 eighth paragraph of the tax code States that the taxable income obtained from the liquidation of a legal person represents the surplus of allocations in cash or in kind over the capital contribution of the receiving individual.
In our specific case, taxable income resulted from the liquidation of taxable person is 443,725 lei (883,725 minus 440,000 lei lei).

Also, article 67, third paragraph, letter d) of the Fiscal Code states that the taxable income obtained from the liquidation of a legal person by individuals shareholders / partners are taxed with a rate of 16%, the tax being final. Obligation to calculate, withhold and remit the tax lies on the legal entity.

So, tax on income obtained from the liquidation of the legal person is 70,996 lei (16% * 443,725 lei).

21) Withholding tax on the proceeds of partners following the legal entity:

456 ,,Transactions with shareholders / associates related to capital”	=	**446** ,,Other taxes and similar liabilities”	70.996

Income tax obtained from the liquidation of a legal person shall be declared by the payer of income (trading company) by:

- form 100 „Statement on state budget payment liabilities”;
- form 205 „Informative statement on withholding tax and earnings / losses according to income beneficiaries”.

Tax being final, individuals who derive income from the liquidation of a legal person, do not submit Form 220 „Statement of estimated revenue”, according to Art. 81, first paragraph of the Fiscal Code, nor the" Statement on earnings" (Form 200), according to Art. 83, third paragraph of the Fiscal Code.

22) Tax shall be paid to the State budget up to the date of submitting the final financial statement (prepared by liquidators) to the Trade Register Office.

446 ,,Other taxes and similar liabilities”	=	**5121** ,,Bank accounts in lei”	70.996

23) Payment of net amounts resulting from the allocation of capitals:

456 ,,Transactions with shareholders / associates related to capital”	=	**5121** ,,Cash at bank in lei”	812.729

Conclusions

The main problems raised by liquidation are in connection with the capitalization of assets, payment of debts and equity sharing, after liquidation, to partners.

Liquidation of any company is a separate case study and has different results. Liquidators take over the management of the company on the basis of the inventory and balance. They are provided with and keep the company's documents and prepare a register of all liquidation operations. They do not have the right to undertake new commercial operations which contravene the purpose of liquidation. Otherwise, they are personally and jointly liable for their execution.

After capitalizing assets by sale and collecting receivables, it shall proceed to the payment of debts to third parties. Finally, the net accounting asset (equity) is set, to be shared to the shareholders / partners.

From the case study, we noted that it is necessary to know the history for each equity item. This is because it has tax implications and tax payable should be set, reported and paid. From an accounting perspective, we, the authors suppose that the corporate tax should not be recorded on account of expenditures but it should be recorded by the following accounting formula:

456 ,,Transactions with shareholders / associates related to capital”	=	**4411** ,,Current income tax”	Corporate tax due

In compliance with Article 256, first paragraph of Law 31/1990, republished, I quote: "**Liquidators cannot pay the partners any amount on account of the parts they are entitled to following the liquidation, prior to paying the company's creditors"**.

If, following liquidation, liquidities are not sufficient to cover debts, partners are liable to the extent of the share capital, while the shareholders are liable jointly and unlimited. Consequently, the latter will pay debts to creditors, on their own account.

References

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The Relationship between State Aid to R&D and Patent Applications in the Context of the European R&D Expenditure

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ABSTRACT

The present paper aims at providing a contribution to the literature on public expenditure on R&D. According to the assumption that state aid to R&D can represent a relevant incentive for developing innovative activities, measured by patent applications, the paper provides an empirical analysis of state aid in the context of public expenditure to R&D in the EU. Based on empirical findings, the paper also proposes to establish general policy guidelines designed to improve the economic impact of public policies on R&D.

Introduction

According to the state aid literature, one of the most important rationales that can justify state aid granting refers to the possibility to correct or compensate for inefficient results in the functioning of the markets ("market failures"). From a theoretical perspective, literature mentions as main objectives envisaged by state aid policy maintaining an undistorted competition in the economic environment, increasing efficiency and economic competitiveness, as well as promoting economic and social cohesion. However, the main objective which was explicitly confirmed by the European legal framework is the undistorted competition in the EU (Negrescu and Oprescu, 2004).

Historically, state aid policy has gradually evolved from this "negative" perspective of prohibiting anticompetitive practices and reducing Member States' capacity to subsidize their economy towards a more "positive" approach aiming at harmonizing national state aid policies through increasing efficiency and economic development (Blauberger, 2009). Based on this perspective, the European Commission has constantly highlighted the economic advantages of granting horizontal state aid for promoting sustainable economic development of the Member States. State aid to R&D, as a component part of horizontal state aid, represents one of the main instruments used by public policies in order to support research as well as innovative activities and to reach the targets specified by the European Commission in order to increase the international economic competitiveness of the EU on the global environment (European Commission, 2010).

The present paper is structured in the following manner: the second section explains the main methodological aspects proposed by the research; the third section provides a description of the related literature; the fourth section presents the empirical results of the paper, while the last section concludes.

Methodology

The fundamental objective of the present study is to provide a contribution to the related literature by establishing a possible relationship between state aid to R&D and patent applications in the EU. In this context, the research hypothesis considers that state aid, as a component of public funding of R&D, represents an active contributor to the development of patent applications in the EU. Although there is no universally accepted direct measure of innovative performance at a country level, patents statistics are generally used in the literature to evaluate the innovative performance of countries since they reflect in a significant manner the output of the research activities undertaken and the possibility to translate knowledge into potential economic development (Griliches, 1990, pp. 1661-1707, Jones, 1995, pp. 759-784, Lanjouw și Schankerman, 2004, pp. 441-465).

The main variables of this paper are state aid to R&D and patent applications in the EU Member States for the period 2001-2012. State aid to R&D was considered as a percentage of GDP, while patent applications were considered per million inhabitants of the Member States. The relationship between these variables has been estimated using a panel based on a SUR regression. In order to better understand the importance of state aid in the context of the European public policies for R&D, we have extended the utilization of this model by testing the potential relationship between patent applications, on the one hand, and gross domestic expenditure to R&D (GERD) and government expenditure to R&D, respectively, on the other hand. Taking into account the time between the financing of a new product or process through state aid and the introduction of the respective innovation through a patent, we have incorporated time lags in the panel.

Literature Review

The problem of governments granting state aid has been intensively debated in the related literature. While keynesist economists suggested the necessity of government support for business cycle stabilization, neoclassical economists considered the importance of maintaining the self-regulating capacity of the market and the possibility that government support should only complement this mechanism. In spite of different and even opposite responses, one of the most common conclusions of the literature was that the fundamental objective of state aid policy concerns the correction or compensation of "market failures" that might appear in the economy, targeting an undistorted economic competition in the internal market.
The role of public policies in supporting economic development through the effects on technological change and innovation has been offered mainly by the evolutionary theory. From a theoretical perspective, it considers that the economic development process is technologically driven and it includes a multifactorial model across time and geographical space (Chiaromonte și Dosi, 1993, pp. 39-63, Geels, 2004, pp. 897-920, Silverberg și Verspagen 1995, pp. 209-227).

During the 1980s, state aid granted to industry and services by EU Member States represented about 2% of EU GDP and gradually decreased to approximately 1% in the following decade (European Commission, 2011). This policy development has been highlighted by the Lisbon European Council of 2000 that suggests both the importance of reducing the general level of state aid and moving the priority from sustaining individual sectors or companies towards horizontal objectives of common interest ("less and better targeted state aid").

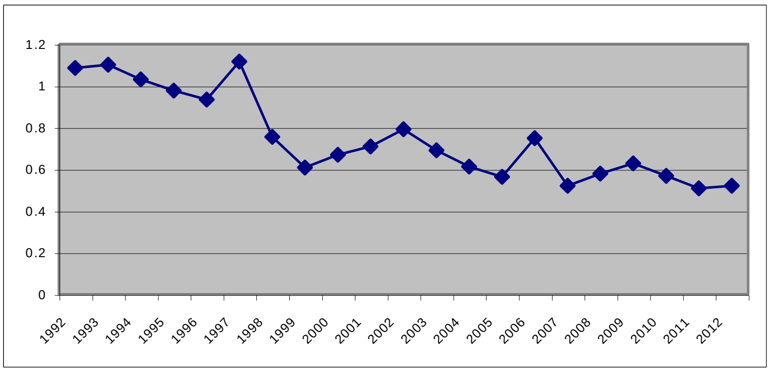

Figure 1: The evolution of total state aid (non crisis) to industry and services in the EU, as % of GDP
Source: European Commission

The overall decreasing trend registered by state aid in the EU continued until 2007 when it reached the value of 0.4% of GDP. The quantitative amount of state aid granted by Member States increased in the context of the financial and economic crisis, reaching to a level of 0.6% in 2008, which represented a 50% higher value than the year before. These developments have proved that state aid tends to have a counter-cyclical component which is used by governments to subsidize their economies (e.g. Ouyang, 2011, pp. 542-553, Paunov, 2012, pp. 24-35). During the recession period, state aid has been granted under the Temporary Framework, which was intended to promote investment and facilitate the access to finance for companies facing difficult credit conditions.

