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The Self-financing Capacity and the Net Self-financing

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Abstract: *Self-financing is the basis of any enterprise development. Equity capital is also an essential source of the enterprise. Funding issues are crucial to the survival and development of the enterprise.*
First of all, the company must have liquidity to deal with the assumed commitments, that is to honour the due debt in the near future, thus ensuring its short-term financial balance.
Secondly, on the part of the enterprise, it is the issue of launching in any kind of investments that will make the company's possibilities develop. In this case, it is the financing of the medium and long-term development, which conditions the increase of the results in the future and the maintenance of the financial equilibrium.
Keywords: *financing, self-financing, net self-financing*

Introduction

The enterprise as an economic and financial activity is the permanent headquarters of the relationship between stocks and flows that is reflected in the synthetic accounting documents.

If the balance sheet reflects the financial state of the financial year, the profit and loss account shows the aggregate of the economic flows generating income (as enrichment resources) and expenditures (as resources of impoverishment) during the financial year.

1. Self-financing Capacity

Enterprise performance analysis is based on indicators that support:

A. *Data provided by the profit and loss account* showing income and expenses on the two business areas: operating and financial.

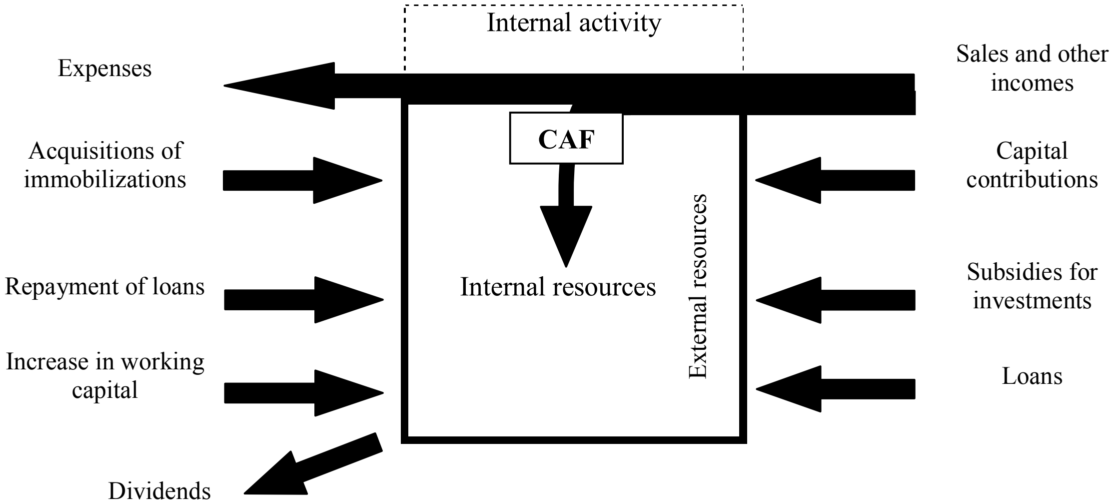
B. *Data provided by interim management balances*, which presents the results of the exercise in the profit and loss account as margins on different accruals

C. *Data provided by the profit and loss account and the interim management balances*

The resources available to the enterprise can be external and internal. Foreign resources may come mainly from capital increases through contributions, investment grants and loans. Internal resources are earned through the enterprise's business, consisting of receipts mainly from sales (and in addition from other income) less expenditure-related payments. [1, 88] (Figure no. 1)

The gross operating surplus is a very useful but partial measure of the internal resources flow generated by the enterprise insofar as it is limited to the flow of exploitation. Self-financing capacity (CAF) seeks to assess the potential cash outflow from the enterprise during the financial year, taking into account the total receipts and the total payable expenses. [2, 153]

Self-financing capacity is the potential liquidity generated by the entire activity during the exercise which remains at the disposal of the enterprise and can be used for self-financing.



