FINANCIAL-ACCOUNTING INFORMATION: A GENUINE FACTOR OF POWER IN THE CAPITAL MARKET INVESTMENT GAIN-LOSS RATIO

BONI MIHAELA STRĂOANU - Assistant Professor
PETROLEUM AND GAS UNIVERSITY OF PLOIESTI, 39th Bucuresti Blvd., Ploiesti County

Abstract:
The main objective of accounting is to provide information to ensure a true and fair view of the financial position, financial performance and changes in financial position of the entity, for the use of such information by internal and external users, in order to sustain economic decisions. To achieve this objective, it is necessary that current accounting work to periodically synthesize generalized information that would be relevant to characterize the activity carried out by an entity within a certain time period. Globalization of capital markets has resulted in the need for consistent information, becoming stronger, understanding and comparing financial information to various corporations.

Key words: accounting information, external users, globalization, investors, capital market

Introduction
The incapacity of national accounting systems to produce accounting information according to the standards requested by foreign investors induced the adoption of the international accounting reference as a system of drawing up financial statements for the companies listed in the capital market by the majority of countries. At the same time, under the circumstances of a dynamic market economy in continuous transformation, the economic agents demand accounting information which, having certain qualitative characteristics will be useful to them in the economic decision-making process. The information contained in the financial standings must fulfill four qualitative characteristics: intelligibility, relevance, credibility and comparability.

The general framework for drawing up and presenting financial standings shows that the objective of such standings is that of offering information regarding the financial standing, performance and modifications of the financial position of a company, which are useful to a large number of users. The need for information of the investors is considered to be a major preoccupation.

Having the accounting information as a basis, it is possible to make in due time the most appropriate decisions aimed at orienting the activity of the entity according to the competitive market demands. At the same time it is possible to counteract the perturbing action of exogenous and endogenous factors aimed at allowing the entity to increase continuously its technical and economic performances.

Perception of the information in the specialized literature is the one according to which information represents “a generic element of the knowledge process and representation of reality, as well as the concept and communication process, inherent to the human action, at the level of society – in general – and organizations – in particular”1.

The parameters of information efficiency are determined by the degree of subjectivity-objectivity, its subjugation by the user, the duration in time taken as reference, but also the qualitative and quantitative aspects, the most expressive example in this respect being the notion of “accounting information”.

A utility value is associated to the information, representing the economy possibility, this being calculated starting from the difference found between the effects of a decision promoted by and without the knowledge component. The utility value is influenced directly by physical, but also moral depreciation, which becomes primary. The information is exposed to a high degree of depreciation, this degree being automatically included by the actions of producing and distributing results from the diversified and polyvalent interaction with the sum of information in a certain environment.

The accounting information can be assimilated and analyzed through the filter of three aspects: semantic, syntactic and pragmatic. The semantic aspect of the information refers to the importance it holds for the receiving element. The syntactic aspect highlights the mode in which the sings composing the information eliminate an element of uncertainty, of determination of the phenomenon, and the practical utility of the information to the user synthesizes the pragmatic aspect. Thus, the economic information is particularized by the fact that it expresses explanations regarding economic resources, production, distribution, exchange and consumption of results, being formulated on the basis of a set of indicators which, together, form “the ensemble of data” indispensable to the coordination of an efficient economic process.

1 PC-REPORT nr.5/2002, Agora Publishing House, Târgu-Mureș
Taking as basis the general principles stated with regard to the operation of the economic systems, as well as the mission of the financial-accounting information in the establishment of informational connections, it can be concluded that, while the information contents are conditioned by the lead system, the form thereof is given by the leadership system. If, in the process of information obtaining, the form thereof can suffer modifications according to the means and procedures used, the contents will remain the same, independent of the structure of the lead, and leadership system.

