

THE PERTINENCE OF INFORMATION FURNISHED BY FINANCIAL SITUATIONS

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Abstract:

In contemporary economy, which undergoes perpetual transformation, spectacular changes occur within a short time span, on the basis of financial decisions made by using accounting information and relying on its accuracy and relevance. However, if this information proves to be incongruous with the economic events that generated it or is misunderstood, the decisions' result will be far from what is expected.

But what is information in economic terms? How can we distinguish between information and non -information? How can we know that we are really informed? These are questions that are featured in many national and international conferences.

In our opinion, information represents a set of data that determines the change of the probabilities expected by the beneficiary after future events take place. The information's value depends on the impact it has on future decisions, which results into a high degree of subjectivity as to its interpretation and use. Cost is also an important element in choosing alternative sources for information. From an accounting point of view, information is valuable if it is of use to those who possess it in a form of decision -making that leads to the expected results

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1. INTRODUCTION

Our scientific research undertaken through this work has as *its main objective* the approach of the financial situations, as the starting point in the decision -making process. Thus, the first objective was to collect the data, the precise information whose analysis allows us to acquire a better understanding of the relation, of the phenomena and of the correlations which exist between the different constitutive elements of the financial situations, and in this way to be able to draw some conclusions concerning the improvements that could be brought on the theoretical -practical plan so that the decisions made on the basis of the financial situations be opportune and knowledgeable.

We notice the fact that, in the last period of time, both in the financial-accounting literature and in the management vision, started to manifest some reticence regarding the usefulness and the quality of the relieved accounting information, resorting more and more often to other information sources. Starting from these grounds, we appreciate to be very useful the approach of the financial situations from the perspective of the main conceptual frames which leave, at the present time, their mark on the world-wide accounting systems: the international conceptual frame (IASB), the American conceptual frame (FASB) and the European directions. We also mention the fact that, at the world level, already appeared the first initiatives of laying the foundations of a unique conceptual frame.[5]

The objective of the financial situations is to offer information regarding the activity of an enterprise or entity, which must be useful to a large gamma of users in their decisional process grounding.

Starting the specifications of the *General frame concerning the drawing up and the presentation of the financial situations*, in order to be able to respond to the managers` informational necessities, it becomes obvious the necessity of the presentation within the structure of the information's financial situations about the financial position, the performances and the

modifications of the enterprise's financial position. In what concerns the *financial position*, the information must reflect:

- *The economic resources* which are under the control of the enterprise and which are useful for the determination of the enterprise's capacity to generate monetary flows in future;
- *The financing structure*, which is useful in order to be able to perform a quantification of the future loan needs, as well as the possibility to get these loans;
- *The assignment of the future treasury flows and benefits*, the enterprise's winding up and solvency and its capacity to adapt itself at the environmental changes, where the enterprise is acting.
- The information regarding *the performance* pursues:
- The evaluation of the probable modifications of the economic resources that the enterprise could control in the future;
- The possibility to express hypothesis about the efficiency of some new resources use.

2. THE BALANCE – SYNTHESIS OF THE ECONOMIC ENTITY'S FINANCIAL POSITION

The concept of financial position, with all its associated aspects more or less semantic, is connected most of the times with the balance, through its defining as a situation - constitutive part of the financial situations which reflect the financial position of an enterprise at a certain moment in time. This concept has engaged the attention of the FASB and IASB conceptual frames. Thus, the FASB, in the SFAC 5 *Recognition and Measurement in Financial Statements of Business Enterprises*, defines the presentation of the financial position as a situation which offers information regarding the assets, the debts and the personal capital of an enterprise and the relations between these at a certain moment in time, as reflections of the economic resources on the one hand and of the financing structure on the other hand, resulted from the users' needs. Frank J. N. makes an interesting remark, observing the fact that *the multitude of the users of financial situations leads to a multitude of financial position figures* [2].

This idea is taken over by Kollaritsch [3] who broaches the interest regarding the creditors', investors' and managers' financial position on the information from other points of view. Thus, the creditors are particularly interested by the insurance of the granted credits recovery as well as their extension. In this way, it becomes necessary the correlation of the time element with the debts element, generating the need of the short and long term classification. Also, the creditors search information regarding the guaranteeing of the granted credits. Kollaritsch considers that not for all the creditors the financial position is reflected by the same information. Thus, the commercial creditors broach differently the financial position in comparison with the financial creditors. The multitude of creditors of an enterprise, according to the same author, can be grouped in two categories: creditors with significant interest in the activity of the beneficiary enterprise and creditors without a significant interest in the enterprise's activity. As the interest diminishes, diminishes also the concern to seek information regarding the assets owned by the enterprise correlated with the benefit generation, as well as the interest regarding the continuity of the activity. The other conceptual frame IASB develops the concept of financial position based on four big pillars: economic resources controlled by the enterprise; enterprise's financial structure; enterprise's winding up and solvency; enterprise's capacity to adapt itself to the environmental changes.