Source: Langlois, G., Mollet, M. [1,88]

Figure no. 1 Financing the Enterprise from Internal Resources and External Resources

The self-financing capacity can be determined in two ways:

- ***subtractive method:***

$$CAF = EBE + Vaex - Chaex + Vf - Chf - Imp$$

where:

EBE	– *Gross operating surplus*	*Chf*	– *Financial expenses*
Vaex	– *Other operating revenues*	*Vf*	– *Financial Income*
Chaex	– *Other operating expenses*	*Imp*	– *Revenue Tax*

For the same fair play considerations considered in determining the EBE indicator, only *"Expenses with exploitation"* only *"Expenses with indemnities, donations and assets ceded*" and Expenditure on refinancing interest recorded by the entities the object of which is leasing", the other elements regarding the expenses with external services and taxes, payments and assimilated payments are found in the structure of the *Value added* indicator.

According to this calculation, EBE is the key element of the CAF at the level of "exploitation". EBE appears therefore as a sort of "self-financing capacity" independent as a consequence of the foreign financing policy (which intervenes at the financial level) and the extraordinary circumstances (the extraordinary level). [3, 282]

- ***additive method:***

$$CAF = Rn + Aj$$

where:

Rn – *Net result of the exercise*
Aj – *Value adjustments on fixed assets, current assets and provisions on provisions*

Taking into account the content of the profit and loss account set out in the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, the method for determining the *value adjustments for fixed assets, working assets and adjustments regarding provisions* is presented in Table no. 1. If only the value adjustments in the operating activity are taken into account when determining the EBE, the value adjustments for financial assets and financial investments held as current assets, which are included in the financial expenses, are also taken into account when setting the CAF.

Table no. 1. Determination of Value Adjustments for Fixed Assets, Current Assets and Provisions

Crt. no.	Specification	Symbol
1	Value adjustments on tangible and intangible assets:	*Aji = rd. 2 – 3*
2	- Expenditures (6811 "*Operating Expenses on Depreciation of Fixed Assets"* + item 6813 "Operating Expenses for Impairment Adjustments")	*Chaji*
3	- Revenue (7813 "*Income from impairment adjustments")*	*Vaji*
4	Value adjustments for current assets:	*Ajc = rd. 5 – 6*
5	- Expenditures (654 *"Loss from receivables and miscellaneous debtors"* + 6814 "*Operating expenses related to depreciation of current assets")*	*Chajc*
6	- Revenues (754 "*Revenues from receivables and various debtors*" + item 7814 "*Income from impairment adjustments for circulating assets")*	*Vajc*
7	Adjustments for provisions:	*Ajp = rd. 8 – 9*
8	- Expenditure (6812 "*Operating Expenses on Provisions*")	*Chajp*
9	- Revenue (7812 "Income from provisions")	*Vajp*
10	*Value adjustments for financial assets and investments held as current assets*	*Ajf = rd. 11 – 12*
11	- Expenditure (item 686 *"Financial expenses on depreciation, provisions and adjustments for impairment")*	*Chajf*
12	*- Revenue (786 "Financial Income Adjustments for Impairment")*	*Vajf*
13	*Value adjustments on fixed assets, current assets and provisions on provisions*	*Aj = rd. 1 + 4 + 7 + 10*

Establishing self-financing capability through this method can lead to misinterpretations, not necessarily its origin, and cash flows that will result in revenue-generating operations.

In essence, self-financing capacity is an indicator that expresses the financial independence of the enterprise, reflecting a potential flow of availability that depends, on the one hand, on the profitability of the enterprise and, on the other hand, on the investment policy of the enterprise and the methods of depreciation of fixed assets.

2. Net Self-financing

Net self-financing (Year) is that part of the remaining self-financing available after dividends from the net profit, consisting of dividends and the participation of employees and managers to profit.

Net self-financing is determined by:

$$An = CAF - Rcaf$$

where:

CAF – *Self-financing capacity*
Rcaf – *Distribution of self-financing capacity*

Self-financing has as its main purpose the financing of investments of any kind: minimum self-financing (through fixed assets adjustments), self-financing of maintenance (through adjustments of fixed assets, circulating assets and provision adjustments), self-financing of development (through adjustments of fixed assets, current, provision adjustments and reinvested earnings).

The importance of self-financing can also be substantiated by the following advantages that it offers to the enterprise:

- represents an independent and relatively stable source of enterprise financing in certain adverse conjectural situations;
- it is obligatory to finance investments (maintenance, replacement or growth) provided investment is useful and not wasteful;
- allows for the reduction of the debt and, implicitly, the reduction of the financial expenses;
- gives the undertaking a degree of financial autonomy which allows it to be independent in its management of financial and credit institutions;
- is an indicator used to measure return on equity, i.e. financial profitability;
- provides the premises for attracting external capital and financing from capital markets.

