INFLUENCE OF REVENUES AND EXPENDITURES ON THE PERFORMANCE OF THE ECONOMIC ENTITY INFLATIONARY CONDITIONS

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Abstract

In the context of the national economy, the performance of any economic entity is reflected in its ability to make profits. Achieving this major goal of every economic entity is subject to being profitable activities.

The profitability of a business resulting from measuring the effects of the efforts materialized in revenue reflected in expenditure.

This research carried out and exposed in this article brings to influence revenue and expenditure analysis.

Key-Words*: revenues, expenditure, inflation, performance, profit*

JEL Classification: *M21, M41*

1. Introduction

Analysis of revenue and expenditure on the performance of the economic entity is important because they are income statement components and also through the accounts of income and expenditure are taken influences inflation on balance sheet items and carried to closing the financial exercise.

An essential condition for recognition of both the revenue and expenditure is credible assessment. *But, at this moment, the question is, items in the income statement in inflationary conditions expressed in historical cost, are credible in time?*

2. Research Methodology

The research methodology used in this article combines, in a harmonious way, quantitative research with qualitative research, analyzing, while Romanian and foreign authors contributions to influence how revenue and expenditure on the performance of the economic entity.

3. Analysis of revenue reliability in terms of inflation

According to Alexandra Mutiu, revenues reliability analysis can be performed taking account two important moments:[7]

1. recognition and their accounting default
2. the balance sheet date.

Depending on when their recognition revenue is measured at fair value since then except for the following categories of income: the production inventories of property, production from reactivated claims, the provision of investment grants and deferred revenues past actual revenue category. *The vast majority of revenues are recorded when accounting assessed and their real value because they are sized to the nominal value of claims received or receivable amounts are expressed in relation to the market price at the time.*

In regards revenue from the production stored and production property, romanian accounting regulations remained virtually registration the work in progress and completed through correspondent accounts respectively revenue account 711 "Revenue product inventories costs" 721 "Revenue from the production of intangible assets" and 722 "Revenue from production assets body ", though these accounts do not meet the criteria for revenue recognition as defined by IAS 18 "Revenue" (do not transfer the risks and benefits, control or manage a product and not expected entry cash or cash equivalents in the economic entity).

Also, this practice is being violated expenses connected with the revenue they generated, general production expenses being recognized on consumption and not on the date of sale of stocks or by using assets to generate economic benefits. Thus, the production cost of inventories should be recorded in an expense account at the time of their sale, and the costs incurred in the production of property in an account of property in progress, their value will be the last installment on expenses through depreciation.

Because inflation under production cost of inventories and property is undervalued by summing the values (consumption) and inhomogeneous past, revenues from the production stored and revenues from production assets that are undervalued their registration in accounting.

If a customer or debtor divers recovering from insolvency, claims on reactivated through the proceeds reactivated and sundry debtors. If that claim is not updated with the inflation rate then recorded income reflecting be undervalued nominal value of the claim.

Revenues from commissions are recognized at the time of cancellation or reduction of the provision. The amount of income is undervalued, it is expressed in purchasing power from the moment of that provision.

Revenues from investment subsidies are received grant equal share of depreciation calculated by calculating the income that are undervalued based on historical cost depreciation of fixed assets purchased under the grant.

In regards revenue which were previously recorded as deferred income, they get to be undervalued in proportion to the inflation rate for the period of their form when accounting for accrued income and their registration as income of the current period.

As regards the revenue in the balance sheet date they remain recorded at their initial value in their recording the moment. *Consequently, at the end of the financial year by virtue of the decrease in the purchasing power of currency inflation, revenues are undervalued relative to the amount of purchasing power at the end of the financial year.*

If the revenue-generating activities of the economic entity is conducted in terms of periodicity and their volume, constantly, over a year restatement of income for expressing their purchasing power at end of year, it can be done using an average index adjustment that year. Otherwise, revenue restatement adjustments will be made through their general price index of the date of registration in the accounts of income and balance sheet date.

4. Analysis of expenditure under inflation reliability

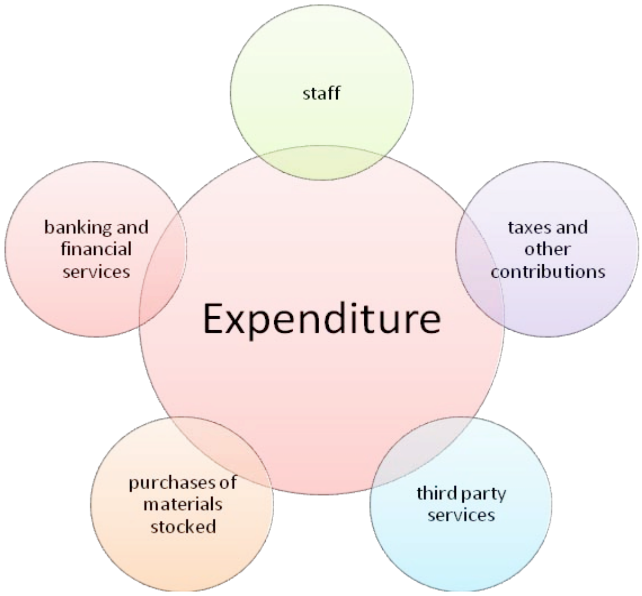
According to Alexandra Mutiu, spending reliability analysis can be performed based on two important moments: [7]

1. recognition and their accounting default
2. the balance sheet date.