Supply and Demand of Accounting Information – Users and Informational Requirements

The most frequently encountered and the most representative typology of relation from the existence of an economic entity is represented by the one between its owners and its managers. This must be correlated and understood in the context of the mode of government of the company in question. If the relation between administrators and owners is a primordial relation in the government of the company, the fact can be sustained that, at international level, accounting must answer to the requirements of a diversified array of users, its offers having an ever more social character. The managers are the domestic users’, resorting to accounting information which reflect the exploitation, investment, financing and treasury operations, aiming at grounding and making decisions. To this end, they use both information stated by current accounting, and information from the annual or quarterly financial standings. In the context of the internationalization of Romanian accounting, domestic users have the responsibility of accounting choices regarding the definition of options related to optimum accounting policies, in order to reflect economic reality. Appointed by the owners to administer the wealth and the economic activity of the entity, the managers use the data furnished by the financial accounting, which correlate with the information belonging to the management accounting.

External users are the financing persons of the economic entities, its trade partners, social partners, public power as well as other external users.

The financing persons are the users who, potentially or actually, offer the resources required by the economic entity for a proper development of its activities. Differentiated by the criterion of the financing mode, there can be discerned:

- stock financiers, when the companies are quoted in the financial market;
- banking financiers, when the companies obtain external resources by resorting to bank loans;
- public power, in its quality of investor in autonomous administrations and companies of national interest;
- other categories of financiers (financing by conclusion and carrying on of location-financing contracts, entitled financial leasing contracts).

As important to remember is the fact that an economic entity with ensured financial solidity achieves a policy of balance between the resorting to external financing sources and generation of own sources (self-financing way, by depreciation of the various components of immobilized assets and by distribution of a representative quota of the profit in order to make reserves).

Therefore, the financiers are represented by investors, creditors (especially banks), state and government agencies, lessees, etc. As provided for in the international accounting regulations, external users of information, defined within the frame of financing processes and operations, are the investors and creditors.

The Requirement of Decision-Grounding by the Managers

In the case of limited economic entities, the manager coincides in most instances with the owner. In the other typologies, however, with numerous shareholders, they cannot involve directly in the day-to-day activity and delegate the management authority to a group of managers. The informational requirements of the managers are covered mainly by reports which are not published for other categories of users. Such reports are drawn up usually both on grounds of administration accounting information and the financial accounting information. Their nature varies from one company to another, according to the type of activity.

The more the activity of the company is complex and diversified, the more information is required by the managers. Additionally, the larger the company, the farther away from day-to-day activities is the manager, which induces him/her to request extra information, based on which he/she can control efficiently the activity of his/her subordinates.

At the same time, the specific of the entity’s activity influences the informational requirements of the managers. The managers have immediate and complete access to accounting information. They do not have to wait for, nor are they limited to information published in financial standings. Although they benefit from informational asymmetry in relation with the other categories of users, the managers grant, however, special attention to the way in which published information is perceived by them. Such interest is due to the fact that published financial standings inform third parties on the managerial capacity of the managers’ group. Otherwise said, the managers use the information supplied by financial standings in order to communicate.

Globalization of Financial Markets and New Requirements of the Investors

In most cases, the investors (shareholders) wish to measure the profitability and risk of investments, according to which they make the decision of maintaining, increasing or reducing the contributions. Thus, the investors are interested in the capacity of the company to achieve future gains. The notion of capacity to achieve future gains refers to the degree in which the company would adopt a strategy the aim of which is the increase of its wealth, obtaining new funds and is able to convert afterwards the benefits into availabilities. Usually the investors reason according to monetary fluctuations, which have a tangible representation, and less according to net benefits which, depending on accounting conventions, do not always reflect real economic enrichment of the company. Their reasoning takes also into account the fact that the company uses part of the gains achieved for self-financing. Although the shareholders seem to be the first victims of self-financing, in fact, by self-financing the net assets and theoretic value of a share increases, which can generate an increase of the stock market standing or a free distribution of shares. In such circumstances, the shareholder recovers by capital the lost part as dividends. Moreover, while the benefits distributed are subject in most countries to numerous fiscal withholdings in cascade, diminishing the sum which actually arrives at the disposal of the shareholders, the stock exchange extra values are subject to taxation to a smaller degree. However, the shareholders also request information on the dividend, since it does not represent a mere transfer of cash. The dividend and its long-term increase ratio circulate a rich informational flow regarding the prospects of the company. The increase of the number of “ethical” investors wishing to invest in companies which respect the environment, lead to an increased demand of information on the administration of the environment by the company. Thus, the investors request information on the costs for environment administration (legal fees, decontamination expenses of certain zones, pollution control expenses, investment in anti-pollution equipment, etc.), allowing them to calculate the liability involved in this administration and to make the decision of buying, selling or keeping the shares.

