The Analysis of Restrictions System in the Financial Position Management and Financial Performances of the Company

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The „The analysis of restrictions system in the financial position management and financial performances of the" topic has as main purpose the optimal analysis of the presentation and measurement of elements of enterprises financial position and performance through the use of appropriate accounting policies in the context of different cultural referential and different accounting models of representation.

The balance sheet enable the formulation of value judgments on the performance and risks of an enterprise, as well as evaluating future cash movements. This is why businesses are tempted to improve its balance sheet structure. At the same time, the temptation is much greater in the shape of the profit and loss account and the action of the outcome in changes in balance sheet configuration, a process considered a specific accounting method, which synthetically shows the heritage situation at a specific time.

In discussing this very broad issue we need to focus on some aspects linking the financial position and performance of companies with accounting systems holding a conceptual framework and coherence of these concepts with the fundamental concepts of accounting theory and the objectives which the financial reporting assume. For this purpose should be pursued and developed the analyzes of:

- the accounting policies and their strategic dimension;
- the theoretical foundations of critical accounting policies and fundamental concepts;
- the difficulty sources in analyzing the financial position and financial performance;
- the financial and accounting model theories of value.

We believe that the debate on the topic is necessary for dealing optimal configuration on the financial position and performance of the enterprise through the use of accounting conservatism and pessimism strategies.

In this context are necessary quantitative and appropriate analyzes, regarding to:

- sources of pessimism and optimism in designing accounting policies;
- measurement of the level of prudence in the context of established accounting referential;
- conceptual and practical difficulties on optimizing financial position and financial performance of the company etc.

Generally, the outcome performance and management are defined as an intervention of the manager in the financial reporting process to acquire personal gains. But to achieve the intended purpose in terms of optimizing the company's financial position and performance must begin with analyzing the system of restrictions that should be sought in particular on: the temporal limitation, the control nature, the company's governance. These restrictions must be seen through the assumptions of remuneration, debt and size of the company.

The established and advanced assumptions in the literature are:

- as the size of a company is bigger, the more it will tend to choose accounting methods which report the future periods earnings in current period;
- as an enterprise has a higher leverage ratio, the more it will tend to select accounting procedures carried over future periods profits in the current period;
- enterprises managers where there is a sharing contract (incentive) are likely to choose the accounting procedures that report the future periods outcome in the current period.

These assumptions must be apreciated as reserves; in the first place must take into account the cultural context in which these hypotheses were generated.

Between these exists a causal link materialized in:

- the possible link between debt policy and accounting policy if account is taken of the intention of the company to justify its ex - post financial strategy. This overriding justification will exist especially for companies with a strong variation of indebtedness.

- the size hypothesis can be restarted even if its validity is questionable in conceptual terms, being possible that a future conflict between the State and the enterprise to not be fixed through justice, but rather through informal ways.

- the temporal dimension of accounting policies when maximize outcome management is not always preferred by managers.

- the manager preference for an outcome configuration will be motivated by the desire to achieve certain levels of it, embodied in threshold management.

Three thresholds have been identified in the literature: the zero outcome, the N – 1 outcome and the analysts forecasts.

Several factors have been advanced to explain this theory:

- the interveners in the market use simple reasoning to make decisions;

- enterprises have a loss of utility more important in losses than in gains – the utility function is concave for gains and convex for losses. Managers try to avoid negative variations of the outcome, as the invalid outcome.

- the market grants a bonus to companies capable of presenting a regular increase and that this bonus is more important as the growth period is increasing.

- the managerial theory lately developed suggests that companies set their goals including the last outcomes.

- the businesses whose outcome before manipulation is negative, they will seek to maximize the outcome.

- the businesses whose outcome before manipulation is inferior to the outcome published last year will try to maximize the outcome.

1.1. The temporal limitation

The temporal consistency constraint is liked on the fact that it is not always possible the output increasing or decreasing.

$Output_t = Cash\ flow\ s_t + AC_{ft}$, but

$Output_t = CAF_t + (VP_t – CAP_t)$

$Output_t = CAf_t – \Delta\ NFR_t + (\Delta\ NFR_t + VP_t – CAP_t)$

$Output_t = Cash\ flow\ s_t + (ANFR_t + VP_t + CAP_t)$

AC_{ft} = cash flow accounting adjustments

$AC_{ft} = (\Delta\ NFR_t + VP_t – CAP_t)$ where:

VP_t = income from commissions of t year

CAP_t = amortizations and provisions expenses of t year

$\Delta\ NFR_t$ = variation of the working capital need in t year

In order to shape the outcome, it should be proceeded on the NFR (the working capital need) or on the calculated income or expenses, respectively amortization expenses, adjustments and reversals of adjustments. It was found that the effect of action modeling is null on a given time horizon, but any variation is in an opposite direction in the following exercises. For example, if a firm grants too generous maturities to accelerate the completion of a sale, then sales will be lower next year. Similarly, the damping arrangements merely flaunting depreciation differently over time. Digressive amortization compared to the linear one, allows faster depreciation of an asset in the first years of use and less in the last.

In time, we should focus on that the accounting adjustments in the cash flow is reversed in time, concluding that:

- handling cash flow adjustments in the current year must be cleared by an opposite management in the coming years;

- the short-term adjustments of cash flows has greater variability than the long-term component.

1.2. Restrictions imposed by the control structure

Another element to be taken into account when analyzing management system restrictions in the financial position and financial performance of the company is the organization structure of control, these endorsing the managers' opportunistic behavior.

In practice, there are mechanisms that limit the manager's scope of discretion and that can have an influence on the outcome management.

These restrictions will be influenced by: the nature of the financial auditor and the existence of external directors (Board of Administration or Supervisory Board).

It can be shown that the nature of the auditor influence the obtained oucome, so that large auditors tend to produce a good quality audits because:

- they suffer a substantial loss of reputation in the event of proven fraud;
- due to their larger size, auditors can easily absorb a loss of a mandate in case of refusal to certify the accounts;
- valuable auditors pay attention to outcome management;
- the work of auditors is well remunerated and therefore the likelihood of legal action in case of fraudulent financial statements is higher, leading to good quality audits.

The two elements established over time come to support this statement: on the one hand, an accounting aggressive behavior can be a sign of the existence of fraud, and on the other hand, the publication of too arranged results can destroy their reputation.

These conclusions must be assimilate in reference, especially if we consider the crisis caused by the giants collapse such as Word Com, Enron, Xerox, Ahold and others, where accounting and auditing were the main culprits. US Central Bank has recommended a final separatism between the audit and consulting activities, and also stable assurances about the integrity of the audit process as part of the analysis on existing good practice within the firm.

The presence of independent directors (with no relation of subordination to the company managers) has an effect on the nature of the published information.

They care more about the effect of reputation than internal managers.

The presence of independent directors tends to diminish the importance of outcome management. Manager's quota could influence the accounting policies applied to the company.

Conclusions

The enterprise governance imposes a number of restrictions in the company's financial position and performance management. These have to be appreciated on the governance model we relate, on the cause and nature of conflict in this process (dividend policy, substituting funds, investition etc.), but also on the mechanisms for resolving these conflicts, safeguard clauses, hybrid securities utilization etc.

It can be strongly stated that greater attention assigned to the control mechanism of financial statements is likely to improve understanding of oucome management. The existence not of an audit committee, the presence of external directors and ownership structure are important potential factors. In addition, the nature of the relationship between management control structure and the outcome is not always obvious because the accounting policy is not always opportunist.

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