Annual Financial Statements – the Final Products of Accounting

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Being a tool and a first class social stake in decision making, accounting language should be understood by all users in the national area, but also across national borders, which requires an internationalization of accounting language through standardization and harmonization. The expansion and multiplication of international economic relations in which commodity and capital markets are expanding at a rapid pace, ignoring national borders, due to globalization process, require that the accounting systems should ensure through the financial statements (balance sheet, profit and loss account, statement of changes in equity, cash flow statement, accounting policies and explanatory notes) accounting information comparable between countries.

Accounting has been accused often that submits inaccurate or useless information, that accounting assessment rules are inadequate and arbitrary, that a company's book value does not represents its market value, that information given are about the past, not about the future of the company.

Allegations of accounting are often unjustified, it provides what is required, it is not an exact science, it is dependent on the economic and social environment, on the company's ways of governance, on the legal system, on the dominant factors in an economy and on the way how is divided the power between different economic actors.

As the expression value of those items, the accounting theory and practice have demonstrated the possibility of using more assessment bases: evaluation of historical cost, market value assessment, evaluation of current values.

In the assessment area it was reached to one consensus: there is no absolute evaluation method, any kind of evaluation takes place in a particular context, aims certain goals, which requires choosing a particular basis of assessment. Thus, experts are trying to justify the choice of either method, showing their advantages and limitations in relation to the pursued objective.

The accounting, whether it operates with market values or uses historical costs, does not allow the "real" assessment, of the business assets, globally. Between exchange value of the shares and the book value of the company there are important differences that are not easily accepted by non-specialists, being discussed the relevance and reliability of accounting information.

The information provided by accounting operating with different assessment bases are different on a time horizon, each type of assessment provides a different view on the company.

Choosing assessment base is not random, but is another way by which economic actors (in a company) manifest and share power.

The traditional function of accounting is management function, wherethrough administrator presents to the owner how to manage the entrusted assets.

The financial-accounting information users range was widened with increasing interventionism in the economy, the state being interested in the financial reports of entities for taxation and regulation of market mechanisms. Changing social attitudes brought to the fore the fact that large companies have relatively obligation to inform employees and the consuming public. The employees are interested in the stability and profitability of the company, its ability to provide salaries and jobs. Suppliers and lenders want to know the opportunity to continue relations with the company concerned and the
general public needs information to assess the impact of the company’s activity on the local economy. Therefore, users are multiple and the accounting information must satisfy these multiple requirements, the management goods control function moving to a secondary place.

Studies related to the conceptual framework of accounting agree that financial statements are prepared to provide basic information necessary for users to make economic decisions. There is consensus about the fact that to make economic decisions, financial statements users must assess a company’s ability to generate availability, same as timing and certainty of their generation. This shift towards users needs should have consequences in terms of evaluation. Whereas the primacy is granted to financial information as support of decision-making and the fact that these decisions concern the future or at least the present, hence it appears that assessment of the historical cost, although objectively, is not relevant.

Different users have different information needs while the financial market represents the main mean of attracting capital; the conceptual structures believes that investors group has priority in the supply of information to the company. However, the management of a company is very reserved when to publish information about future profits, information useful to an investor. Ignoring the managers’ behavior in terms of an informational system that puts investors first, shows a lack of vision. In case of interest conflicts between different users, it is important to know that these financial statements, designed for the needs of investors, are not always relevant to other users. For example, when closing a business, investors’ interest may lead executives to delay news to minimize cost of operation.

The conceptual structures developed by ASB and FASB agree that the main qualitative characteristics of financial information are relevance (pertinence) and objectivity. IASC indicates four main features, namely: understandability, relevance, objectivity and comparability. ASB believes intelligibility as a secondary characteristic of financial information, so that the information about complex situations should not be excluded from the financial statements because they are difficult to understand for some users.

The information presented in the financial statements summary is relevant because has predictive power and / or can confirm the correctness of a decision based on that information (amount of feedback). The error-free financial information is objective or reliable, neutral, prudent and reflects the substance and not the form of the transaction. The neutrality of financial statements consists in developing them in the way to not induce decisions to achieve a predetermined goal. The exercise of prudence does not require undervaluation of assets and income or overstatement of liabilities and expenses. If the use of prudence leads to the creation of occult reserves or excessive provisions, the accounting information loses its neutrality and also the objectivity. ASB believes that "the exercise of prudence has resulted in a degree of skepticism with respect to the impact of uncertainty which counterbalances any tendency to optimism." It is believed that this approach denies caution in formulating accounting rules that failed to annihilate trend than "natural" management to overstate assets, the net result of these two trends is the "real thing".