Where potential investors are concerned, they want to be able to calculate the profitability ratio which they have the right to claim from the company in order to invest their funds, keeping in mind the risk attributed to their investment and the opportunities existing in the market. To answer the request of measuring the wealth the investors are entitled to, the specialized literature recommends the use of stock market capitalization. Practice reacted rapidly to this proposal, numerous cabinets of financial analysis making a classification of companies according to the quantity of wealth generated for shareholders.

The most used method is the one named “market added value”, which implies re-treatment of certain balance sheet positions, calculation of the total own capitals contributed by shareholders and comparison therewith with the stock market value of the company. A favorable difference is interpreted as an increase of invested funds, while an unfavorable difference represents a wealth loss.

Financial-Accounting Information as Power Instrument in the Globalization Era

The general saying of management specialists, journalism, politics and economy has become in the last years the notion of globalization, this being studied by economists and sociologists worldwide. In this context, globalization points out a large array of economic, ideological, technologic and cultural changes and interdependencies. The economic changes refer mainly to the internationalization of production, rapid increase of capital mobility, development of transnational corporations as well as the deepening and intensification of economic interdependencies at world level. The economic manifestations of globalization include spatial reorganization of production, development of financial markets, distribution of interchangeable consumer goods in various countries and massive population movements.

Where the manifestation forms of globalization are concerned, certain fields, such as the financial market for instance, are easier subjected to globalization than others. In substance, the movement of certain symbols – of the cash type – by electronic means is much easier than the circulation of a quantity of products. In the acception of the majority of specialist in the field, the financial market has four main components: capital market, monetary market, insurance market and mortgage market. In a functional and competitive market economy, the role of the capital market is of the first rate. Good operation of the capital market is especially important in the developing economies in order to be able to transfer money resources efficiently from the ones that save to the ones who require capital and can offer superior turning to account.

The capital market can influence significantly the quality of the investment decisions. Collection of the capitals temporarily available in the economy, reallocation of the insufficient ones and even favoring certain inefficiently turned to account sector restructuring at a given time are of the nature to sketch the place occupied at present by the capital market in the economy of many countries, not only the most developed ones.

Financial globalization is characterized by the appearance of frontier-less capital markets, operating at the level of the entire planet due to instant circulation of information, elimination of control in exchanges and homogenization of the financial instruments offered the holders of savings. Under such circumstances, the multinational, transnational, trans-regional or inter-regional industrial and financial companies can borrow money or make placements without limits, wherever and whenever they want, using all financial instruments in existence.

Globalization of capital markets had also as effect the requirement of homogeneous information, ever more significant, of understanding and comparing financial-accounting information from various companies. Under such circumstances, intensification of accounting contribution is highlighted in the international capital markets, especially where the information of the stock market participants is concerned.

**Financial-Accounting Reporting Correlation with the Economic Efficiency Level of Investments in the Capital Market**

The investors want to convert their monetary availabilities into investments, and the investments into liquidities in a stable environment. The SSIFs want to achieve those investments for their clients which do not involve a major loss with regard to the value of the investments.

In the capital market and within SSIFs, performance is related to the quality of the financial-accounting information, their accuracy and the true image of the reality of a transferable security transaction or operation.

The audit procedures of the financial-accounting information aim at two directions: usefulness of the financial-accounting information in the decision of investments in the capital market, and the effect of financial-accounting information in the decision of investments in the capital market, respectively. Also, performance in the capital market is directly connected to the quality of the decisions made on grounds of the financial-accounting information.

There, therefore, examination by audit in the field of capital markets is of topical interest and may be considered necessary where attention is concentrated preferably on investors and the decisions they made. The decision of the investors involves correlation between actual consumption and future benefits, wherefrom there issues the need for adequate and relevant information.

