THE ROLE OF THE ANNUAL FINANCIAL STATEMENTS IN THE MANAGEMENT OF THE COMPANY

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The annual financial situations represent the main source of information regarding the financial situation and the performance of any entity. The public character of the financial situations allows the presentation of the information to both the internal users and to the stakeholders too. This piece of information refers to the financial diagnosis of the entity, the evolution in time and space (as the reports are written and designed for each stage) of the patrimonial elements presented in the balance sheet, the evolution of the income, expenses and the results mentioned in the profit and loss account.

The stakeholders in the private sector (shareholders, investors, clients, suppliers, creditors, banking financial institutions) and those in the private sector (government, central and local administration) analyze the financial situations published, in a simplified form, in the Official Monitor before taking any decisions.

The general research field of this paper refers to the presentation of the role and structure of the financial situations as well as a contrastive analysis of the annual financial situations realized by small and medium-sized companies as compared to the one realized by bigger companies.

The authors use the theoretical approach to present the structure of the annual financial situations and to prove their importance in the process of Europeanization and globalization of the economy. The empirical approach has been chosen in order to compare the two categories of annual financial situations established according to different criteria such as size and national legislation.

Cuvinte cheie: accountant information, annual financial situations, performance, stakeholders

Clasificare JEL : M40, M41

1. Introduction

The development of the market economy and the enhancing of its complexity degree, as well as the economic transformations at a European and global level require the provision of certain operative, complete and credible economic and financial information.

The annual financial situations represent the most important synthesis document that ensures the registration and generalization of data belonging to companies and public institutions in a systematic and unitary form that allows an ensemble presentation and a detailed analysis of the results acquired at the end of each management period. (Avram and Avram, 2003)

The special importance of financial situations is given by the usefulness of the information supplied by them; this information is often the only one that the users can access and on which they have to ground their economic decisions and to substantiate the manner of using the financial resources.

The fundamental condition which the annual financial situations have to fulfill is the reflection of the society about the asset and liability items available to the trader. Thus, we consider that an efficient management is made only through a pertinent and in due-time information of the decider, this is also the reason we have approached in this paper, the necessity of granting a proper importance to knowing and analyzing the annual financial situations as a reliable information source both for internal and external users on the impact of the financial situations on the decision making process.

2. Accounting regulations on the Annual Financial Situations

The annual financial situations are drafted and reported according to the requirements in Law of accounting no. 82/1991, modified and republished, and to the requirements in the Order of Minister of Public Finance no.
Accounting regulations have been issued according to the European directives approved by OMFP no.3055/2009 for drawing, approving and presenting the financial situations, whose applicability started in 01.01.2010 and includes:

- Accounting regulations according to the 4th Directive of the European Economic Communities;
- General chart of accounts;
- Accounting regulations according to the 7th Directive of the European Economic Communities.

Suggestively, the regulations on which the annual financial situations are based are showed in Figure no.1.

Figure 1: “Accounting regulations in the annual financial situations field”

Pursuant to Order no.3055/2009, the economic entities from Romania draw up - in relation with the fulfillment of two out of the three size criteria: total assets, net turnover and the average number of employees - financial situations according to the directives or to simplified financial situations. The legal persons that exceed the limits of two of the following three criteria on the balance date (named as size criteria):

- total assets (TA): 3,650,000 euros,
- net turnover (NT): 7,300,000 euros,
- the average number of employees in the financial year (N): 50, draw annual financial situations according to the directives, situations which contain:
  - the balance sheet,
  - the profit and loss account,
  - the statement of equity modifications,
  - the statement of treasury flows,
  - the explanatory notes to the annual financial situations.

The legal persons that do not exceed the limits of two of the size criteria on the balance date draw simplified annual financial situations which contain:
- the shortened balance sheet,
- the profit and loss account,
- the explanatory notes to the annual financial situations. Optional, the economic entities may draw and/or the equity modification statement and the Cash flow statement.

The Group companies, in accordance with the Accounting regulations pursuant the 7th Directive of the European Economic Communities, which at the balance sheet date exceed, along with the companies which are to be consolidated, two of three size criteria:
- total assets (TA): 17,520,000 euros,
- net turnover (NT): 35,040,000 euros,
- the average number of employees in the financial year: 250, draw consolidated annual financial situations which contain:
  - the consolidated balance sheet;
  - the consolidated profit and loss account,
  - the explanatory notes to the annual financial situations.

According to the Accounting law, the annual financial situations must be accompanied by a written statement of accountability from the legal person management in order to draw the annual financial situations in accordance with the Accounting Regulations pursuant to the 4th Directive of the European Economic Communities, and also according to the Accounting Regulations pursuant to the 7th Directive of the European Economic Communities.