The economic resources are recognized by the IASB conceptual frame as assets only if they satisfy a series of conditions: *to be controlled by the enterprise* (the enterprise can derive profit from the economic benefits incorporated in the asset and at the same time has the capacity *to generate future economic advantages for the enterprise* (respectively the asset's capacity to contribute to the future windings up flows).

The financial structure, reflected through the permanent elements of debts and personal capitals, relieves useful information for the anticipation of the credit needs and for the enterprise's capacity to be credited in the future as well as for the way in which the results and the future cash flows will be distributed to those directly interested by the enterprise. A debt represents *an existing*

obligation of the enterprise which results from *passed events* and through the discount of which it is expected to result *a resources issue* which incorporates economic benefits.

In order to define *the enterprise's capacity to adapt itself to the environment* where is acting, maybe it should be necessary to start from the notion of the unquoted enterprise. The difficult situation can be translated through the progressive loss of the control over the possible difficulties and obstacles which appear in the enterprise's environment, which is caused on the one hand by the managers' incapacity to lead efficiently the enterprise and on the other hand by its development in the economic context. As long as the carrying on of the exploitation is not troubled, we can appreciate that the enterprise adapts to the environment where acts, practically it runs a „normal” situation.

The opinion unanimously accepted by the users of financial-accounting information, in what concerns the balance, is that it reflects the enterprise's financial position at a certain moment in time, allowing in this way the formation of some opinions about the passed activity and thus the elaboration of some provisions regarding the enterprise's future activity.

We ask ourselves the nature question: *Which are the perspectives regarding the balance, so that it ensures a quality as good as possible of the information relieved through it?* In an article published by *Deloitte&Touche* in the series *Integrity & Quality - Quality of Financial Position, The Balance Sheet and Beyond* it is appreciated that there are a lots of qualitative and quantitative factors which influence the financial position of an enterprise and which are not pointed out by the financial situations. Consequently, in order to ensure a better quality and transparency of the balance, it is essential to approach the term of financial position by far over the elements enclosed in the balance, offering information much more detailed regarding the economic resources, the obligations and the personal capital. Thus, in order to complete the information regarding the financial position, it would be necessary an additional presentation of some elements such as:

- *The enterprise's winding up degree:* has the enterprise sufficient winding up in order to get through its obligations?
- *The nature of the enterprise's activity:* which are the inherent risks? Does the professional reasoning regarding the selection and the appliance of the accounting methods rely on their content or just on their form?
- *The use of the historical cost method or of the fair value method:* which are the differences which would result from the appliance of the two methods?
- *The use of the estimations or assumptions in the financial situations:* are these estimations reasonable? Are they in a credible way determined?
- *The taking into consideration of the politics of the elements depreciation:* are these politics for the evaluation of the reasonable and credible depreciations?
- *The use of contracts that cannot be recognized in the balance considering the existing criteria of recognition and evaluation:* how significant are these contracts that, by definition, cannot be recognized in the balance?
- *The quality and the efficiency of the internal control:* are these controls capable to monitor the accounting activities?

In our opinion, we appreciate that for as a good as possible satisfaction of the financial information needs it is essential that the accounting approach of the elements classification in the balance to direct its steps towards a financial approach, which will insist on the reflection of the information regarding the equilibrium between the uses and the short and long term resources.

3. THE PROFIT AND LOSS ACCOUNT – PERFORMANCE INDICATOR OF THE ECONOMIC ENTITY

In the perspective of the I.A.S. 1 “Presentation of the Financial Situations”, the profit and loss account can be presented in two variants:

- The first in which is performed a classification of the expenses depending upon the function and,

- The second, in which the grouping of the expenses is made depending upon the nature

According to the *Expenses classification depending upon nature* called also the method of the "cost of sales", the expenses appear as a part of the sales, distribution and managerial activities cost. This classification offers relevant information to the users, but the costs assignment depending upon functions considerably involves the professional reasoning. The enterprises which present the expenses depending upon the function must communicate the additional information regarding the nature of the expenses, including also the sinking expenses and those of the personal. *The analysis depending upon the nature of expenses* of the profit account is simpler than the analysis depending upon the function, as it does not necessitate a reassignment of the expenses without nature of the different enterprise's functions. Such an analysis is convenient especially for the small enterprises, as it does not require a reassignment of the expenses depending upon functions. If in the profit and loss account it is not accomplished a detailed presentation of the expenses as it is recommended in the annex at the IAS 1, in the remarks to the financial situations must be included an analysis of the expenses by using one of the two classifications. Also, the enterprise must present either in the profit and loss account, nor in the remarks, the value of the dividends on share, owned or proposed for the period to which refer the financial situations. The understanding of the performances accomplished by an enterprise and the evaluation of the future possibilities to obtain certain results is possible by means of the information from the profit and loss account.