Depending on the time of recognition, the costs are assessed as follows:

- *a real value* for those expenditures that generate asset value reductions or increases in debt in the form of cash, namely those expenses which are entered in the value of monetary items that generated them;
- *a lower than the real value* for those expenditures that generate decreases in asset values or outflows of assets other than availability.

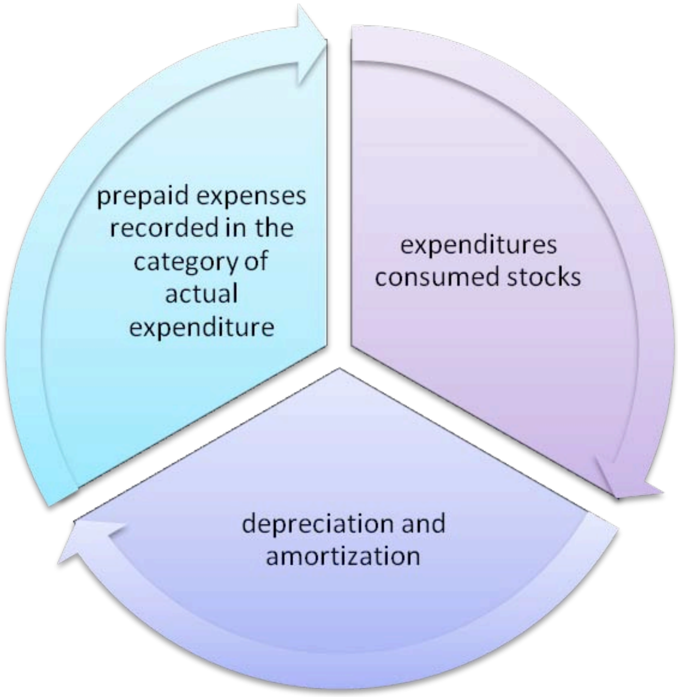
In the category of expenses are recorded at their fair value includes the following categories, shown schematically in **Figure 1.**



Source: Own processing

Figure 1 - Categories of expenditure entered in real value

Expenditure which are recorded at an amount below are shown in **Figure 2.**



Source: Own processing

Figure 2 – Categories of expenditure recorded at the lower value

The undervaluation of these expenses derives from the fact that they are entered in the value of non-monetary property items that generated them.

The depreciation of property are greatly undervalued, given that depreciation is calculated based on the historical value of fixed assets, excluding those that have been subject to reassessment.

As regards the inventories, evaluation methods when leaving the patrimony lead to different values of consumption and expenditure respectively, which directly influences the outcome of the exercise.

The expenditure arising from assets Accrued are understated inflation of the time they are booked as expenses in advance when their accounting as expenses of the current period.

If the overall expenses are understated, are exempt interest expense, since it is assumed that the effect of inflation has already been built into the interest rate. Also, income tax expenses are overstated through overstatement of profit as a result of the historical cost accounting organization, in terms of inflation.

Closing date financial year is after accounting registration cost components. Due to inflationary phenomenon, the purchasing power of money decreases over time, resulting in that the financial statements, the items of expense are denominated in the currency unit value inferior to that of their recording date.

Minister of Finance no. 94/2001 provides two alternatives for the presentation of the profit and loss account or to historical or current value at the balance sheet date (adjusting historical value depending on changes in the general price index).

If economic entities opting for the latter, they will apply IAS 29 "Financial reporting in hyperinflationary economies". Thus, expenditure and income presented in the income statement should be restated by applying the general price index from the dates the charges and income were initially recorded until the balance sheet date.

So the practice of accounting in historical costs, in terms of inflation, will lead to an understatement of expenses and the summation in expense accounts during a financial year, of amounts inhomogeneous in terms of purchasing power of the currency since the expense was recorded.

5. Conclusions

In our view, given that both expenditure and revenues are understated, it would seem that the level of profit and loss components undervaluation and therefore would compensate accounting result is calculated based on the actual historical costs.

In reality, what are undervalued share of expenditures is much higher than the understated income and the impact of those two influences is variable depending on the economic situation of entities, thus creating a distorted result, which is generally overestimated.

For accounting result to measure performance accurately and real economic entity is required to connect the principle of revenue expenditure, ie when income accounting to account at the same time, and costs which have contributed to that income.

But, in inflationary conditions, compliance with this principle is not sufficient because the costs are expressed in monetary units prior to those in which they are denominated revenue, which leads to non-synchronization effect of income and expenses.

In conclusion, accounting historical costs, in terms of inflation, yields a result whose character is heterogeneous in terms of components that have formed the basis of his results do not reflect the actual performance of the economic entity which reported annual financial statements can lead to erroneous decisions in the financial and accounting information users.

Inflation restatement of all elements of the annual financial statements will ultimately generate a gain or loss on net monetary position, which will be shown separately in the income statement and will contribute to the determination of real profit.

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