Torun Business Review 15(2) 2016 51-66

Torun Business Review

THE MODEL OF EIGHT CASES IN THE DYNAMIC ASSESSMENT OF AN ECONOMIC ENTITY FINANCIAL SECURITY

ANDRZEJ TOKARSKI[a],
[a] *WSB University in Toruń, Poland*

ABSTRACT

Among various types of enterprise security, the financial security constitutes the most important one. It can be explained by the fact that all the problems an enterprise deals with should be looked at from the point of view of finances, as all the enterprise activities have its reflection in them. In the market economy finances became a verifier whether the activities taken up by an enterprise are right and effective, both currently and in the future. Financial security became an important value each enterprise aims to achieve and then sustain, improve and guarantee.

The purpose of this paper is to present a possibility to use the model of eight cases in the dynamic assessment of financial security of an economic entity.

Analysis of the literature on the subject and the case study of an economic entity whose financial data were used to assess the financial security belong to the methods used in this publication.

ARTICLE INFO

Available online 3 June 2016

Keywords:
financial security,
model of eight cases,
cash-flow statement.

JEL: C32.

Doi: 10.19197/tbr.v15i2.51

INTRODUCTION

The term “security” is very often used to address various problems of human existence, natural phenomena, health, political and social situations, etc. Generally, it can be assumed that security is most often associated with the state of emergency.

Security constitutes a subject of interest in many sciences: political science, economics, law, sociology and history. In the common understanding the term “security” refers to the lack of danger or protection from any hazards. It is also often defined as a state of peace, stability and the feeling of being secure and safe (Kraś, 2013).

The effectiveness of the security management influences enterprise's ability to continue its activities on the market. According to P. Cabała enterprise security means such a configuration of resources and processes that enables effective counteracting the occurrence of negative events. (Cabała, 2012). Generally, security refers to such features that all together indicate the enterprise's ability to counteract.

Security is an enterprise ability to counteract such events that: (Jabłoński, 2015)

1. disturb or may disturb its functioning (operating dimension),
2. hamper or may hamper its development (strategic dimension).

The purpose of this paper is to present the possibility to use the model of eight cases in a dynamic assessment of financial security of an economic entity.

An analysis of literature on the subject and the study of an economic entity whose financial data were used to assess the financial security belong to the methods used in this publication.

THE IMPORTANCE OF FINANCIAL SECURITY

One of the basic conditions for enterprise activities continuation and development at the competitive market is to ensure the financial security (Szafraniec-Siluta, 2013). Without it a given enterprise does not constitute a reliable economic entity fulfilling its duties in relation to internal and external stakeholders (Duraj, 2010).

Financial security is analysed in relation to numerous economic entities, including enterprises, banks, households and countries (Czerwińska-Kayzer, Bieniasz, 2016).

Nowadays financial security constitutes the most important component of economic security, where, according to K. Raczkowski, it is a process of continuous reduction and elimination of financial risk to achieve such a guarantee. Financial security is a significant element of the security of an enterprise as a whole (Raczkowski, 2014).

Financial security in its general form means the lack of threats in the sphere of public finances, finances of an enterprise, insurance, banking or personal finances of households (Jajuga, 2007).

Financial security gives the feeling of confidence related to the entity functioning and creates an opportunity for its development (Czerwińska-Kayzer, Bieniasz, 2016a).

Financial security of an enterprise should be understood as a financial guarantee of the existence and development of the enterprise that is a result of years-long efforts of the enterprise to achieve a good economic and financial position (Karbownik, 2012).

Three main stages can be distinguished in the process of building the financial independence by an enterprise (Karbownik 2012a):

1. The first stage of "financial buffer - it is such a financial basis (resources) that enables the continuation of economic activity carried out in a short term - leaving time for raising fund and/or generating defined financial resources from the activity being carried out. Possessing and preserving the financial buffer allows for covering current financial needs and in a short time it prevents the enterprise from the threat of bankruptcy,

2. The second stage of "financial security" - such a financial basis (resources) that enables the continuation of the economic activity and creates financial conditions for its development. Preservation of financial security prevents the threats of enterprise bankruptcy in a short and/or long term.
3. The third stage of "financial freedom" - such a financial basis (resources) that is necessary to provide financial security increased by resources necessary to realise unplanned effective investments, that sometimes are not directly related with the economic activity being carried out.