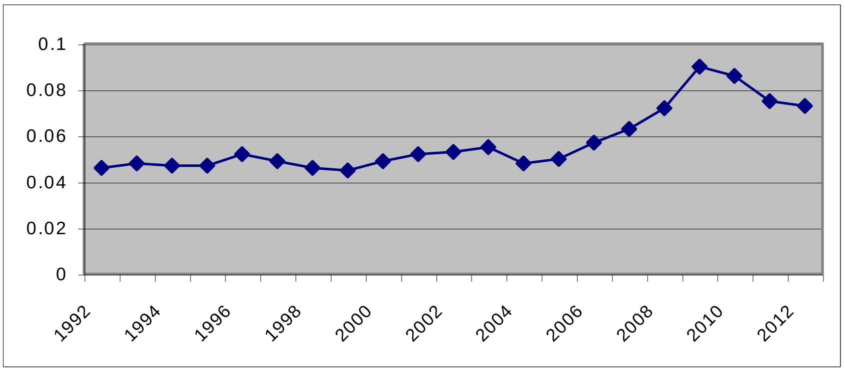

Figure 2: The evolution of state aid to R&D in the EU, as % of GDP
Source: European Commission

State aid to R&D, as a component of horizontal aid, is considered more acceptable by the European Commission, because it does not have the potential to distort competition in the internal market and can stimulate innovation by addressing market failures that prevent markets from achieving the best results (European Commission, 2004). The government support for R&D in the EU has gradually developed across time, in line with general measures supporting horizontal policies designed to create potential incentives for a wide range of economic actors of the market, making several economists to suggest that European industrial policy is an essentially R&D policy (Van Pottelsberghe, 2008).

The importance of R&D investment for promoting sustainable development and making the EU more economically competitive at the international level has been emphasized by the Barcelona European Council of March 2002 by setting the objective for expenditure on R&D to 3% of GDP by 2010. In the context of this target not being achieved, the interest shown by the European Commission in the field of R&D investment has intensified after the financial and economic crisis with the focus largely maintaining on framework measures and innovation and has been further adopted by the Europe 2020 strategy (European Commission, 2010).

Empirical Analysis

The level of GERD was 266 898 million EUR in 2012, which increased with 2.9% from the year before and 42.9% more than in 2002, confirming an overall ascending trend in the EU. The R&D expenditure relative to GDP (R&D intensity) registered a small descending trend in the EU from 1.87% in 2002 to 1.82% in 2005. From 2006 it had an ascending trend and reached a value of 2.06% in 2012, after a small decrease in 2010.

Among the EU Member States, R&D intensity reached its highest values in 2012 in Finland (3.55%), Sweden (3.41%) and Denmark (2.99%). At the same time, the Member States which reported the lowest R&D intensities were the ones that joined the EU in 2004 or more recently, along with Greece, although it should be remarked that Slovenia (2.8%) and Estonia (2.18%) registered levels above the EU average, while the Czech Republic (1.88%) and Hungary (1.30%) registered levels above 1% (European Commission, 2013).

From the perspective of analysing the relationship between GERD and patent applications, we found a positive correlation, with a 0.79 R2 value, which means that the relationship between these variables is robust. This result confirms the fact that countries with higher R&D intensities reported a larger number of patent applications per inhabitants.

Table 1: The relationship between patent applications and GERD

Equation : Patents (t) = C(1)+ C(2)*GERD (t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-50.075	4.6143	-10.852	0.0000
C(2)	91.329	2.6401	34.592	0.0000

Weighted Statistics

R2	Adjusted R2	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.7931	0.7925	1196.6	0.0000	85.251	586652.6

Source: author's own calculations based on data from Eurostat

From the perspective of the funding sources, R&D expenditure in 2011 reveals the fact that 54.9% of the total amount in the EU has been granted by the business sector, while 33.4% has been granted by the government sector and a further 9.2% from foreign sources. The relatively significant component of the business sector as a source of R&D financing in Finland and Germany is highlighted by the fact that business-funded R&D represents approximately two thirds of the total GERD in 2011. However, the government sector has granted the majority of the gross expenditure on R&D in Cyprus and Poland in 2011, while relatively important percentages of R&D funding from external sources has been registered in Latvia, Bulgaria, Lithuania, Luxembourg, Ireland, the Czech Republic, the United Kingdom, Austria and Malta (European Commission, 2013).

When analysing the relationship between government expenditure to R&D and patent applications, we found a positive correlation, with a 0.08 R2 value, showing a weak degree of correlation between these variables. Consequently, it appears that government sector supports the development of patent applications to a lesser extent than the business sector, which is in accordance with statistical data regarding the funding sources of R&D expenditure.

Table 2: The relationship between patent applications and government expenditure to R&D

Equation: Patents (t) = C(1)+ C(2)*Government expenditure (t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	26.697	12.244	2.1803	0.0300
C(2)	296.04	56.213	5.2664	0.0000

Weighted Statistics

R2	Adjusted R2	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.0813	0.0784	27.735	0.0000	85.229	2603737

Source: author's own calculations based on data from Eurostat

State aid, as a public component of GERD, represented about 4% of global R&D expenditure in 2011, equal to 10 billion EUR and 0.08% of the GDP in the EU. In 2001, more than 50% of total state aid for R&D was granted by Germany (about 3 billion EUR), France (1.9 billion EUR) and Spain (0.9 billion EUR). From a relative perspective, state aid to R&D represented about 18.9% of total aid to industry and services in the EU, while block-exempted state aid granted to R&D represented around 2.2 billion EUR in 2011, which was 21.8% of total horizontal state aid granted for the same objective. Germany (1.1 billion EUR), Italy (171.2 million EUR) and the United Kingdom (132.7 million EUR) are the countries that utilized the most this instrument (European Commission, 2013).

The relationship between state aid to R&D and patent applications appears to be positive, with a 0.12 R2 value, which shows that government support through state aid sustains to a certain extent the development of patent applications. However, the lower relevance of this relationship comparing to the relationship between GERD and patent applications may argue that state aid to R&D targets a more diverse set of economic objectives which do not always reflect in the development of innovations.

Table 3: The relationship between patent applications and state aid to R&D

Equation: Patents (t) = C(1)+ C(2)*State aid (t)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	52.198	7.3579	7.0942	0.0000
C(2)	681.51	103.32	6.5961	0.0000

Weighted Statistics

R2	Adjusted R2	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.1227	0.1199	43.509	0.0000	87.485	2484376

Source: author's own calculations based on data from Eurostat

Considering the specific nature of R&D activities, we have introduced a time lag between the period when state aid has been granted and the period when the patent application was measured by statistics. From an econometric perspective, the time lag reflects that R&D support through state aid continues to exert an effect on the innovation capabilities of the companies after the support has been made. Therefore, when using state aid values from the previous year, we have found a relationship which maintains its statistical significance and has a 0.13 R2 value, which shows that state aid investment has influenced the capacity to generate innovations through patent applications after the government support, was made.

Table 4: The relationship between patent applications and state aid to R&D (lagged)

Equation: Patents (t) = C(1)+ C(2)*State aid (t-1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	51.124	7.6637	6.6709	0.0000
C(2)	736.48	110.30	6.6769	0.0000

Weighted Statistics

R2	Adjusted R2	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.1356	0.1326	44.582	0.0000	88.314	2250735

Source: author's own calculations based on data from Eurostat

When extending the time lag to a period of two years, the positive relationship between variables maintains with a 0.16 R2 value. While public support through state aid contributes to the development of patent applications after the grant has been provided, we appreciate that it is reasonable to expect even longer lags for spill overs because of the additional diffusion lag and also for the basic R&D because of the longer invention to innovation lag.

Table 5: The relationship between patent applications and state aid to R&D (lagged)

Equation: Patents (t) = C(1)+ C(2)*State aid (t-2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	46.978	8.7159	5.3899	0.0000
C(2)	953.33	141.56	6.7344	0.0000

Weighted Statistics

R2	Adjusted R2	F-statistic	Prob (F-statistic)	Mean dependent var	Sum squared resid
0.1647	0.1610	45.352	0.0000	90.630	1811703

Source: author's own calculations based on data from Eurostat

Conclusions

The present paper provided an analysis of the relationship between state aid to R&D and patent applications in the context of general public policies targeting R&D in the EU. In this respect, we have assumed that state aid contributes to the development of innovative activities, measured by patent applications, which were estimated as a function of state aid, in order to evaluate the nature of the interconnection between these variables.

The relationship between state aid to R&D and patent applications was found to be positive. However, we consider that the moderate level of the statistical significance of state aid when comparing to GERD may suggest that the main objective of state aid is to address potential market imperfections that are happening in the economy. However, in the context of the economic crisis leading to a general reduction of private funds allocated to R&D activities, state aid to R&D may represent a complementary tool aimed at stimulating economic development through innovative activities.

Furthermore, we believe that public policies for R&D should be better targeted in order to support the private sector involved in R&D activities. In this respect, it is important to mention that state aid should not be designed to help the companies that would have been involved in financing R&D even without benefiting from the government support, because in these conditions private investment would be reduced. Thus, we believe that state aid to R&D should not replace private funds for supporting research and innovation but to represent an incentive meant to address problems that might occur in the market and to sustain private sector in a transparent and non-discriminatory manner.

In order to further consolidate the role and importance of state aid in fostering innovations, we appreciate that further research should include a qualitative perspective designed to analyse effective channels of improving the relationship between public and private sector in financing R&D. Since there is a variety of financial instruments designed to act as incentives for R&D activities, we consider that there is a strong need for a better coordination between public and private institutions involved in financing R&D, on the one hand, and direct and indirect instruments of intervention, on the other hand, in order to create favourable conditions for undertaking R&D activities.