The classification of the annual financial situations in relation with the size criteria and with the regulations which underline them are showed in Table no.1

<table>
<thead>
<tr>
<th>According to the CEE Directives</th>
<th>Simplified</th>
<th>Consolidated</th>
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<tbody>
<tr>
<td>TA: 3,650,000 euros, NT: 7,300,000 euros, N: 50</td>
<td>Do not exceed the limits of two size criteria</td>
<td>TA: 17,520,000 euros, NT: 35,040,000 euros, N: 250</td>
</tr>
<tr>
<td>- balance sheet, - profit and loss account, - statement of changes in equity, - statement of treasury flows, - explanatory notes to the annual financial situations</td>
<td>- balance sheet, - profit and loss account - explanatory note to the simplified annual financial situations Optional: - statement of changes in equity, - statement of treasury flows.</td>
<td>- consolidated balance sheet; - consolidated profit and loss account, - explanatory notes to the consolidated financial situations.</td>
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3. Need and use of the information supplied by the annual financial situations in the managerial process

In the context of profound economic – financial changes which happen on both the national and the global level, both the need and the opportunity continuous and more emphasized involvement of the information provided by the annual financial situations in the management process is obvious, in the conditions of increasing their credibility and relevance in the users’ perception.

In the last decades, as a result of the multiple changes in the economic, financial and judicial field, on the level of international markets, the accounting information had to adjust to the aforementioned changes to facilitate both the economic decision making and the risk management so that the made transactions provide the expected effects. Thus, the accounting data know a better use on all decision steps, materializing in the economic and financial indicators obtained directly from the synthetic and analytical accounts, either by calculations based on these, according with the necessity and possibility of the operational knowledge and at some certain periods of the respective indicators.

The users of the annual financial situations data want to appreciate the entity profitability, in general, but also its the risk of illiquidity, which based its performance, entity and financial position change after the economic and financial decisions that are about to be taken about the company capacity to generate treasury assets. Each user of the accounting information has different demands according to his/her own interest (Mates, 2003). The entity management considers and uses the annual financial situations accounting data as management tools, the shareholders wish to know the viability and profitability of the made investments, the banks assess the patrimonial unit maintenance
and development, its profitability and the possibility to recover the loaned amounts, the state wishes to know the amount of taxes and fees that the company is owing, the lenders follow the short-term entity solvency and liquidity, without risks that occur on the collection of receivables.

In order to be properly valued, the annual financial situations data must be characterized by reliability, the parameter which gives the possibility of making comparisons in time and space, an important element in the decision making by the company management and by characteristic quality of some information which has to fulfill the internal and external purposes of some entity and which requires rapid information, essential in order to take the right decision. The exact quantification of the annual financial situations data allows both the summing and the comparison of the economic processes and events by using the monetary standard, and the accounting information verifiability allows the professionals to control the information content, the techniques and procedures used according to the objectives settled by the management entity. The accounting information objectivity requires impartiality in organizing and leading the accounting records, in using the accounting procedures and methods, in presenting the obtained accounting data and thus in removing the personal assessments.

The accounting data, as a product given by the annual financial situations, represents the result of some compromise between expectations and demands. The annual financial situations accounting information contained must fulfill a set of qualitative characteristics (Matis and Pop, 2007); meaning attributes that give utility to the accounting information, namely:

- intelligibility,
- relevance,
- credibility,
- comparability.

The international conceptual accounting framework presents the accounting information qualitative characteristics in the order presented above order, while the American Accounting Framework considers that intelligibility is the most important feature of the accounting information, and the British Framework ranks the credibility and the relevance based on intelligibility and comparability on the first places. The assessment of these qualitative characteristics of the accounting information, irrespective of their hierarchy, represents one necessary condition for assuring some warranty of the accounting information quality.

The financial situations represent a system of economic and financial indicators which characterizes the heritage situation and the results obtained at some point by the respective entity. A set of indicators which will reflect the fair image of the financial position, of the financial performances and of other activities developed within the entity during the financial year may be calculated based on the data presented the financial situations of an economic entity (Petre and other, 2010).

The economic and financial data on the financial position of an entity, its financial performance and the treasury flows statement are useful in the decision making process of resources allocation and use, of results obtaining and distribution, data which are obtained with the help of the annual financial situations. The financial situations object to provide data on the financial position, the results and changes of the company financial position. All these data meet the common necessities of most of the users, and they leave out a set of non-financial and predictive information needs. The data on the financial position are being provided, firstly by balance, the ones on the financial performance, by the profit and loss account, the data on the entity treasury are showed through the cash flows statement (treasury), and data on the financial position changes, through some different situations: financial performance and the treasury flows of an entity.