According to W. Gabrusewicz the notion of financial security can be perceived in a static way as a state of peculiar balance between outflows and inflows at a strictly defined moment. However, a static approach to financial security is not valuable for cognitive reasons (Gabrusewicz, 2000). Financial security is strictly connected with time, and particularly with future. Enterprise management should guarantee its safe functioning in the future, that is why the dynamic approach is very important in defining financial security of an enterprise. In a short term, that is in the static approach, it is possible to define a state of financial security, however, in a long term it should be discussed what should be the limits of risky activities so as not to affect the financial security of an enterprise in a negative and permanent way. Thus, the relation between the taken-up risk and the state of finances of an enterprise is important. If risky activities taken up by an enterprise affect the financial security only temporarily, then such a phenomenon does not have to be threatening for an enterprise as it is possible to bring back the financial balance of the enterprise quickly. However, continued lack of financial balance, as a rule, is dangerous for an enterprise because of irreversible changes that are difficult to amend.

Taking into consideration the factor of time, financial security can be analysed from the point of view of profitability and financial liquidity. In case of a long period, the financial security is important from the point of view of profitability, in a short term, however, the current solvency is more important.

Financial security from the point of view of profitability consists in such controlling of revenues and costs so that revenues exceed costs. Then the enterprise achieves profit that constitutes a significant aim of its activities and permanent element of financial security. Financial security considered from the point of view of financial liquidity consists in such controlling of cash revenues and expenditures to guarantee the surplus of inflows over expenditures. Such a surplus is a sign that an enterprise is capable of settling all the payments on time.

Financial security has an impact on the achievement of enterprise financial stability. Financial stability is a state in which the financial system, as a whole, does not show any permanent loss of liquidity or insolvency (Crockett, 1997). Financial security is an intermediate stage in the process of building financial independence.

In generalised approach, enterprise financial security can be defined as a process and/or all the conditions of obtaining, gathering and using financial funds that ensure the continuation of enterprise activities and financial conditions for development (Duraj, 2008).

Financial security is a basic financial strategy of an enterprise focused on the provision of external and internal financial conditions for effective continuation and development of its activities. It is a peculiar financial category. On the one hand, it refers to creating conditions for carrying out current activities in a continuous and effective way, on the other hand it is focused on the development of economic activities resulting in the growth of the market position and the enterprise value (Duraj, 2014).

Financial security of an enterprise should be understood as a financial guarantee of the existence and development of an enterprise that is a result of years-long efforts of an enterprise to achieve a good economic and financial position (Karbownik, 2006).

FACTORS DETERMINING THE FINANCIAL SECURITY OF AN ENTERPRISE

If financial security of an enterprise is treated as a state of balance between the streams that supply an enterprise and those flowing out of it, then the maintenance of such a state depends on factors forming these streams. Thus, they will be factors that affect revenues and receipts, costs and expenditures.

Each of these financial streams is influenced by numerous factors existing both in the surroundings and in the enterprise itself. In fact, there factors are of universal nature and their impact is similar in all the enterprises. One can mention here the enterprise relations with suppliers and recipients and also other entities from the enterprise financial environment, market conditions, especially competitors' activities, financial resources and nature of enterprise assets and a degree of its use, size and subject of enterprise activities, staff and its skills referring to effective enterprise management in difficult conditions of the market environment. Quite apart from external factors that have a similar impact on financial security in all the enterprises, internal factors partially vary according to the subject of enterprise activities and the nature of assets. In connection with that, the financial security of production enterprises can be influenced by different factors from those in case of trading enterprises.

However, regardless of the type of enterprise activities, all the factors determining the financial security can be divided in accordance with two most important criteria, that is place and time. In accordance with the first criterion one can distinguish: (Gabrusewicz, 1999)

- external factors,
- internal factors.

In accordance with the time criterion, financial security factors are divided into:

- short-term factors,
- long-term factors.

If these two types of factors coincide, then the following are the result:

- external short-term factors,
- external long-term factors,
- internal short-term factors,
- internal long-term factors.

External short-term factors include, first of all, such factors the appearance of which is most often unexpected for an enterprise and time of their impact is relatively short. Typical examples of such factors include a change of demand (favourable or unfavourable) for enterprise products, recipient's cancelling the purchase of enterprise products, supplier's or business partner's withdrawal from a cooperation.