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Diagnostic Analysis of the Activity - Effective Management Tool in the Company

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ABSTRACT

With the current globalization nowadays, it requires more and more need for economic and financial indicators by which an organization's management to decide how best and in a short time. Competition increasingly fierce drives managers of companies to carry out extensive work in marketing and economic analysis. Existence of analysts from different fields of activity within an enterprise is key to achieving the desired performance of each.

This paper allows an image of this activity base. Through case study, put theory into practice diagnostic analysis, helping to better understand it.

Introduction

Investigation of economic reality; it is a specific approach that integrates classical vision based upon knowledge of causal relations and the domestic laws of the formation and evolution of phenomena, with the systemic study based upon their consistency in a constantly changing environment. So this approach enables not only a really unusual about assessment was correct, but both opportunities and identify weaknesses and development necessary to support management decisions.

Strategic management is a continuous management process by which the organization maintains a permanent adaptation to the requirements of the reference environment by harmonizing "forces" and "weaknesses" internal "threats" and "both opportunities" external and developing the various stakeholders a clear vision of what the organization should become. The purpose of strategic management is a strategic planning.
Through various methods and techniques encountered in diagnostic analysis is much easier access to certain information such seemingly hidden functional decision making at any level is much easier.

But to perform a diagnostic analysis good, very important is the information we hold. Thus, simple incorrect information can lead to a long line of erroneous conclusions, which in turn lead to wrong decision that can affect the course of the entire activity. No wonder that most of the time is occupied by intelligence and less self-analysis.

The goal of any diagnostic analysis is to identify solutions that the organization, based on their strengths and weaknesses, capitalize on individual patient may external environmental attractions which consist both opportunities and restrictions.

A very important role is played by the analyst's experience upon which the whole course of this analysis. The practical experience gained over time, finesse and depth of personal reflection observation is the basis of an analysis of exception. Although diagnostic analysis plays an important role within the organization, the organization's ability to respond to market requirements and to continuously adapt to changes is a very important feature for each organization.

The Need for and Objectives of Diagnosis

As decision-making, strategic management consists of several types of decisions:

- operational decisions, the self that main goal is to obtain a maximum profit from current exploitation;
- administrative decisions that are exceptional decisions, difficult Scheduled, organized and modelled;
- Strategic decisions concerning products and market on which the company has chosen its development objectives and its major orientations.

Strategic decisions are "products" most important managerial act.
Is one phase of a strategic decision on which approach quality strategic approach that includes:

- diligence;
- a strategic decision;
- implementation of the strategy;
- Development control process.

Diagnosis economic-financial managers is a handy tool that allows to judge the value of qualitative and / or quantitative status, dynamics and prospects for an economic, highlighting its strengths and weaknesses, for the capacity to grow in a profitable manner . Diagnosis approach requires the prior phase, complex analysis of the mechanism of formation and modification of specific phenomena. Society The operational activity analysis represents a set of concepts, techniques and tools that ensures treat internal and external information for the formulation of relevant assessments on the situation and a strategic economic and financial balance of it, the level and quality of its performance, the degree of risk in a highly dynamic competitive environment.

Diagnostic analysis of a strategic plan to move their organization identify solutions that based on their strengths and weaknesses, individual patient may capitalize attractions external environment consisting of both opportunities and restrictions.

Cases where there is a need to perform a diagnosis can be divided along into two broad categories, namely:

- The company is in difficulties, in which case order diagnostic screen consists in detecting and correcting malfunctions enterprise and thereby clarify the causes that led to this condition;
- State enterprise is relying- ably, diagnosis purpose being to identify possible means of improving the performance and choosing the most appropriate strategy for enterprise development.

Diagnostic surgery may be done at a specific problem or the entire economic and financial policy, in normal situations and in alert situations. With the diagnosis, a company site may identify his own strength and weakness with in relation to the means available and with both opportunities and threats cropped at her. In this way, the management company has the ability in finding solutions to problems or optimization of the activity. In the context of failures observed Instead, let us trace analysis looks for the causes of these phenomena. The major cause and consent of the company may establish measures to redress. If analysis is done in terms of prosperity of the company, the results help to establish the objective of development and the proper way to achieve it.

Motivation is the diagnosis:

- knowledge and understanding of health unusual about the company;
- informing partners about society The performance and condition;
- development key factors determining enterprise and the connection between them;
- establishing or improving recovery measure by performance;
- understanding the competitive context in which the company operates;
- Substantiate the strategic directions of development in a dynamic competitive environment.

Gets a firm diagnosis must consider, in particular: identifying the strengths and weaknesses of the enterprise; identifying both opportunities and uncertainties of the external environment of the company.

Phases of Diagnostic

Achieving reliability analysis and conclusions drawn depend on the organization of it, both the analyst and the society. Practical operational activity diagnostic steps are:

A. Analytic plan development: analysis objectives, period of analysis, the venue, the time of making the analysis. Material content of the plan depends on the objectives of the analysis, while by considering the level at which the analysis will be done;
B. documentary research is intermediate stage in which the database ensures NECESSARY investigation;
C. verify the information, which can be: formal education (checking information carriers, Arithmetic (control calculations), background (it checks to see if the indicators were calculated by observing the rules in force);
D. work-up information by applying analytic methodology;
E. Drafting the final report.

Report as evidence of achievement alone in the major cause diagnosis, you have to meet a series of conditions and content formats that are very important for the image analyst or the major cause cabinet. This report presents a text drafted by experts respectively in proportion necessary comprising digital data and graphic representations. It is structured as follows:

I. introductory part, which specifies requirements to perform the analysis;
II. content comprising:
   a) Phase presents descriptive in that: volume, structure and condition of the internal potential; results; behaviour of employees; the competitive and market trends; socio-political and economic context;
   b) Phase explanatory factors are synthesized acted, their action causes, strengths and weaknesses of the company. In this Turn conclusions we need to take logical, consistent, and ranked according to importance and their role in the decision process.
III. Proposals and recommendations.

F. Turn communication is a presentation and discussion of the report, that the recommendation given, with the leadership society. Objectives of economic and financial diagnosis are adjusting the code while in accordance with our socio-economic system global developments on the one hand, and the mature stage of the company, on the other hand.

Diagnosis Analyze of Company

Rompetrol Rafinare, a member company of Rompetrol Group, operates the most modern refinery in Romania, combining the new oil processing technologies with the experience of a professional team.

The company processes a variety of crude oils with high sulphur and API contents. The crude oil feeding is done through the Midia own port, which can harbour ships of up to DWT 24,000 tons or through the larger Constanta port, to which it is connected through a 40 kilometre pipe. The refinery has its own marshalling yard, with 40 loading and unloading points and vehicle loading ramps.

Performance is a state enterprise competitiveness achieved through a level of efficiency and productivity that ensure a sustainable presence in the market.

To measure profitability, using two categories of indicators: profits and rates of return. Absolute size of return is reflected in profit, and the degree to which capital or resource that brings profit society is reflected by the rate of return. Profit and loss allows its content to determine the three partial indicators of profitability: the operation result, financial results and extraordinary result. This allows the determination of global indicator of profitability: profit or loss (before and after taxes).

Self-financing capacity is a monetary indicator on the profit or loss resulting from monetary income confrontation with monetary expenses, including income taxes. Unlike gross result of exploitation, which refers only to the operating activities, cash flow capacity takes into account all sides of the business enterprise.

It may be observed the fact that the company has made great efforts over the past three years to maintain the coverage of current liabilities from current activity. Liquidity risk derive from the possibility that financial resources can be made available so that they do not honour designed for use in time due obligations. Management Company watches to see daily, with forecasted cash flow, liquidity and ensuring the obligations toward providers, state budget, local budgets, according to their maturity.

Given the diagnostic analysis and this was done in this project, it can be said The fact that the company is going through an exciting period heavy, which is determined mainly by the economic crisis went global. In the past three years analysed, the result or only recorded negative total result being influenced so unfavourable international economic context, international developments of quotations oil and fuel as well as a number of domestic macroeconomic factors such as currency depreciation. Like any economic organization, the company has both strengths and weaknesses of society the lead managers and keep system we need to take into account. Some of the strengths that result from diagnostic analysis this was done are: good planning and organization of production, the continuity of the activity, personal experience and knowledge, a HIGH, quality products, increased processing capacity, "rejuvenation" A decrease in fixed assets by the degree of wear of the year the year and good relations managers - employees. As weak points can be mentioned losses in the last three years, media personnel by age 46 years, and the trend decline in labour productivity in the Petromidia. Also, the dispute about the salary in 2010 can be classified as a weak point. Given that we live in an ever changing technologies that are increasingly better every company must take into account trends in the external environment that it can benefit or loss. The export growth, reducing the purchase price of the raw material and attracting students from faculty’s profile.

To conduct operational activity in society the better conditions, I believe that one can take a range of measures to streamline Instead, let us both work and management. My opinion is that we should improve the communication between management and employees by diversifying media (internet, intranet). Given the relatively small cost of such actions can be done from their own resources, thus ensuring direct communication in a very short time. I consider this as potential litigation related to various problems can be avoided through communication. Given the media by age society the staffs believes that hiring graduates after eventually faculties profile within society The practice may be appropriate. They can be prepared the various specialized courses funded by its own resources or attracted, courses that do not last more than a month, during which they support different exams to prove of interest and to continue the course. I suggest this because I think well trained staffs are the key to a company in return gave. I also believe that due to high efficiency of these courses cover the cost.