The comparability of financial information allows comparisons both in time, by studying past and present financial statements, and between businesses. The consequences of this fact are obvious: notification of any changes in accounting method and presentation, along with information of current year, with restated information on the previous exercise. The intelligible attribute of the user requires a reasonable level of financial and accounting knowledge and willingness to study the information presented.

Both, the IASC and the ASB, identifies three "constraints" or "compromises" relative to the qualitative characteristics of financial information. The time factor and the cost and benefit ratio of obtaining information are aspects that can cancel relevance of information when it can not be obtained in a timely manner or when the effort to provide it is disproportionately large to the benefits of publication. The potential conflict between relevance and objectivity of financial information requires a compromise between these two features. ASB and IASC propose a balance between relevance and objectivity, neutrality and caution, choosing between features being a matter of professional judgment.

Users are facing with sometimes divergent perspectives and they express divergent viewpoints (i.e. perspectives and points of view of workers and trade unions, consumers and shareholders are, not in few cases, contradictory).

Because of uniqueness principle balance action, there will always be a common set of information, structured in synthetic documents. It is what we might call general purpose financial information. The question is whether this type of information adequately respond to information
needs of different user groups. The negative answer requires us to discern a second type of information, which we will call it for private use, intended for a given category of users.

The accounts formulator has three places to present relative information, primarily, to financial position, performances and cash movements of the enterprise:

- in the body of synthetic documents;
- in additional notes;
- in a supplement information.

The synthetic documents constitute a formal and structured mean of communication. An information item can be present in the synthetic documents if it answer to the heading definition and satisfy a number of criteria for recognition (finding) and evaluation (measurement). At the same time, he must have been entered in the accounting records and have been passed through double entry accounting system.

The additional notes, generally, give explanations or details concerning the details of the synthetic documents. If the information contained in the synthetic documents provides an incomplete picture of the financial position, performance and cash movements of enterprise, the information necessary to complete overview of the images related to the entity described will be presented in the notes. It is not imperative that the information presented in the notes to be purely numeric. It can be supplied in current language. As an example of the additional notes, we can quote: describing accounting policies (conventions), describing the processing (treatments) used for measuring and accounting items presented in the synthetic documents, relative explanations to uncertainties and contingencies and statistics or details that deals too much space to be incorporated into the synthesis documents. Information presented on the notes is not only useful, but also it can be essential in understanding the relative data to the wealth and enterprise activities.

The supplement information includes data showing a different perspective from that of the synthetic documents. In this regard, it may be regarded to very relevant numerical information, but less believable (reliable) or to useful information, but not essential. The best example of additional information comes to a situation where an enterprise is confronted with price increases (inflation). The “supplement” refers to data and images showing the effect of changes in prices (indexed historical cost and the actual costs information). Also, the information supplements may contain explanations of company management regarding financial data and an analysis of their significance.

The synthetic accounting documents are retrieved under the name of financial statements. Moreover, for reasons of terminology uniformity, it will be used especially the financial statements term (and less annual accounts and synthetic documents terms). A complete set of financial statements includes the following components:

a) the balance sheet;
b) the profit or loss account;
c) a statement showing:
   - either all changes in equity;
   - either the variations in equity, except those from capital transactions to owners and distributions in their favor;
d) the cash flow;
e) the accounting policies and explanatory notes.

Beyond these financial statements, enterprises are encouraged to provide critical management points of view by describing and explaining the main features of the financial performance and financial position and the principal uncertainties they face. This report should include the following elements:

- the main factors and influences which determine performance, including changes in the environment in which an enterprise operates, its reply to such changes and effects, its policy for investment to maintain and improve the performance of which, separately, are appropriate to present policy on dividends;
- the funding sources of enterpris, the policy on indebtedness rate and management policy in terms of risk;
- the solidity of the enterprise and its resources, elements of which value expression is reflected in the balance sheet in accordance with international accounting referential.
Furthermore, businesses can submit additional statements such as environmental reports and value added statements especially where these represents industries where environmental factors are significant and employees are considered an important user group.