To the most important external long-term factors belong those factors that create the so-called macro environment. They include systemic solutions related to economic law, enterprise finance, taxation and customs policy etc. Inflation also belongs to these factors. It should be emphasized that these factors are easy to notice by an enterprise, so it is possible for an enterprise to take up appropriate actions in order to eliminate or minimize the effects of their negative impact.

A common feature for all the internal factors of financial security is the fact that they are all localised within an enterprise itself. It can be deducted then that these factors are dependent on the enterprise. However, it should be emphasized that an enterprise does not always have an opportunity to use these factors fully to improve its financial security, for example, because of the lack of complete recognition of their nature and effects of their impact.

Internal short-term factors include, first of all, factors that impact the size and the structure of sale and collecting payments on the one hand, and factors that impact costs, expenditures, a level of resources on the other hand. Enumerated factors, as a rule, have opposite influence on financial security. In order to achieve increase in sales an enterprise creates more favourable terms for recipients what results, for example, in the rise of non-cash sale opportunities and in lengthening the time of collecting payments what in turn reduces the receipts for an enterprise. A wider range of recipients have a positive influence on financial security. However, if they are not known well in relation to their solvency they may cause financial troubles to an enterprise that will lead to difficulties with settling budget commitments on time and all the liabilities due to suppliers.

Internal long-term factors are connected with processes of enterprise assets creating and restructuring and also with shaping the capital structure. Relations between funds allotted to the enterprise development and those allotted to current activities are most important for financial security. They decide about the current and future balance of an enterprise. If an enterprise does not allocate many funds for its development, then as a rule, it should not have any problems with current balance, but this fact can have a negative impact on the balance in future. In turn, intensive development activities require allocation of funds at the expense of current activities.

REVIEW OF RESEARCHES RELATED TO THE MODEL OF EIGHT CASES

An analysis of cash flow signs sequence is a well-known tool and often presented in our literature on the subject, however, publications presenting research results based on its use are relatively rare (Stefański, 2013).

Elaborations concerning the analysis of cash flow signs were published, among others in "Rzeczpospolita" by T. Świderek and concerned listed companies for the first half of the year 1995 (Świderek 1995a, Świderek 1995b, Świderek 1995c, Świderek 1995d). In the year 2000, M. Sierpińska published research concerning cash flow in listed companies for years 1995-1998 (Sierpińska, 2000). Research concerning the relation between cash flow and other elements of finance (from profit and loss account) for randomly chosen Polish enterprises for years 1999-2001 were carried out, among others, by D. Wędzki. He states that there is no (or very small) correlation between the financial result, or the result from operating activities and net cash flow, or operating flows (Wędzki, 2003).

Studies on the signs sequence in particular areas of cash flow were continued by T. Maślanka, who in 2004 presented an analysis for companies listed on Warsaw Stock Exchange from the group of food industry companies in the period 2001–2003 (Maślanka, 2004). Similar studies were carried out in 2006 for companies from construction industry and in 2008 he completed these studies with trading companies (year 2004 was included in the analysis) (Maślanka, 2008).

In 2011, E. Śnieżek presented results of extensive research on cash flow in Polish public companies for years 1995–2010. On the basis of her research, she concluded the following: (Śnieżek, Wiatr, 2011)

- cases 2 and 4 were dominating combination of signs sequences (they indicate good financial situation), altogether they constituted about 60% of all the observations,
- cases 7 and 8 indicating the worst financial situation usually did not exceed 10% of the population (apart from years 2001 and 2003),
- comparing research results in years 1995–2006 and 2007–2010, so without a crisis and during the financial crisis, significant differences cannot be noticed, as deviations between average percentages maximally amount to 3% and they refer to case 2 and 4,
- the world economic crisis in years 2007-2008 had insignificant impact on Polish economy and possible consequences in the area of liquidity were to take place in the following years,
- unfavourable consequences were not observed as companies selected for the research were big, of good financial standing and stable, verified strategies of liquidity management,
- in the analysed period number of companies bearing loss increased, however, number of entities generating positive operating cash flows did not change significantly, only the last two years disclosed the increased number of entities with loss and a negative net cash flow from operating activities at the same time.

THE IMPORTANCE OF THE ANALYSIS OF SIGNS IN THE MODEL OF EIGHT CASES

From the financial point of view, processes of enterprise functioning are reflected in the continuous movement of opposite financial streams flowing in and out of an enterprise (Kowalczyk, Kusak, 1998). The boundary condition of proper finance management consists in such controlling of each stream to prevent from the state in which the value of inflows and possible funds created in the past is lower than the value of outflows. The occurrence of such a state and its consolidation for a longer period in fact denotes financial bankruptcy of an enterprise.