The data collected from the annual financial situations must be presented in a reasonable time, so that they become available to the unit management as soon as possible, the objective is to make the management understand what lies behind the numbers, meaning the company reality, in order to always make the best decisions to provide the entity safety. Thus, because of its importance, the financial control system may be considered an indispensable instrument of the management for the regular supervision of the company activity, with the aim of making the required decisions in due time, both for every single function and for the economic unit as a whole.

Moreover, the existence of accounting itself was determined by the need to know the size and structure of the patrimony of every economic unit, the manner in which it is administered and its evolution in time, as well as in order to adopt the decisions that affect its perspective. The importance of the annual financial situations (the annual accounts) is manifested by means of their functions, and among the most representative, the following, in accordance with the specialized literature, can be taken into consideration:

- The function of reflection, centralization and generalization of the annual accounts, that implies the periodical centralization of the supplied accounting data; where the data and the information, processed according to the accounting procedures, generally go through an ascending itinerary, from simple to complex, from particular to general, while the following centralization reaches the final point in the synthesis documents. The annual accounts represent a system of economic and financial indicators having a resultative character and the term “generalization” marks the fact that by means of these indicators, the common features of the patrimony elements advanced in the economic and financial circuit are expressed, conferring a homogeneous content to
the indicators, with a large synthesis capacity that involves, therefore, the usage of a unitary methodology for the drafting of the financial situations;

- The function of information (or communication of the financial information) and characterization of the activity performed by the company that represents one of the most important functions, the special place that accounting takes within the information system conferring implicitly a primary information role to the financial situations, considered to be the essential information source as far as knowing the economic and financial situation of the company and elaborating management decisions of the company are concerned. The realization of this function of the annual accounts implies executing certain analyses and, respectively, interpreting the data contained by them;

- The function of analysis and prevision, a function that is manifested in the tracking and interpretation process of the manner of realization of the programmed objectives, by involving and using the company's resource, defining the deviations from the programmed indicators, establishing the measures to be taken in order to improve the activity. The annual accounts represent an instrument of analysis of the economic and financial equilibrium and this equilibrium is performed, controlled and regulated both from a dimensional perspective - as a whole - and from a structural perspective – as constituent parts.

As an instrument of analysis of the economic and financial equilibrium, the annual accounts are used for knowing, guiding and mastering the balance relations between assets, debts and equity on one side, and on the other side between the expense and income flows.

4. The role of the result analysis of the annual financial situations in the management of the company

The current world economy is characterized by a big globalization process which determines an accentuated sensitivity and instability of both the markets and the business environment, in general, manifested today through a profound economic-financial crisis. Thus, lots of economic entities are in difficulty, facing especially the weakening of the economic activity, the demand drastic decrease, the financial bottlenecks in quick succession, the credits cost increasing, the exchange rate volatility. Major changes are required both at the macroeconomic management level, and at the level of each economic entity.

The company financial management has to play the basic role in taking the financial strategic decisions, which will resolve the matter of company effective management in the optimal, balanced and proportionate development process. This is the reason why a time objective and imperative analysis, an analysis of the current financial management involvement in companies become necessary, the managers familiarization with the basic used tools, acquiring knowledge about planning and financial supervision, the assessment techniques in the investment projects, about the way of making the company financial and economic diagnosis and management supervision, which are the key problems in the company orientation towards performance.

The manager requires data to reimburse the external users on the right way of managing the entrusted resources. Both the information richness and their actuality facilitate the assessment process of the financial instruments such as shares, especially the traded ones. The company analysis and assessment can not be achieved if there are no data and information on the company internal and external environment.

The fundamental condition which the annual financial situations have to fulfill is the reality reflection, about the existing assets and liabilities available to the trader. The company management must include the company resources managing, the economic management and especially the financial management, as well as decisions on the resources procurement and distribution, both human and material, financial and informational ones.

The analysis main role, both as science, and as an evaluation and orientation practice activity for the economy life is to appreciate the performances achieved by a company at some point, to identify the factors that led to the unfulfillment of some preset performance levels, to determine the intensity of these factors and to explain their action mechanism, so that the influence of the factors with unfavorable effect may be removed and the favorable influence of other factors may be encouraged and increased, in order to improve the company's performances. The information provided by the annual financial situations represents a useful tool available to the company management, because competent management means knowing the reality of the economic life in which you operate, knowing the ups and downs of the entity that you manage, or this is not possible without a pertinent analysis of the accounting information.

5. Conclusions

The results of the activities carried out by an economic entity, namely providing the information which will ensure a true image of the financial position and of the company financial position changes, for them to be used by the decisional persons, internal and external users can be highlighted due to the financial situations.

The information provided by the annual financial situations are read, as a result of the annual financial situations public character, by a large variety of readers, but the users, in their analysis process, have to possess a certain level of training which allows the correct evaluation of this information and their appreciation.
6. References

[13]***Legea 82/1991 modificată și completată – Legea Contabilității;