Another suggestion is that the company maintain the high quality of products made, and even to improve its performance continuously to ensure the loyalty of existing customers. This can be done by hiring engineers with which company to reach a higher level in terms of inventions and innovations. In the specific context of open market petroleum products, marked by increased volatility of prices, I believe that the implementation in the shortest time, a risk management is opportune, the main objective being to mitigate the impact of price risk on crude oil and products oil. I also think that one of the most important activities that must fulfil the company is marketing as that is analysing markets that are in constant change, it creates a picture of it and are more visible opportunities and threats unpredictable environment that often cause unexpected situation turns. This marketing activity must be conducted consistently and in this crisis, it has intensified.

Conclusions

Rompetrol Rafinare significant improvement has taken action by refining efficiency and reducing operational activity of consumption and technological losses. Investments were made in upgrading the refinery production, increased environmental protection, in order to obtain petroleum products in accordance with EU norms.

From these considerations it follows that society, regarded as a whole, self-productive, being a strong competitor on the market. Like any other company, it has strengths and weaknesses, but it is making significant efforts to streamline activities and to achieve customer satisfaction

Taking into account the current economic context, we can say that the company must keep system account all possible threats, among them are: the deepening economic crisis, reducing quotations petroleum products in the international markets of reference, unfavourable foreign exchange differences and the increasing trend inflation.

Management of Rompetrol Rafinare We need to take account of all they keep system, minimizing some of which can have a major impact on the whole of the activities.

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Communication of Standards Regarding the Polizu Maternity Hospital Birth Rate/Romania (2011-2013)

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ABSTRACT

The survey centers on the birth rate and its global implications of the nation's welfare indicating Births and cesarean sections table during a three year period 2011-2013 at Polizu Maternity Hospital.

The survey is structured as follows:

1. A short presentation of the issue
2. A short historical presentation
3. A general approach of birth rate and
4. Statistics and parameters

The message of the survey is a contribution to the birth rate increase, a vital issue both in Romania and all over the world.

Introduction

Birth rate is the main welfare index of a nation; when obstetricians bring babies into the world or save babies, they do it with abnegation. Thus obstetricians are closer to God's creation.

The Gh. A. Polizu Maternity Hospital is situated near The North Railway Station and it includes a wellknown Maternity Hospital. Dr. Gh. A. Polizu (1819-1886) was a famous Romanian phisycian, the first descriptive anatomy professor, an honorable member of the Romanian Academy.

„The Gheorghe A. Polizu" Maternity Hospital was built between 1924-1926 by Cristofi Cerchez, who built the old wing and then by Ion Mircea Enescu, who built the new wing.

The building is not cerified in any official document.

In 1953 the architect C. Cerchez mentioned that between 1925-1927 on he had built a hospital for Invalids, Orphans and Widows in Polizu street.

The new hospital had a new section for a monumental Maternity Hospital with a balcony, wooden pillors and specific elements used by the architect C. Cerchez. The famous surgeon

Traian Nasta who led the surgery up to 1943 as well as the musicologist Dorin Dumitrescu contributed to the project.

The building was converted into a hospital for lack of space.

A chemist's shop, staff offices and the septic insulator were to be found in the hospital. In „Gheorghe A. Polizu” Maternity Hospital there is an operating room on the first floor, several operating theatres where women gave birth on the second floor and obstetrics gynaecology wards on the third floor. From 1945 to 1949 the The „Gheorghe A. Polizu” Maternity Hospital's manager was Professor dr.Eufrosina Pache Protopopescu. The Maternity Hospital's following managers were the obstetycian Gheorghe Dumitrescu and then Prof. Dr. Eugen Aburel a member of the French Academy.

Strarting with 1957 the next manager was Prof. Dr. Dan Alessandrescu, who added two more departments immunology, genetics, oncology, the treatment of malformed genitals. In 1959 the first department of anaesthesia-reanimation was established, while in 1961 a new born section was established. Dan Alessandrescu memory lives on. There is a statue of Dan Alessandrescu's at the Maternity Hospital's entrance.

Between 1968-1969 the first oncologycal-genital operations were performed.

Other famous managers were Prof. Dr. N. Coja, Prof. Dr. Gabriel Bănceanu şi Prof. Dr. Alfred Rusescu while in 1990 the Maternity Hospital'was renamed, the Protection of Mother and Child Institute Starting with 1995 The „Gheorghe A. Polizu”Maternity Hospital is certified as "The Child's Friend" by the Health World Organisation,(HWO) and by the Emergency International Children's Fund(UNICEF). Nowadays The Polizu Maternity Hospital's staffs are dedicated and industrious, highly dedicated to their profession such as Dr. N. Brănescu, Dr. Adriana Ciuvică and many others.

Starting with 2006 The Polizu Maternity Hospital has a chapel been there are the relics of Saint John the Russian celebrated on 27 May.

A general approach to birth rate

Birth is a complex biological and social event where the obstetrician plays a very important part. Birth rate is a word of French origin natalité and is expressed by various indicators indexes.

General birth rate "is the total number of births per 1,000 of a population each year. The rate of births in a population is calculated in several ways: live births from a universal registration system for births, deaths, and marriages; population counts from a census and estimation through specialised demographic techniques".

Birth rate is a dynamics and active balance sheet with a wide variability in time and space.

Birth rate may be both influenced and controlled. This per cent has the following form:
TFR= N/P x 1000
TFR=Total fertility rate
N=the number of live births per 1,000 persons/year
P= the actual population in a given period of time

Birth rate depends on the behaviour and interests of the group. One could speak of a potential birth rate (when birth control is not considered and a real birth rate.

Birth rate is a dynamic and complex index which fluctuated with the passage of time decrease from 60% to 10% nowadays.

As a result of the changes that occurred after the Second World War. Romania was in an intermediary stage of demographic transition which led to a few decades disparity compared to other West European countries.

According to the National Statistics Institute (NSI) one could speak about a birth rate record in the last 3 decades, in 1987 the birth rate of Romania was 16,7 to a 1000 inhabitants.

After 1989 the birth rate was slightly increased during 2004-2009.
Nowadays the birth rate in Romania is one of the lowest in Europe representing half of the value recorded in 1987. According to the National Institute of Statistics (NSI) in November 2013 the number of birth decreased with more than 5,400 babies compared to the birth rate percentage of 10,5‰ in 2012.

During 1990-2011 more male babies than female babies were born. In 1990 in the maternity hospitals of Romania 161.031 male babies and 7.300 less female babies were born. During 2012, 100.985 male babies and 95.257 female babies were born.

Among the main factors which lead to birth rate decreases in Romania there are:

- Women's emancipation as nowadays women takes part in social life;
- A longer period of study as well as a higher educational level;
- Greater social mobility;
- Modern contraceptive means;
- Higher costs of raising children and low allocation;
- Social-economic relationships resulting in precarious financing of mothers.

Population growth is also determined by the evolution of the natural balance which could be either positive when there is a high population growth and negative when population decreases or tends to 0.

The natural reproduction, growth rate of the population RGR is given by the difference between the birth rate and mortality expressed by absolute or relative values from 0% la 1 ‰ within a certain range.

RGR has the following formula:
RGR = Birth Rate ☐ M (‰)
BR= Birth Rate
M=mortality

Birth Rate value is directly influenced by age and sex group structure of population as sometimes crude birth rate does not always indicate the real value.

That is why other additional parameters have been calculated. The parameters are the following:

Standardized Birth Rate
Population fertility

Fertility Rate (TFR), or the fertility rate, period total fertility rate or (PTFR) or the total period fertility rate (TPFR) of a population is the average number of children that would be born to a woman over her lifetime if:

Population fertility is calculated related to the number of live born babies and the women aged between 15-49. Replacement fertility (R) the average number of female babies to which a woman has given birth. Replacement fertility ® is the average number of female babies to whom a woman has given birth throughout her childbearing years.

The interpretations of the above parameters as well as the fecundity parameter emphasize the movement of population.

The criteria according to which the future mothers select the maternity hospital are:
80 % of the pregnant women were consulted prior to giving birth during the first pregnancy term.

Birth rate survey af the last three year period 2011-2013 at Polizu Maternity Hospital

The Polizu Maternity Hospital Bucharest the activity is shown below:

Table 1: Births and cesarean sections 1989-2013

YEAR	BIRTHS	CESARAN SECTONS	PROCENT
2013	3094	1388	44,86
2012	3100	1369	44,16
2011	3417	1741	50,95
2010	3133	1433	45,74
2009	3770	1538	40,80
2008	3540	1315	37,15
2007	3704	1172	31,64
2006	3751	1035	27,59
2005	4074	1063	26,09
2004	3567	939	26,32
2003	3379	729	21,57
2002	3009	700	23,26
2001	3465	713	20,58
2000	3207	653	20,36
1999	3432	646	18,82
1998	3321	546	16,44
1997	2755		0,00
1996	3633	497	13,68
1995	3208	448	13,97
1994	3197	412	12,89
1993	2722	326	11,98
1992	2922	260	8,90
1991	3740	290	7,75
1990	4305	328	7,62
1989	5190	239	4,61

Table 2: Births

Year	Total births	Cesareans sections	Percent
2012	3100	1369	44,16
2011	3417	1741	50,95

2010	3133	1433	45,74
2009	3770	1538	40,80
2008	3540	1315	37,15
2007	3704	1172	31,64

Table 3: New births

Year	Total Entries	Total Externals	Premature births	Girls	Boys	Dead
2012	3326	3345	314	1564	1781	16
2011	3694	3703	384	1773	1930	39
2010	3336	3319	316	1599	1720	36
2009	4006	3972	292	1946	2026	46
2008	3716	3717	217	1725	1992	43
2007	3855	3847	320			56

Table 4: Year 2013

Total births	3094
Cesarean sections	1388
Forceps	20
Pelvic	29
Internal version	1
Twins	70
Triplets	3

An obstetrician takes part in 250 births yearly at Polizu. Over 70% of the births are spontaneous and not by means of cesarean section.
Table number 5, refers to birth rate, mortality rate and life expectancy in from 1983to in 2012 in Romania according to I.N.S.