Self-financing is the mechanism / machine that allows the transformation of energy (money) into work (value). It is a mechanism whose return is equal to 1 when return on reinvested equity equals the profitability claimed by shareholders. Its energy yield becomes lower when the return on equity so reinvested is small: there is therefore an effective loss of energy, so the destruction of value. [4, 767]

The self-financing is benefiting from a great image almost for all partners of the enterprise. At the same time, although it essentially returns to the shareholder, the latter ultimately controls it very badly. It follows that self-financing can be a real deadlock for the enterprise [4, 765].

3. Case Study

We will calculate the self-financing and net self-financing for an SC Alfa based on the profit and loss account data.

Table no. 2. The Evolution of CAF and AFN (Substratum Method)

Crt. no.	Specification	U. M.	Symbol	The analysed period		
				N-2	N-1	N
1	Gross operating surplus	lei	EBE	194,776	832,816	1,042,838
2	Other operating revenues	lei	Vaex	97,601	4	1,015,634
3	Other operating expenses *	lei	Chaex	83,175	26,925	850,592
4	Financial Income	lei	Vf	558,623	197,090	65,798
5	Financial expenses	lei	Chf	465,252	364,056	439,165
6	Income tax	lei	Imp	32,518	115,071	86,885
7	*Self-financing capacity*	lei	CAF = rd. 1 + 2 – 3 + 4 – 5 – 6	*270,055*	*523,858*	*747,628*
8	Payment Dividends	lei	D	0	0	0
9	Self-financing net	lei	AFN = rd. 7 – 8	*270,055*	*523,858*	*747,628*

Note:
* In the determination of the item "*Other operating expenses*" only *expenditures on indemnities, donations and assets ceded are considered.*

Appreciations: *During the analysed period, the self-financing capacity has an increasing trend mainly due to the positive contribution of the gross operating surplus. Net self-financing coincides with self-financing, as the net result of the exercise was fully reinvested.*

Table no. 3. The Evolution of CAF and AFN (Additive Method)

Crt. no.	Specification	U. M.	Symbol	The analysed period		
				N-2	N-1	N
1	Net result of the exercise	lei	Rn	116,909	265,795	398,557
2	Value adjustments for fixed and current assets and adjustments for provisions	lei	Aj = rd. 3 – 6	153,146	258,063	349,071
3	- Costs		Chaj = rd. 4 + 5	153,146	291,518	349,071
4	- Exploitation	lei	Chajex	153,146	291,518	349,071
5	- Financial	lei	Chajf	0	0	0
6	- Income	lei	Vaj = rd. 7 + 8	0	33,455	0
7	- exploitation	lei	Vajex	0	33,455	0
8	- financial	lei	Vajf	0	0	0
9	Self-financing capacity	lei	CAF = rd. 1 + 2	*270,055*	*523,858*	*747,628*
10	Payment Dividends	lei	D	0	0	0
11	*Net self-financing*	lei	ANF = rd. 9 – 10	*270,055*	*523,858*	*747,628*
12	ANF weight in CAF	%	ANF / CAF	100	100	100

Appreciations: *The self-financing capacity calculated by the additive method shows the same growth trends over the period under review, largely copying the evolution of the net result of the year, value adjustments for fixed and current assets and provisions for provisions.*

Table no. 4. The evolution of the structure of self-financing capacity

Crt. no.	Specification	U. M.	Symbol	The analysed period		
				N-2	N-1	N
1	The net result of the exercise	%i	Rn / CAF	43	51	53
2	Value adjustments for fixed and current assets and adjustments for provisions	%	Aj / CAF	57	49	47

3	The self-financing capacity	%	CAF = rd. 1 + 2	100	100	100

Appreciations: Within the structure of the self-financing capacity, the share of the net result of the year increases from 43% in year N-2 to 53% in the year N, net result totally represented by the reinvested profit.

Conclusions

The size of self-financing plays a role in the performance of the enterprise. It indicates to the potential owners of the company's capital the ability to use efficiently the capitals entrusted and to ensure adequate remuneration.

The absolute and relative magnitude of self-financing certifies creditors the level of redemption capacity and the level of default risk.

References

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