Actual and potential investors examine continuously the available alternatives, in hopes of making decisions which satisfy the best the present and future interests. Numerous information on the future monetary flows, attached to various valuable titles, is presented in the form of cash-flow, while the synthesis accounting documents offer relevant information on the risk associated to an investment, determined by the degree of flexibility in resource allotment. The role of financial auditors may be determined in the recommendations of buying-selling securities and assessment of future income (as a base of determining the price of securities).

Consequently, the auditor who assessed this way the financial-accounting information and the investment decision by the financial analysis used as an audit method, can motivate the use in the audit of SSIFs, auditing the performance in the financial investment decision, respectively, and even create a debate group in the audit. This group represented by specialists of the capital market, accounting experts and financial analysts, must express, based on the audit, their point of view, by collecting qualitative audit evidence and applying audit standards, so that the furnished information is useful and indispensable to all investors.

**Financial Analysis – Diagnosis Procedure in Making the Investment Decision**

The financial aims and scopes of the company may be approached from various points of view. A first approach refers to the maximization of profit by rationalizing financial decisions, materialized in the increase of company’s wealth with favorable consequences on the stock market value of shares and wealth of the shareholders.

From a different point of view, the managerial one, these objectives and scopes concentrate mainly on achieving economic growth, financial balance and financial liquidities. Analysis, as a self-contained scientific system, using information furnished by the synthesis accounting documents and taking as a basis an own methodology, connects and interprets all such information in the sense of the economic-financial objectives the company proposes.

The characteristics of the Romanian accounting system offer the possibility of making a financial analysis which represents the diagnosis activity of the financial performance standing of the company. It can be considered that it is a managerial instrument aiming at contributing to company’s maintenance and development in an ever denser competition environment, as well as the understanding of the past and present, in order to ground the future strategic objectives.

The information on the performance of a company, including its profitability, are required in order to correctly assess and evaluate possible modifications regarding the economic resources it could control in future. Of special importance is the performance variation in the predictable future, determining in this respect the aspects related to the generation of treasury flows according to existing resources. Where the orientation of the entity to new financial resources is concerned, performance analysis must furnish conclusions on the impact the use of extra resources could have.

---

To the same extent, financial analysis aims at highlighting the avenues of achieving medium- and long-term financial balance and the stages of financial accumulation, turning into account the economic activity of the entity.

In the case of financial-patrimonial standing analysis, a special role is played by the establishment of the modes of maintaining the financial independence and achievement of flexibility in this field. The scope of financial analysis is to determine the financial diagnosis of the company in order to highlight the strong and weak points, that is, the state of financial health or weakness of the company, as well as the potential of the financial management. At the same time, diagnosis analysis represents a component of global analysis of the company, also named strategic analysis. Static analysis of the financial balance based on the annual financial standings is a traditional component of the financial analysis.

Conclusions
Irrespective of the objectives an economic entity sets, achievement thereof is conditioned by the fulfillment of the major financial restrictions, such as the achievement of financial balance, which generally expresses the possibility of the company to amortize the resources and ulterior use thereof, which allows it to ensure permanently the solvability and increase of profitability, the capacity of the entity to obtain extra cash, respectively, allowing it to carry out its obligations and ensure development7.

Grossman builds a model of the profitability in the capital market, making a separation of investors according to the information they can access, in informed investors and uninformed investors. Thus, it is supposed that the performance follows a model of the \( \varepsilon \eta + r \) type, where \( \eta \) is a random value which may be observed at a certain cost, while \( \varepsilon \) is a value which is unnoticeable. Moreover, the two values are independent and normally distributed8. The noticeable component \( \eta \) has in its turn, as has the price, a probability distribution, and the price of an asset and the noticeable component of profitability do not provide the same information on profitability.

Knowing the price value, the uninformed investors can only estimate, more or less accurately, the value of the \( \eta \) component, as compared to the informed investors, who have access to it against payment. Consequently, the information are not distributed similarly to the two categories of investors, so the strong form of efficient market hypothesis, according to which the price is adjusted to the new information, is not plausible.

References
1. Cotleț, D., Megan, O., Financial Standings, between Information and Decision, University Horizons Publishing House, Timișoara, 2005
5. Mihalciuc, C., Close Examination of Financial Accounting, lecture support, “Ștefan cel Mare” University Suceava, Economic and Public Administration Sciences Faculty, Suceava, 2008