Table 5: Diagram 4 (Source: INS, Inquiry Statistics of birth and mortality)

Years	Birth Rate	Mortality Rate	Hope of life at birth
1983	14.3	10.4	:
1984	15.5	10.3	:
1985	15.8	10.9	:
1986	16.5	10.6	:
1987	16.7	11.1	:
1988	16.5	11.0	:

1989	16.0	10.7	:
1990	13.6	10.6	69.56
1991	11.9	10.9	69.76
1992	11.4	11.6	69.78
1993	11.0	11.6	69.52
1994	10.9	11.7	69.48
1995	10.4	12.0	69.40
1996	10.2	12.7	69.05
1997	10.5	12.4	68.95
1998	10.5	12.0	69.24
1999	10.4	11.8	69.74
2000	10.5	11.4	70.53
2001	9.8	11.6	71.19
2002	9.7	12.4	71.18
2003	9.8	12.3	71.01
2004	10.0	11.9	71.32
2005	10.2	12.1	71.76
2006	10.2	12.0	72.22
2007	10.0	11.7	72.61
2008	10.3	11.8	73.03
2009	10.4	12.0	73.33
2010	9.9	12.1	73.47
2011	9.2	11.8	73.77
2012	9.4	12.0	74.26

Conclusions

The precarious socio-economic conditions are alarming and noxious. The number of births has annually decreased as shown in the statistics of the Polizu Maternity Hospital.

The decrease of The precarious socio-economic reality of Romania led to the decrease of the birth rate. The decrease of Romania’s population Romania’s population in December 2013 represents 9885 less persons, when 14.000 children were born while 24.000 persons died (according to INS) .The number of babies born out of wedlock got to 15-27 % .

In reference to table 5 it has to be said that birth rate and mortality rate are going to remain invariable, while mortality rate will be slightly higher. In 2015 the mortality value will be 75,3% (according to the increase shown in the graph).In reference to table to table 1 it has to be said that the number of births fluctuates around the constant value of 2500 while the number of caesarean sections seems to be constant about 1400. In order to extrapolate these given graphs it is practically impossible to know the free variation which birth and deaths determine (view diagram 4).

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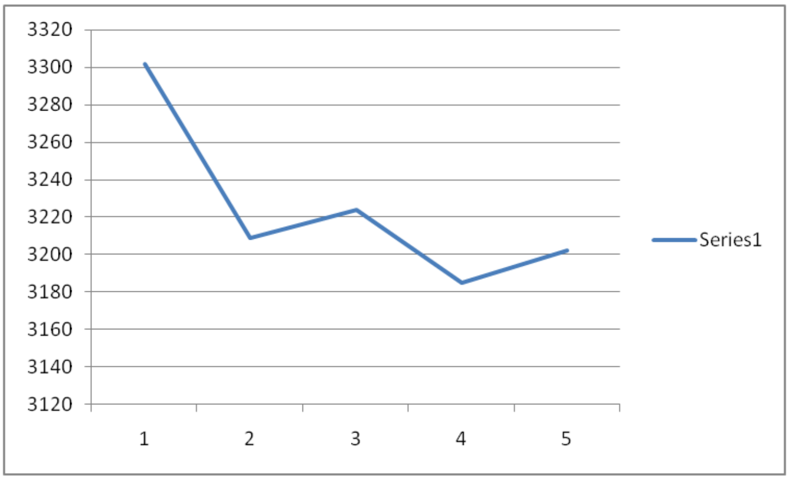

Diagram 1

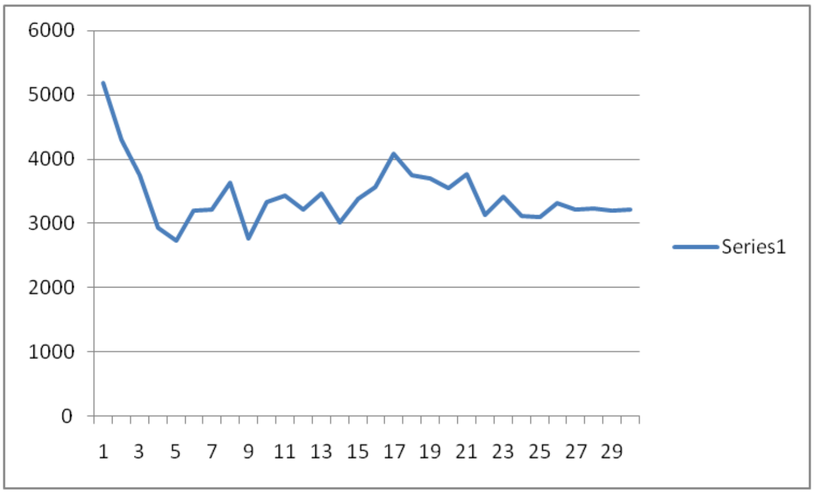

Diagram 2

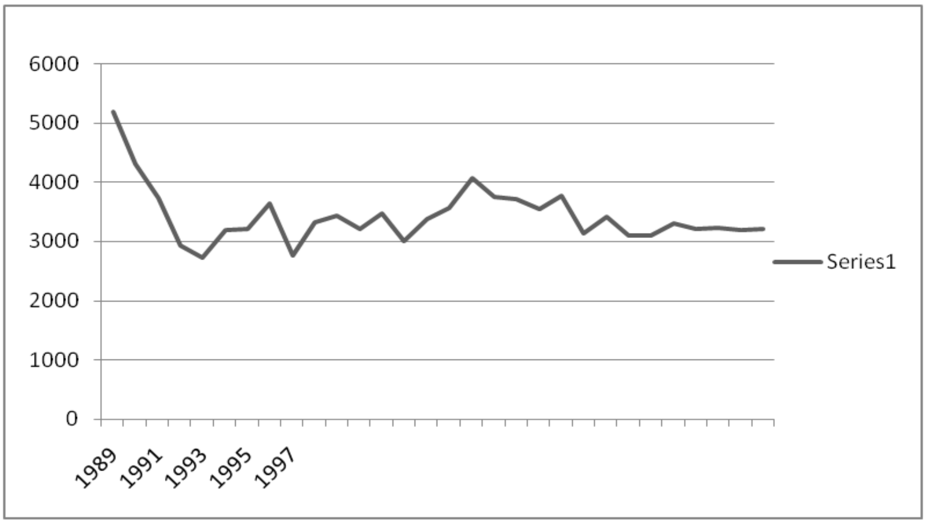

Diagram 3

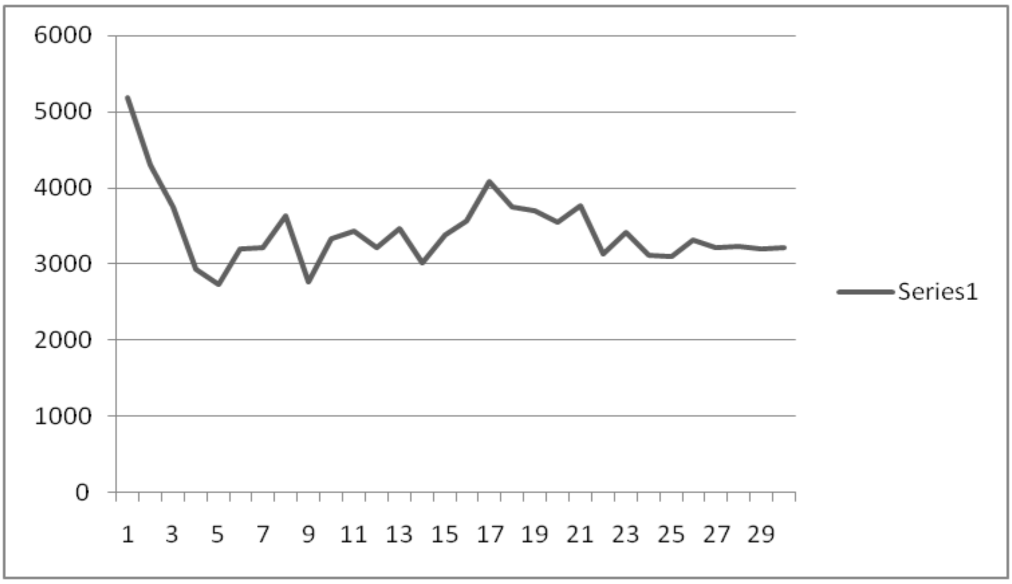

Diagram 4

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Statement of Cash Flows under Ro GAAP

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ABSTRACT

This article focuses on techniques of fulfilling the worksheet necessary for preparing statement of cash flows. There are described types of investing, financing and operating activities by presenting detailed lists. Also there are presented in detail non – cash transactions and adjustments used under the indirect method. It is focused on definition of cash equivalents and restricted cash. The correspondences between working paper and components of financial statements (e.g. income statement) are presented.