In terms of information selection presented in the financial statements, the accounting practices consist of providing those elements that are so important as to influence professional judgment and therefore decisions of knowledgeable users. The selection is governed by the principle of materiality action or good information. This principle recognizes that the nature and scope of the information presented in the financial statements arising very often from a series of compromises. The manufacturer accounts must catalyze efforts to produce situations sufficiently detailed to present all aspects that can influence the judgment of users, and sufficiently fused to be easily read and interpreted by a balance between costs preparation, presentation and publication, on the one hand, and the benefits provided by the use of statements, on the other hand.

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of the company, which is useful to a wide range of users in making economic decisions. Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information they need for making economic decisions since they largely reflect the financial effects of past events and do not provide, ordinarily, non-financial information.

The financial position of an enterprise is influenced by:
- economic resources they control;
- its financial structure;
- its liquidity and solvency;
- the ability to adapt to changes in the operating environment.

Information about the economic resources controlled by the enterprise and its capacity in the past to modify these resources are useful to predict the company's ability to generate cash or cash equivalents in the future.

The information about financial structure are useful for anticipating future lending needs and the way in which future profits and cash flows will be distributed among those who have an interest in the enterprise.

The information about liquidity and solvency are useful to predict the company's ability to honor its outstanding financial commitments. The liquidity refers to the availability of cash in the near future after taking into account the financial obligations associated with this period. The solvency concerns on cash over a longer period in which to honor outstanding financial commitments.

The information on financial position are provided primarily by the "balance sheet".

The financial statements users need information in the decision making about the enterprise performance and, in particular, about its profitability. It is necessary to assess potential changes in the economic resources that the company will be able to control them in the future. Also, these information are useful for anticipating enterprise's ability to generate cash flows to existing resources and to formulate judgments about the effectiveness with which the company can use the new resources.

The information related to performance are provided primarily by the "profit and loss account".

The knowledge of changes in financial position of an enterprise is useful to assess its operating, financing and investment activities in the reporting period. These information provide the user a basis for evaluating the company's capacity to generate cash or cash equivalents and the needs of the enterprise to utilize those cash flows.

The information about changes to the financial position are provided by the "statement of cash flows".

The financial statements components interrelate because they reflect different aspects of the same transactions or other events.

The company’s financial objectives and goals can be approached from different points of view. A first approach aims at maximizing profits by streamlining financial decisions, which is reflected in the increase of wealth undertaking positive impact on shareholder value of shares and shareholders' wealth. From another perspective, the management, the objectives and purposes are primarily aimed at achieving economic growth, financial stability and financial liquidity.

The analysis, as self-contained scientific system, using information provided by financial statements and relying on its own methodology, interprets all these information with the purpose of economic and financial objectives proposed to undertake the firm.
Towards financial analysis, the financial statements information should be supplemented with additional information regarding the specific business, technical and human potential, market potential, intensity of competition and the company's market position, the company's image and its products, etc.

The financial analysis aims to determine how to achieve the financial balance and cash accumulation stages, the profitability of his business.

The balance sheet, as synthetic document, which shows the company's financial position is used in the financial analysis in two respects, namely:

- static; and
- dynamic.

In static point of view, balance sheet is considered as an important data source for assessing the overall financial situation of an undertaking, in particular, its solvency.

For a dynamic analysis, it shall proceed to a restatement of property items based on the fundamental circuits of the business and achieve operational balance that highlights resources and their uses.

**Conclusions**

The economic and financial performance of an enterprise is a particularly important issue for both the undertaking concerned and for external users of financial statements information provided in general and especially in the income statement.

The economic and financial transactions that occur within an enterprise are reflected in the financial statements as stocks and flows. Stocks have a temporary or lasting impact on the financial balance, on necessary funds for operations management and on the company's solvency. The financial flows have a direct influence on the financial results of the company.

The financial flows take the form of revenue and expenditure for the financial year. They are generated by the activity performed by any enterprise and are presented as operating flow, cash flow and extraordinary flow. The structure of a business activity on three levels allows to present indicators of profit or loss account and allows, on this basis, the establishment of indicators known as intermediate management balances.

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**Abreviations**

FASB - *Financial Accounting Standards*

ASB - Accounting Standards Board

IASC - International Accounting Standards Committee