In this perspective, financial security can be understood as a state of enterprise finance that keeps balance between the inflows and outflows (Kowalczyk, Kusak, 1997). In this case, balance does not mean equality. An enterprise is an economic entity functioning in a continuous mode, so not only should it have the ability to cover current outflows related to operating activities, but it should reach a specified surplus of inflows over outflows in order to cover all the expenditures oriented towards future (for example capital expenditures, debt service, dividends payment) (Kusak, 2006).

The cash flow statement together with the balance sheet and the profit and loss account provide information on cash flows, that is on events that resulted in changes of the state of cash and cash equivalents. The higher the surplus of receipts over expenditures is, the more favourable the evaluation of enterprise financial liquidity is as it possesses bigger amount of cash to cover, among others, current liabilities, debts, investments and dividends (Grzelak, Karmańska, 1997).

A cash flow statement (in short a cash flow) discloses sources of cash in an enterprise and directions of its use. (Dynus M., Kołosowska B., Prewysz-Kwinto P., 2005; Gos W., 2001; Bangs D. H., 1999). A cash flow statement takes into consideration cash flows from three types of activities: (Olzacka, Pałczyńska-Gościniak, 1998)

- **operating activities** – it is an enterprise basic activity (manufacturing, service, trading), current expenses and revenues of which are presented in the profit and loss account. In this area of flows on the receipts side all the recipients' payments for sold products, financial income (interests and dividends) and other inflows, for example damages, rents are registered. On the side of outflows, there are expenditures for settling liabilities due to suppliers, remunerations, payment of interests, taxes and other cash expenditures of an enterprise (Cicirko, 2010),
- **investing activities** – include cash transactions related to the purchase or sale of tangible fixed assets, intangible assets, foreign securities of capital investment nature and to providing loans for a period that is longer than the financial year and collecting them,
- **financing activities** – disclose undertakings that change the state of enterprise capital sources both those related to the issuance of enterprise's own shares and division of income from the previous year and those related to external sources. For example, taken loans, credits, issued bonds. This area of flows includes capital costs, paid dividends and interests.

An analysis of cash flow as well as of other components of financial statement can be carried out by means of various tools, including the sign sequence in the balance from different areas of cash flow (Stefański, 2014). Having separated three areas (operating, investing and financing) and having considered the dual nature of net flows (surplus or deficiency), eight cases in which a given entity can find itself can be enumerated (Stefański, 2012).

The model of eight cases consists in finding a relation between a combination of cash flow signs in particular areas and certain schemes of enterprise financial position.

The analysis of signs in this model consists in finding a relation between a combination of cash flow signs in particular areas and certain schemes of enterprise financial position (Wędzki, 2008). This analysis lacks strict rules of proceeding as it is in case of a ration analysis. It is rather a collection of general directions of actions and correlations. Such an analysis certainly does not refer in a comprehensive way to all the elements and aspects of functioning of an economic entity and to the reasons and conditions of made decisions, however, despite that, it constitutes an important element of a given entity situation evaluation, although it cannot be forgotten that to make a complete analysis data from other components of financial statements are necessary.

On the basis of cash flow from operating, investing and financing activities revenues and expenses can be monitored, so an enterprise financial liquidity can be analysed (Izydorczyk, 1996). Taking into consideration the nature of these flows (positive or negative) eight cases a given enterprise can find itself in can be distinguished. See Table 1.

Table 1. Model of eight cases based on selected information on cash flows

Net cash flows from financing activities	Cases							
	1	2	3	4	5	6	7	8
Operating	+	+	+	+	–	–	–	–
Investing	+	–	+	–	+	–	+	–
Financing	+	–	–	+	+	+	–	–

Net flows refer to the difference between revenue and expenses within a specified type of activity.
„+" means: revenue > expenses = positive net flows value from activities;
„–" means: revenue < expenses = negative net cash flow value (deficit).
Source: Izydorczyk B., *Monitorowanie płynności finansowej przedsiębiorstwa,* Serwis finansowo– księgowy, 1996, No. 42, p. 15; Śnieżek E., *Jak czytać cash flow,* Warszawa: FRR w Polsce, 1997, p. 101– 103.