Why is Necessary a Statement of Cash Flows?

The users of financial statements need information about the activities of a S.M.E. in generating cash through operations necessary to perform the followings:

- to pay suppliers and taxes;
- to distribute dividends or repay debts or loans to banks or shareholders;
- to maintain the operating capacity at a specific level
- to expand the operating capacity
- to invest the extra cash amounts

Based on above considerations it is obvious that there is important to be drawn up – as distinct item of financial statement- a statement of cash flows that must provide relevant information about the cash inflows or outflows during the period. The purpose of this distinct statement is to help the users (e.g. creditors, investors, suppliers, customers, tax authorities, public, other) to understand the reasons for differences between net profit and associated cash inflows and out flows and to assess:

- the ability of S.M.E. to generate positive net cash flows;
- the ability of S.M.E. to meet its obligations such as paying the dividends or debts, and
- the effects on S.M.E.'s financial position of both its cash and noncash investing and financing transactions during the period.

Generally, all significant G.A.A.P. require that all business enterprise, such as small businesses, financial institutions, investments companies or not-for- profit organizations - to provide a statement of cash flows as a component of financial statements. Accounting standards which provide detailed guidelines for preparing statement of cash flows:

a) US G.A.A.P.

b) ASC 230, Statement of Cash Flow (in force at this moment)

The previous standard was SFAS No. 95, "Statement of Cash Flows" issued in 1987 which has been amended by the following pronouncements:

SFAS No. 102, "Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale"
SFAS No. 104, "Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions"
SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"
SFAS No. 117, "Financial Statements for Not-for-Profit Organizations"
SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"

c) IFRS
IFRS 7 Cash Flow Statement

d) UK G.A.A.P.
FRS 102, Statement of Cash Flows

e) RO G.A.A.P.

Section no. 4, Statement of cash flows, art. 334 from Order 3055/2009 (about 2 pages of guidelines)

Major Issues to Be Considered

Whatever the accounting standards (e.g. IFRS, US GAAP, UK GAAP) are applied by a S.M.E. for preparing its financial statements there are issues which must be carefully analyzed, such as:

a) Cash and cash equivalents definition,
b) Restricted cash,
c) Gross and net cash flows, and
d) Classification of inflows and outflows of cash.

Cash and cash equivalents definition

Cash includes - in a common acceptance - currency on hand, demand deposits with banks and other financial institutions, and other accounts that have the general characteristics of demand deposits, which allow deposits and withdrawals at any time and without prior notice or penalty.

It is possible to appear differences when cash equivalents are established. Anyway cash equivalents include short-term and highly liquid investments that are both:

- readily convertible to known amounts of cash
- so near their maturity that they present insignificant risk of changes in value because of changes in interest rates

The definition of cash equivalents presented by RO G.A.A.P. (Order no. 3055/2009, art. 147, alin.3) is similar but there is one different aspect, namely nothing is mentioned about maturity.

In a common acceptance the maturity date should be three months or less in order to qualify under the definition. Anyway the maturity date has to be three months from the date of its acquisition by the S.M.E. Generally, cash equivalents include: treasury bills, commercial paper, money market funds, and government or other authority funds sold (for financial institution).

Some accounting standards (e.g. US GAAP) do not require all cash equivalents to be classified as "cash and cash equivalents." S.M.E. could decide to include cash equivalents as investments, especially where its operation consists of investing in short-term, highly liquid investments. This fact is based on consideration that the items meeting the definition of cash equivalents that are part of a larger pool of investments properly considered investing activities need not be segregated and treated as cash equivalent. However, the including or excluding from cash and cash equivalents may be influenced also by the activity of enterprise. For example, a financial institution will include treasury bills in its trading and investing accounts.

Restricted cash

Generally, the restricted cash are not included in cash and cash equivalents but, instead, it is presented as current or non-current on the statement of financial position and considered a cash equivalent for statement of cash flow purposes. Also the current assets definition from RO G.A.A.P. (Order no. 3055/2009, art. 147, alin.1, mark d) clearly mention that a current asset is represented […] "by cash and cash equivalents whose utilization is not restricted". Actually restricted amount would be reported as a use of cash and classified as operating, investing, or financing depending on the intended application.

Note: When statement of cash flows is prepared it must be taken into consideration the correspondence with cash amount presented in statement of financial position. The total amount of cash and cash equivalents at the beginning and end of the period in the statement of financial position must be the same amounts as similarly titled line items in the statement of cash flows as of those dates. Unfortunately, under RO G.A.A.P. (Order no. 3055/2009) this correspondence does not always happen. As can be seen in the example described below at point 4" Example of statement of cash flows" when a company borrowed money – as **overdraft** - from a bank than the amount of cash in bank and petty cash is not offset with the amount of the overdraft, in order to be presented on a single line – as cash and cash equivalents - in statement of financial position, instead there are presented distinctly: the amount of cash in bank and petty cash as a current asset and the amount of **overdraft** as a current liability.

"Bank borrowings are normally considered as financing activities. However, in some countries, bank overdrafts play an integral part in the entity's cash management, and as such, overdrafts are to be included as a component of cash equivalents if the following conditions are met:

1. The bank overdraft is repayable on demand, and

2. The bank balance often fluctuates from positive to negative (overdraft)." (Barry J. Epstein & Eva K. Jermakowicz, 2010, page 125).

Gross and net cash flows

As a common acceptance, it is considered that reporting gross cash flows is more informative and relevant than reporting net cash flows. The offset of cash inflows and outflows is not permitted, except in limited circumstances especially for financial institutions. For example, is more relevant the repayment of a loan and the borrowing on a new loan or the purchase and sale of intangible assets, and items of property, plant and equipment to be reported separately as a cash outflow and a cash inflow, rather than being offset and reported on a net cash flow.

The following cash flows of a financial institution may be presented on a net basis:

- Cash receipts and payments for deposits with a fixed maturity dates
- Deposits placed and withdrawn from other financial institutions
- Cash receipts and payments for cash advances and loans

Classification of inflows and outflows of cash

Cash receipts and payments must be classified into investing, financial and operating activities. Operating activities are all the transactions that are not investing and financial activities. A possible classification of cash inflows and outflows for these 3 types of activities are presented in the bellow tables (Order 3055/2009 does not distinctly mentioned such detailed lists):

Type	Cash inflow	Cash outflow
INVESTING ACTIVITIES	Proceeds from the disposal of property, plant, and equipment, as well as other productive assets	Acquisition of property, plant, and equipment or other productive assets
	Proceeds from the sale or collection of loans and debt (not cash equivalents)	Purchase of debt instruments not designated as cash equivalents or entity instruments
	Sale or return of investments on equity instruments	Investments in another company
	Collections on loans	Loans made to another entity
	Note: *Depending the accounting standards applied or by the industry in which S.M.E. is part of (e.g. investing company, financial institution, bank or manufacturing company) may appear differences when available – for – sale securities, held – to – maturity or hedge operations are classified as investing or operational activities)*	

Type	Cash inflow	Cash outflow
FINANCING ACTIVITIES	Proceeds from the sale or issuance of equity securities	Payment of dividends to shareholders
		Other distributions to owners
	Proceeds from the issuance of bonds, mortgages, notes, and other short- or long-term debt instruments	Outlays for repurchase of equity securities
		Repayment of short- or long-term borrowings

Detailed lists with investing and financing activities are presented below.

Types of investing activities list:

Cash inflow	Cash outflow
Proceeds from collection of notes receivable Proceeds from disposition of carried interest Proceeds from dispositions of unconsolidated subsidiaries Proceeds from sale of property Proceeds from sale of property, plant, and equipment Proceeds from sale of segment Proceeds from insurance claims related to investments Reduction of investments in related companies Reduction of restricted investment in marketable securities Dividends received Collections of notes receivable Cash proceeds from divestiture and restructuring Cash proceeds from sale of investments Disposals of leased assets	Purchase of another company Purchase of patents and other assets Purchase of tax benefits Investments in joint venture Investments in preferred shares Investments in related parties Investments in unconsolidated subsidiaries Payments on long-term notes receivable Capital contributions to unconsolidated subsidiaries Capital expenditures Distributions to NCI Acquisition of franchises

Types of financing activities list:

Cash inflow	Cash outflow
Proceeds from exercise of shares options Proceeds from issuance of long-term debt Proceeds from issuance of pollution control bonds Proceeds from revolving bank loans Proceeds from sale and leaseback under operating lease, less deferred gains Issuance of common shares Issuance of preferred shares	Cost of issuing debentures Purchases of treasury shares Redemption of common shares Redemption of common shares warrants Redemption of preferred shares Redemption of revolving bank loan Retirement of common shares , purchase of treasury shares, and other equity transactions Payments of short-term debt assumed in acquisitions Principal payments on capital lease obligations Principal payments on loans payable shareholders Principal payments on notes payable and installment contracts Dividends paid

Operating activities are all the transactions that are not investing and financial activities.