The profit and loss account was considered for a long period of time also a completion of the information presented through the balance, reflecting elements as costs, expenses, losses, incomes, benefits and result. The increase of the informational needs of the users of financial situations in what concerns the enterprise's performance determined an increase of the part which started to occupy the profit and loss account in the structure of the financial situations, the enterprise offering in this way information presented and recognized in an unitary way related to the performance.

The concept of result has a very subjective character and this because of the existence of some very different categories of users, each one of them having a different center of interests and sometimes being involved even in a relation of conflict of interests. Also, the existence of certain accounting principles, accepted only in a specific accounting system, and of the accounting politics regarding the evaluation, determine the relative character of the result.

If we take into consideration the increase of the importance given to the professional reasoning in the interpretation of an event or of an economic transaction, then the result is characterized even more through subjectivism (1). In addition to these, *a series of events and transactions supposes the use of the estimations and professional judgments, such as: the estimation of the useful life length, of the residual value, different methods of stocks evaluation.*

4. THE SITUATION OF THE PERSONAL CAPITAL MODIFICATIONS – THE REFLECTION OF THE ECONOMIC ENTITY'S GLOBAL PERFORMANCE

The result can be determined either as a difference between incomes and expenses and thus it is projected in the structure of the financial situations through the profit and loss account, nor as a variation of the personal capitals excluding the transactions with the shareholders. The combination of the historical cost with other different evaluation bases determines the necessity of the recognition among the financial situations of some benefits and losses not accomplished. The fair value variations of some elements from the balance are not recognized in the profit and loss account of the period, but are directly recognized in the personal capitals. Thanks to this aspect, it becomes necessary *the global approach of the result*, according to which the result is generated by the modifications in the personal capital during the financial exercise and it is calculated as a difference between the net asset at the end of the period and the net asset at the beginning of the period expressed in fair values, adjusted with the capital transactions with the shareholders.

I.A.S. 1 "Presentation of the financial situations" introduces the recommendation that the enterprises shall present as a distinct constitutive part of its financial situations, a chart which points

out the modifications of the personal capital. *Any modification of the enterprise's personal capital between two dates of the balance reflects an increase or a reduction of the net asset or of the wealth during that specific period.*

The global modification of the personal capital usually represents the result generated by the enterprise's activity. However, there are also situations when the modifications of the personal capital are not directly generated by the company's activity, but also by its transactions with the shareholders (new contributions to the capital, the payment of the dividends).

Some examples of situations where the profits and the losses are not reflected in the profit and loss account would be:

- The reevaluation of the corporal and non corporal immobilizations;
- The variations of the currency resulted from the conversion of the external entities' financial situations.
- The subsequent evaluation of the financial assets available for the sale;
- The modifications of the accounting politics and the errors correcting;
- The current and delayed taxation of the profit, etc;

The main objectives of the situation of the personal capital modification are:

- To determine the total benefits and losses resulted from the enterprise's activity during the financial exercise;
- To analyze the elements of these modifications in order to be able to evaluate the enterprise's global performance and its capacity to generate cash flows.

Starting from the premise that the users of the financial situations are inclined to give a greater importance to the profit and loss account than to the situation of the personal capital modifications when analyzing the performance of an enterprise, it becomes prior the achievement of an unique situation which reflects the global financial performance.

5. THE RELEASE OF THE INFORMATION REGARDING THE ENTITY'S DYNAMICS THROUGH THE CHART OF THE TREASURY FLOWS

The treasury represents a main indicator for the financial analysis, because it offers information regarding the variation of the treasury elements between the beginning and the end of the period, an enterprise able to generate constantly a *-significant treasury*, being in this way, a solvent and profitable enterprise, able to assure its development, and the recipients of the financial situations can estimate the changes in the enterprise's financial structure and foresee its potential capacity to adapt itself to the environmental changes in which the enterprise is acting.

The situation of the treasury flows is useful on the internal plan to the management and on the external plan to the investors and to the creditors. The management uses *The situation of the treasury flows* in order to determinate the enterprise's winding up degree, to establish the politics of dividends and to evaluate the effects of some major strategic decisions regarding the investments and the financing. In other words, the management can use the situation of the treasury flows to establish if majoring or diminishing the dividends and to plan the investments and the financing needs.

For the investors and for the creditors, the report is useful for the determination of the company's capacity to manage the treasury flows, to generate in future positive windings up flows, to pay their debts, to pay the dividends and the interests and to prevision their additional financing needs. Also, they could use the report to explain the differences between the net income reflected in the Account of results and the net windings up flows generated by the activity of exploitation. Moreover, the report shows both the monetary effects and the non monetary effects of the investments and financing activities carried on during the accounting exercise.

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