Particular cases can be characterised in the following way: (Maślanka T., 2008; Kusak A., 2003, No. 1; Gos W., 2011)

- Case 1. It is characteristic for an entity of high financial liquidity. The surplus of cash coming from every type of activity means that a company is prepared to take up new undertakings, even on a large scale (even a purchase of another entity). In business practice this option is relatively uncommon.
- Case 2. The amount of profit established in the course of operating activities is big enough to carry on investing activities and to settle liabilities due to owners (dividend) and creditors (loan payment). If negative cash flow value from investing and financing activities exceeds a positive cash flow value from operating activities it is a signal that there are financial difficulties in a given period and the information if they are temporary will be revealed in next periods. Company's way to survive and to improve the financial situation is to make new investments. This option takes place in case of experienced entities of high profitability of its activities that undergo a temporary crisis in the area of liquidity and solvency.
- Case 3. Positive net cash flows from operating and investing activities are observed. It may denote both restructuring processes in an entity and the fact that the entity is not capable of paying off debts with the revenue from current activities.
- Case 4. An entity achieves positive net cash flow from operating activities, however, the size of its investments makes it use external financing. This situation is characteristic for developing entities, whose financial standing is convenient enough for them to get new credits and loans.
- Case 5. It may mean that a company has temporary difficulties with profitability of operating activities. It makes attempts to cover the deficiency coming from this type of activity by the sale of tangible and financial fixed assets. However, the financial situation of a company is good enough and financial difficulties - tempo-

rary, as creditors decide to grant a company credits, or investors - to engage additional financial resources what is reflected in a positive net cash flow from financing activity.
- **Case 6.** This situation is typical for young developing companies. Perspectives for a company must be evaluated as good, as this company achieves external financing (credits or an increase in capital) thanks to which it can finance the investing activities and cover deficiencies resulting from negative net cash flows from operating activities.
- **Case 7.** It shows that a company has severe financial difficulties. Company makes attempts to cover the losses resulting from operating activities and liabilities connected with payment of credits and loans by selling components of company assets. Nothing indicates that the nature of company financial problems is temporary.
- **Case 8.** Despite negative net cash flow from operating activities and the need to pay off long-term debts, the entity carries out investing activities which serves as a proof for the existence of financial resources gathered during previous periods in the amount that allows investing. The occurrence of such circumstances (three negative flows) for a longer period incredibly increases the possibility of bankruptcy.

According to Kawczyńska and Cieślik analysing various types of cash flows enterprises can be classified into three basic stages: mature stage, transition stage and a stage of risk (Kawczyńska, Cieślik 2012).

The mature stage is the most desirable one, when positive cash flows (options 1-4) established in operating activities are high enough to use this cash to supply other types of activities.

An enterprise is in the transition stage when there is a negative net cash flow from operating activities and, at the same time, there are surplus cash flows from financing activities (options 5-6). Such a pattern of cash flows is characteristic in case of relatively young and dynamically developing entities, functioning in industry sectors with good development prospects. An enterprise can move from this stage to the mature stage or, in less optimistic circumstances, to the stage of risk. In this case (the stage of risk), an entity shows both negative cash flows from basic activities and negative cash flows connected with the necessity to maintain financing sources (options 7-8). In theory, such a situation indicates the risk of enterprise bankruptcy. However, the statement of cash flows does not always give an unambiguous answer to the question if the company is threatened with bankruptcy in the near future (Wędzki 2010).

In my view, the model of eight cases is a useful and practical tool used to assess the financial security of an economic entity with the consideration of such areas of economic and financial situation evaluation as financial liquidity and profitability,

The analysis of the model of eight cases allows to draw the following conclusions concerning a company under research:
- cases 1 and 2 show high level of financial security, but it refers to companies in a very good economic and financial position,
- cases from 3 to 6 show "good" moderate level of financial security, but it refers to companies in a good economic and financial position,

- cases 7 and 8 show low level of financial security of an economic entity that denotes difficulties in proper functioning, but it refers to companies in a bad economic and financial position,

Information included in the cash flow statement can be used to evaluate (Sojak, Stankiewicz, 2008):
- ability of the entity to generate cash which is a more reliable information than the level of profit established in the profit and loss account,
- economic viability of investment undertakings,
- level of the demand for cash from the tasks which are being realised - operating, financing and investing,
- possibilities to settle liabilities, including credit obligations, thanks to which it is possible to analyse the creditworthiness of an economic entity.