Type	Cash inflow	Cash outflow
OPERATING ACTIVITIES	Receipts from the sale of goods or services, or the collection or sale of receivables arising from those sales	Payments for the acquisition of inventory and services
	Insurance proceeds	Payments to employees for services
	Receipts on other transactions not defined as investing or financing	Payments for taxes
		Insurance payments
		Payments on other transactions not defined as investing or financing

Cash flows arising from operating activities represent a residual category. This is the reason why in this category is included cash flows that may initially not appear to be 'operating' in nature (e.g. cash inflows from other revenue sources that are not from the sale of goods or rendering of services, such as proceeds from an insurance claim or payments for insurance even if these payments are done to obtain a loan.). Payments for taxes are generally part of operating activities, except in the cases when taxes can be reliably split between all these 3 types of activities.

"The only amounts to be included under this heading are payments and receipts relating to tax on the company's revenue and capital profits. Thus this heading typically comprises payments of corporation tax and similar foreign taxes. Taxes for which the company acts as a collecting agent for the government, such as VAT, would normally be dealt with as part of the operating activities of the company. Cash flows would then be shown **net of any VAT** and an adjustment would be made to reflect the change in the amount payable to or recoverable from the government." (Richard Lewis & David Pendrill, 2004, page 532).

Presentation of Operating Cash Flows Using the Direct or Indirect Method

Cash flows from operating activities may be presented by using either the direct or the indirect method. Also the RO G.A.A.P. (Order 3055/2009, Section no. 4, Statement of cash flows, art. 334) mention these 2 methods using few words and without details. Companies are encouraged to present cash flows from operating activities using the direct method. Anyway, the indirect method is preferred by major of the companies because:

- it is generally less expensive
- it is in fact a link between three statements: statement of cash flows, income statements and statement of financial position

Direct method

Major classes of gross cash receipts and gross cash payments are disclosed. The net cash flow from operating activities is the difference between cash received from operations and cash payments for operations. Companies using the direct method must report separately the following classes of operating cash receipts and payments:

- Cash collected from customers, including lessees and licensees
- Other operating cash receipts, if any
- Cash paid to employees and other supplies of goods and services
- Income taxes paid
- Other operating payments

Noncash transactions—such as, nonmonetary exchanges, the conversion of debt to equity, the acquisition of a non – current asset by incurring a liability — should be reported in related disclosures. The objective of those disclosures is to clearly relate cash and noncash aspects of transactions involving similar items. If a transaction is part cash and part noncash, only the cash portion is reported in the statement of cash flows. In fact "the cash flow statement should not include any non-cash movements at all but if these are material then users should be made aware of them in their notes, e.g. acquisitions/disposals, creation of new finance leases, etc." (Robert J. Kirk, 2005, page 198)

Types of non – cash transactions which must be considered and disclosed when direct method is used:

Common shares exchanged for treasury shares Fair value of treasury shares issued for businesses acquired Capital lease obligations entered into for new lease Liabilities assumed in business acquisition Note received on sale of business Preferred shares converted into common shares Purchase of property, plant, and equipment for notes Reclassification of current marketable securities to noncurrent shares issued to employees Reclassification of short-term borrowings of commercial paper and bank loans Treasury shares issued on conversion of debentures	Common shares exchanged for treasury shares Acquisition of company by contributing property, investments, and working capital Acquisition of equity interests of minority shareholders in subsidiaries Sale of property, plant, and equipment for notes Sale of secured assets held for sale for assumption of debt Surrender of leases and release from debt and other obligations on discontinuing development activities Transfer of real property, including debt assumed to a real estate trust in exchange for trust shares Treasury shares issued for compensation plans

Anyway, the non – cash items represented by depreciation of property, plant and equipment, amortization of intangibles assets, amortization of bond discount and premium or increase in investments carried at equity must not be disclosed under the direct method.

Indirect method

Profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Types of adjustments used under the indirect method may include (the list is not limited):

Gain on discontinued development activities Gain on foreign currency hedge Gain on discontinued operations Gain on partial sale of subsidiary Gain on sale of investments Deferred compensation Gain on extinguishment of debt Deferred contract research and development revenue from related parties Deferred income taxes Deferred investment credit, net Deferred revenue Depletion Depreciation NCI in subsidiaries' earnings Net earnings from discontinued operations Provision for losses on accounts receivable Provision for losses on direct financing leases Provision for losses on short-term investments Accounts payable Accretion of note discount Accrued compensation and employee benefits Accrued income taxes Accrued interest payable Accrued liabilities Accrued retirement benefits Common stock portion of class action settlement Common shares awarded under restricted shares plan Customer advances	Amortization of deferred gains Amortization of goodwill Amortization of restricted award shares Amortization of software products Amount due from affiliate Assets held for resale Increase in deferred items Issuance of common shares in settlement of litigation Issuance of debt in payment of interest on debt Loss from discontinued operations Loss on disposal property and equipment Loss on equity investments Prepaid expenses and other current assets Prepaid income taxes Restructuring costs Share of related-party losses Advanced revenue Allowance for funds used during construction Amortization of deferred gains Amortization of goodwill Amortization of restricted award shares Amortization of software products Amount due from affiliate Assets held for resale Changes in certain noncash, assets and liabilities, net of effects of businesses acquired, and noncash transactions

Example of Statement of Cash Flows

A small and medium size enterprise named "ABC" is registered in Romania and it's preparing its financial statements under RO G.A.A.P. (Order no. 3055/2009). Below are presented statements for financial position for year 2012 and 2013 and additional information necessary for preparing the statements of cash flows using the ***indirect method***:

1. Company “ABC” has signed a borrowing contract for short period as overdraft with a bank. The amounts presented on line Short term bank loans **(overdrafts)** are for this contract. Based on the contract conditions all bank accounts are offsetting with overdrafts amounts and presented in bank statements in accordance with these conditions.
2. Additional information from trial balance and income statements related to interest income, interest expense and income tax.

Description (financial position)	**31/12/2012**	**31/12/2013**	**Description (Income statement)**	**2013**
Interest receivables	Nil	Nil	Interest income	475
Interest payables	Nil	Nil	Interest expense	408,770
Income tax payable	277,004	491,473	Income tax expense	1,050,438

3. Other long term receivables represent financial assets with nature of receivables (account 2678).
4. The opening amount for 404 accounts is nil/closing amount is 21.673, including VAT (24%).

Summary of Statement of financial position:

	31 December 2012	**31 December 2013**
Assets		
Tangible and intangible assets	299,805	1,613,523
Other long term receivables	115,146	124,402
Non - current assets	**414,951**	**1,737,925**
Raw materials and consumables	3,891,107	4,260,070
Goods purchased for resale	12,224,010	8,074,921
Trade receivables	25,313,770	23,831,966
Other receivables	266,748	405,512
Bank accounts and petty cash	257,799	299,865
Current assets	**41,953,434**	**36,872,334**
Deferred expenses	330,130	340,817
Total assets	**42,698,515**	**38,951,076**
Equity and liabilities		
Short term bank loans **(overdrafts)**	(5,411,761)	(5,376,466)
Advance payments from customers	-	(2,151)
Trade payables	(20,959,060)	(17,557,902)
Other payables, including taxes and contributions	(2,083,669)	(2,092,692)
Current liabilities	**-28,454,490**	**-25,029,211**
Investment subsidies	(33,998)	(18,506)
Deferred income	(1,417,753)	-
Equity		
Subscribed capital paid	(7,493,997)	(7,493,997)
Legal reserve	(124,220)	(232,298)
Other reserves	(14,660)	(14,660)
Retained earnings	(4,685,856)	(5,159,396)
(Profit) or loss for the period	(512,045)	(1,111,085)
Profit appropriation	38,504	108,077
Total equity	**-12,792,274**	**-13,903,359**
Total equity and liabilities	**-42,698,515**	**-38,951,076**

(Positive numbers are for assets and negative numbers are for liabilities and equity)

Income statement at 31 December 2013

Description	**Amount (in lei)**
Production sold	4,831,421
Sale of goods purchased for resale	115,521,648
Trade discounts offered	(25,688,284)
Subsidies related to the turnover	2,684,908
Other operating income	5,591,022
Total operating income	**102,940,714**
Raw material and materials expenses	559,539
Other materials expenses	265,063
Electricity, heating and water	78,841
Goods for resale	69,570,534
Trade discounts received	(1,510,635)
Personnel expenses, from which	7,965,523
Salaries	6,290,826
Social security contributions	1,674,697
Adjustments regarding the value of tangible and intangible assets:	567,168
- Expense	567,168
- Income	0
Adjustments regarding the value of current assets:	2,253,804
- Expense	3,254,489
- Income	1,000,685
Other operating expenses:	**19,722,246**
- Other third party services	18,577,654
- Tax and other similar amounts expenses	252,015
- Other expenses	892,577
Adjustments regarding provisions	**(72,926)**
Income	72,926
Total operating expenses	**99,399,158**
- Profit	**3,541,556**
Interest income	475
Other financial income	708,961
Total financial income	**709,436**
Interest expenses	408,770
Other financial expenses	1,680,699
Total financial expenses	**2,089,469**
Financial profit or loss	
- Loss	1,380,033
Current profit or loss	
- Profit	2,161,523
Total income	**103,650,150**
Total expenses	**101,488,627**
Brut profit or loss	
- Profit	2,161,523
Income tax	1,050,438
Net profit or loss	
- Profit	1,111,085

Intangible assets:

Description	Set –up costs	Development costs	Concessions, patents, licenses, trademarks and similar rights and assets	Intangible assets in progress and advances for intangible assets	Total
	(lei)	**(lei)**	**(lei)**	**(lei)**	**(lei)**
Gross value					
Amount at 01/01/2013	12,447	-	749,219	-	761,666
Increase	-	-	472,629	223,856	696,485
Decrease	-	-	-	223,856	223,856
Amount at 31/12/2013	**12,447**	**-**	**1,221,848**	**-**	**1,234,295**
Accumulated depreciation					
Amount at 01/01/2013	12,447	-	707,563	-	720,010
Depreciation during the year	-	-	97,448	-	97,448
Decrease and reversals	-	-	-	-	-
Amount at 31/12/2013	**12,447**	**-**	**805,011**	**-**	**817,458**
Net book value at 01/01/2013	**-**	**-**	**41,656**	**-**	**41,656**
Net book value at 31/12/2013	**-**	**-**	**416,836**	**-**	**416,836**

Movements in provisions:

Description	Opening	DR	CR	Closing
Write-down of goods purchased for resale	(1,443,304)	1,443,304	3,539,629	(3,539,629)
Allowances for doubtful customers	(1,917,983)	125,880	283,359	(2,075,462)

Tangible assets:

Description	Lands and Buildings	Plant and machinery, motor vehicles, animals and plantations	Fixtures and fittings	Tangible assets in progress and advances for tangible assets	**Total**
	(lei)	**(lei)**	**(lei)**	**(lei)**	**(lei)**
Gross amount					
Amount at 01/01/2013	26,337	2,783,171	1,617,612	-	4,427,121
Increase	-	327,973	1,080,283	-	1,408,256
Decrease and reductions	-	20,342	782,933	-	803,275
Amount at 31/12/2013	**26,337**	**3,090,802**	**1,914,962**	**-**	**5,032,102**
Accumulated depreciation					
Amount at 01/01/2013	15,050	2,691,664	1,462,259	-	4,168,972
Depreciation during the year	11,288	138,537	319,896	-	469,720
Reductions	-	20,342	782,933	-	803,275

Amount at 31/12/2013	**26,337**	**2,809,858**	**999,222**	**-**	**3,835,417**
Net book value at 01/01/2013	**11,288**	**91,508**	**155,353**	**-**	**258,149**
Net book value at 31/12/2013	**-**	**280,944**	**915,740**	**-**	**1,196,685**

Procedural steps

Steps no. 1 ***Calculate the change in cash and cash equivalents***

Cash and cash equivalents	**31 December 2012**	**31 December 2013**	**Change**
Cash in bank and petty cash	257,799	299,865	42,066
Overdraft	-5,411,761	-5,376,466	35,295
Total	**-5,153,962**	**-5,076,601**	**77,361**

Steps no. 2 ***Calculate additional workings for the following items: interest received, interest paid, and income tax.*** See additional information from point no. 2

Description	**Amount**	**Description**	**Amount**	**Description**	**Amount**
Amount 31/12/2012	Nil	Amount 31/12/2012	Nil	Amount 31/12/2012	277,004
Interest Income 2013	475	Interest Expense 2013	408,770	Income tax expense	1,050,438
Cashed Interest	(475)	Paid Interest	(408,770)	Paid Income tax	(835,970)
Amount 31/12/2013	Nil	Amount 31/12/2013	Nil	Amount 31/12/2013	491,473

Steps no. 3 ***Calculate the change for each item from statement of financial position***

Items from financial position	**31 December 2012**	**31 December 2013**	**Change**
Assets			
Tangible and intangible assets	299,805	1,613,523	1,313,718
Other long term receivables	115,146	124,402	9,256
Non - current assets	**414,951**	**1,737,925**	
Raw materials and consumables	3,891,107	4,260,070	368,963
Goods purchased for resale	12,224,010	8,074,921	-4,149,089
Trade receivables	25,313,770	23,831,966	-1,481,804
Other receivables	266,748	405,512	138,764
Bank accounts and petty cash	257,799	299,865	42,066
Current assets	**41,953,434**	**36,872,334**	
Deferred expenses	330,130	340,817	10,687
Total assets	**42,698,515**	**38,951,076**	
Equity and liabilities			
Short term bank loans **(overdrafts)**	(5,411,761)	(5,376,466)	35,295
Advance payments from customers	-	(2,151)	-2,151
Trade payables	(20,959,060)	(17,557,902)	3,401,158
Other payables, including taxes and contributions	(2,083,669)	(2,092,692)	-9,023
Current liabilities	**-28,454,490**	**-25,029,211**	
Investment subsidies	(33,998)	(18,506)	15,492
Deferred income	(1,417,753)	-	1,417,753
Equity			

Subscribed capital paid	(7,493,997)	(7,493,997)	0
Legal reserve	(124,220)	(232,298)	-108,078
Other reserves	(14,660)	(14,660)	0
Retained earnings	(4,685,856)	(5,159,396)	-473,540
Profit or loss for the period	(512,045)	(1,111,085)	-599,040
Profit appropriation	38,504	108,077	69,573
Total equity	**-12,792,274**	**-13,903,359**	
Total equity and liabilities	**-42,698,515**	**-38,951,076**	

Note: *Sum of all changes is nil. Because during the year there were no other monuments in equity, except the increasing of equity as a result of profit of the year, the sum of changes in equity is equal with the profit of the year 2013 (Profit for 2013 is 1,111,085).*

Steps no. 4 ***Preparing the worksheet for Statement of cash flows - indirect method***

Description	**Amount**	**Changes**	**Depreciation & Provisions for Intangible and Tangible assets**	**Current assets Provision**	**Provision expense risk & charges**	**Income tax expense /paid**	**Interest Income / cashed**	**Interest expense / paid**	**Fin assets with nature of receivables (2678)**	**Account 404 Suppliers of non-current assets**	***Checking***
Profit net /(Loss)	***1,111,085***										*IS*
Adjustments for reconciliation of net cash flows from operating activities to net income:											
1. Adjustments of value of tangible and intangible assets	***567,168***		567,168								*PPE + Intangible*
2. Adjustments regarding provision for current assets	***2,253,804***			2,253,804							*IS*
2. Adjustments regarding other provision for risks	***(72,926)***				(72,926)						*IS*
Income tax expense	***1,050,438***					1,050,438					*IS*
Interest income	***(475)***						(475)				*IS*
Interest expense	***408,770***							408,770			*IS*
Working capital changes:											
1.(Increase)/ Decrease of trade receivables and other receivables	1,165,617	1,332,353		(157,479)					(9,256)		
2.(Increase)/ Decrease of inventory	1,683,800	3,780,125		(2,096,325)							*MOV_PROV*
3. Increase/(Decrease) of trade payables and other payables	(4,982,249)	(4,823,228)			72,926	(214,469)				(17,478)	*IS*
Interest paid	(408,770)							(408,770)			*Working*
Income tax paid	(835,970)					(835,970)					*Working*
Cash flow from operating activities	**1,940,294**										
Payments for acquisitions of tangible and	(1,863,408)	(1,313,718)	(567,168)							17,478	*PPE + Intangible +Acc 404*

intangible assets											
Interest cashed	475						475				*Working*
Cash flow used by investing activities	**(1,862,933)**										
Net increase in cash and cash equivalents	**(77,361)**										
Cash and cash equivalents at begging of the year	**(5,153,962)**										
Cash and cash equivalents at the end of the year	**(5,076,601)**										

Note: *Because the bank borrowings are included as part of cash and cash equivalents, the utilization of the credit line is not presented as financing operations. In fact it can be has no financing transactions at all.*

Statement of cash flows at 31/12/2013

Description	Amount
Cash flow from Operating Activities	
Profit net /(Loss)	***1,111,085***
Adjustments for reconciliation of net cash flows from operating activities to net income:	
1. Adjustments of value of tangible and intangible assets	*567,168*
2. Adjustments regarding provision for current assets	*2,253,804*
2. Adjustments regarding other provision for risks	*(72,926)*
Income tax expense	*1,050,438*
Interest income	*(475)*
Interest expense	*408,770*
Working capital changes:	*(2,132,831)*
Interest paid	(408,770)
Income tax paid	(835,970)
Net cash provided by operating activities	**1,940,294**
Cash flow from investing activities	
Payments for acquisitions of tangible and intangible assets	(1,863,408)
Interest cashed	475
Cash flow used by investing activities	**(1,862,933)**
Net increase in cash and cash equivalents	**(77,361)**
Cash and cash equivalents at begging of the year	**(5,153,962)**
Cash and cash equivalents at the end of the year	**(5,076,601)**

Conclusions

The direct method is recommended but indirect method is preferred by SMEs. This statement is important for investors because they want to know the ability of company to generate cash flows in order to support payments to shareholders (e.g. dividends, return of loans). In fact it serves as an indicator of the amount, timing, and certainty of future cash flows. The statement of cash flows is useful in comparing past assessments of future cash flows against current year's cash flow information.

The important accounting standards pay a special attention to this statement. In our opinion the guidelines from RO G.A.A.P. are insufficient. It would be better if RO G.A.A.P. will offer more examples and details regarding of preparing this statement. In fact, this statement is drawn based on information included all other components of financial statements, such as statement of financial position, income statements, notes about tangible and intangible assets. Of course, for more complex combinations of events – such as the acquisition of another entity – additional information is required.

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