The basic advantage of this statement is the fact that it reveals the real financial situation of a company, whereas the balance sheet and the profit and loss account show the accounting situation of a company (Tokarski A., Tokarski M., Mosionek-Schweda).

Thanks to the information included in the cash flow statement combined with other components of the financial statement, it is possible to assess the changes in company net assets, its financial structure and the ability of the entity to affect the amount and time of future cash flows in order to adapt to the changing market conditions and opportunities. They are also useful to analyse the relation between the profitability and net cash flows of a company.

ASSESSMENT OF THE FINANCIAL SECURITY OF AN ECONOMIC ENTITY BASED ON THE MODEL OF EIGHT CASES

On the basis of the data included in the cash flow statement the assessment of the company financial security was made. The model of eight cases was used in the analysis.

In Table 2, there are financial data coming from cash flow statement in years 200X-200Z of a company from chemical sector.

Table 2. Cash flow statement of the company under research in years 200X-200Z (data in PLN thousand)

Cash flow statement	200X	200Y	200Z
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Net financial result (profit/ loss)	6,501.80	7,050.05	4,530.30
II. Adjustments	11,399.80	-6,195.07	3,764.30
III. Net cash flows from operating activities	**17,901.60**	**854.98**	**8,294.60**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Revenues from the disposal of intangible assets and tangible fixed assets	0.00	0.00	0.00
II. Revenues from the disposal of investments in real properties and in intangible assets	0.00	0.00	0.00

III. Revenues from financial assets	0.00	15.61	1,920.18
IV. Other investing inflows	0.00	0.00	1,999.00
V. Expenditures for the purchase of intangible assets and tangible fixed assets	-12,182.50	-26,940.88	-95,814.91
VI. Expenditures for the purchase of investments in real properties and in intangible assets	0.00	0.00	0.00
VII. Expenditures for financial assets	0.00	0.00	0.00
VIII. Other investing outflows	-15.50	-2,109.67	0.00
IX. Net cash flows from investing activities	**-12,198.00**	**-29,034.94**	**-91,895.73**
C. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Net cash inflow from issuance of shares and other capital instruments and additional capital contributions	0.00	7,092.80	0.00
II. Revenues from credits and loans	2,225.10	17,105.13	82,782.88
III. Revenues from issuance of debt securities	0.00	0.00	0.00
IV. Other investing inflows	0.00	0.00	539.00
V. Expenditures for the acquisition of company's own shares	0.00	0.00	0.00
VI. Expenditures for the payment of dividends and other payments for owners	0.00	0.00	0.00
VII. Expenditures related to the profit distribution, other than payments for owners	0.00	0.00	0.00
VIII. Expenditures for repayment of credits and loans	-2,000.00	-11.25	-45.05
IX. Expenditures for redemption of debt securities	0.00	0.00	0.00
Cash outflow for other financial liabilities	0.00	0.00	0.00
XI. Expenditures for liabilities related with financial leasing agreements	0.00	0.00	0.00
XII. Expenditures for interests	-112.80	-17.48	-22.02
XIII. Other financing outflows	-1,249.00	-1,313.54	0.00
XIV. Net cash flows from financing activities	**-1,136.70**	**22,855.66**	**83,254.81**
D. TOTAL NET CASH FLOWS (A.III +/- B.IX +/- C.XIV)	**4,566.90**	**-5,324.30**	**-346.32**
E. BALANCE SHEET CHANGE OF CASH	**4,566.90**	**-5,324.30**	**-346.32**
F. CASH AT THE BEGINNING OF THE PERIOD	**1,537.10**	**6,104.00**	**779.70**
F. CASH AT THE END OF THE PERIOD (F +/- D)	**6,104.00**	**779.70**	**433.38**

Source: self-study on the basis of financial statements of the enterprise under research in years 200X-200Z.

In Table 3, results of the analysis of eight cases carried out in order to assess financial security of an entity under research with regard to selected information on cash flow is presented.

Table 3. Analysis of eight cases of the surveyed enterprise in years 200X-200Z

Activities	XII 200X	XII 200Y	XII 200Z
Operating	+	+	+
Investing	-	-	-
Financing	-	+	+

Source: self-study on the basis of financial statements of the enterprise under research in 200X-200Z.

Analysing the company cash flow statement, it can be noticed that in the year 200X option 2 appeared (+,-,-), and in years 200Y-200Z option 4 (+,-,+) of the model of eight cases on the basis of the cash flow statement analysis.

In 200X, the company recorded a surplus of cash flow from operating activities and negative cash flow from investing and financing activities. However, the surplus from operating activities covered expenditures connected with investing activities and paid debts resulting from them. In the analysed period the enterprise had positive profitability in all the segments of carried out activities, that is in the sale of products and rendered services, operating and financing activities.

In the years 200Y-200Z, the analysed company reached positive flows from operating and financing activities but a negative balance in investing activities. The surplus from the main activities was not big enough to cover investments, that is why the deficit of cash was covered from external sources of financing (the enterprise took out a long-term loan).

Cash flows from operating activities at the end of 200X reached the amount of PLN 17,901.60 thousand, but at the end of 200Y fell to the level of PLN 854.98 thousand, so the decreased by 95.22%. In the following year, 200Z, the value of cash flows amounted PLN 8,294.60 thousand, so there was an increase by 870.15% in comparison with 200X. During the period covered by the analysis, cash flows from operating activities fell by 53.67% altogether.

Cash flows from investing activities at the end of 200X had a negative value of PLN -12,198.00 thousand, but at the end of 200Y fell to the level of PLN -29,034.94 thousand, so the negative value increased by 138.03%. Further investments caused another fall of cash flows in this area and in 200Z they amounted to PLN -91,895.73 thousand. During the period under research investment expenditures increased by 653.37%.

Cash flows from financing activities reached the negative value of PLN -1,136.70 thousand at the end of 200X. In the following year, the cash flow value amounted to PLN 22,855.66 thousand and that was an increase by 2110.70%. Further growth of the value of long term loans influenced the rise of the value of flows from financing activities at the end of 200Z to the amount of PLN 83,254.81 thousand, which means that they increased by 264.26%. In the analysed period the flows from financing activities increased by 7,424.26% altogether.

In 200X, the company generated cash in the total amount of PLN 6,104.00 thousand. The whole sum came solely from operating activities and was utilised to cover mainly investing activities. The following year the enterprise generated cash in the total amount of PLN 779.70 thousand. It mainly came from financing activities, such as long term credits and cash generated at the end of 200X. This cash was utilised to cover investing activities.

During the last analysed year, the company generated the total of PLN 433.38 thousand. This cash mainly came from long-term loans and from main activities and similarly to previous years it was utilised to cover investing expenditures.

It should be noticed that in the analysed period, in years 200X-200Z, the company generated less and less cash - its value fell by 92,90% in total. This fall was caused by increased investment expenditures and the enterprise development.

Assessing the enterprise functioning in relation to financial security it must be stated that the analysed enterprise does not have any problems connected with financial security. In the analysed period the enterprise was realising an investment of strategic nature and, at the same time, it maintained positive level of cash from operating activities during the whole analysed period and from financing activities in 200Y and 200Z. The enterprise did not have any difficulties in obtaining external sources of financing for its investing activities.

SUMMARY

Running an economic activity is always connected with the necessity to make, realise and control decisions in conditions of uncertainty and limited possibility of an enterprise to influence the effects of its functioning and development. It is focused on the realisation of various targets that require not only constant diagnosis and analysis of the results of past and current processes of obtaining, gathering and utilising capital, but also imposing on enterprises the duty to forecast events and results of future activities.

One of the significant aims of an economic entity is to provide financial security in the realisation of production and/or service, marketing, human resources tasks, etc. It can be assumed that having financial security is a basic condition for a company to continue its activities and to develop (Karbownik, 2014).

Without financial security, an enterprise cannot be regarded as a reliable entity that fulfils its duties in relation to the stakeholders. That is why this type of approach allows to stress the need for enterprise financial security assessment and monitoring, having in mind continuation of its economic activity in a long-term and strengthening its competitive position, which fact is strictly connected with the fulfilment of one of the top principles in financial accounting that is the principle of the continuation of the activity (Duraj, 2013).

Regularly carried out financial security assessment allows for the identification of factors of unsystematic risk and it also gives information on the opportunities to take up specified actions to improve the financial security. In extreme cases these actions can protect a given economic entity from bankruptcy (Karbownik, 2014a).

Intuitive management, meaning if there is money it means we are getting on well and if there is no money it is time for restrictions, proves reliable only in the environment of stability. Nowadays it leads to a fast collapse, that is why proper planning and controlling and monitoring of cash flows is necessary to manage the changes in financial situation and to provide financial security of an enterprise.

Financial security became an important value each company aims to achieve and then sustain, improve and guarantee.

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