CONTRIBUTION OF FINANCIAL STATEMENTS TO DETERMINE THE ECONOMIC PERFORMANCE OF ENTERPRISES IN THE ROMANIAN MINING INDUSTRY

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Abstract: This study presents an approach of financial statements preparation in Romanian mining companies. The necessity of financial statement preparation on Romanian mining companies lies in providing to users a consistent volumes of information with the position of economic and financial performance, image created through presentation of assets, liabilities, equity and their changes, income and expenditure and cash flows. The multitude of information from the financial statements of the organization allows its management to adopt a business strategy viable and investment channeling resources to streamline operations and maximize the result.

Key words: financial statements, profits, economic performance, cash flow.

JEL code: M21; M41

1. Introduction

In the current economic climate any activity within the organization is registered in the accounting, being the basis of the accounting information system. This practice derives from the obligation of the economic agents to keep strict accounting records of the movements of goods and services that affect the heritage of the unit.

The premise from which we start the performance of this study shows that getting a true and fair view of how it is organized the accounting of an economic entity is given by the accurate and objective financial statements in compliance with the existing regulations in the financial and accounting field and in accordance with good practices in this area of activity over time.

The fundamental objective pursued in this paper is to highlight the importance that the organization has on the national economy due to an accounting activity based on financial statements meant to ensure fair and accurate information flow to the company management for the adoption of strategic decisions of major importance for the future.

In regard with the methodology used in this study, a consistent approach to gathering information from authorized sources, bibliographic material consisting of books, specialty articles published nationally or internationally, legislative references and websites specialized in the studied issues.

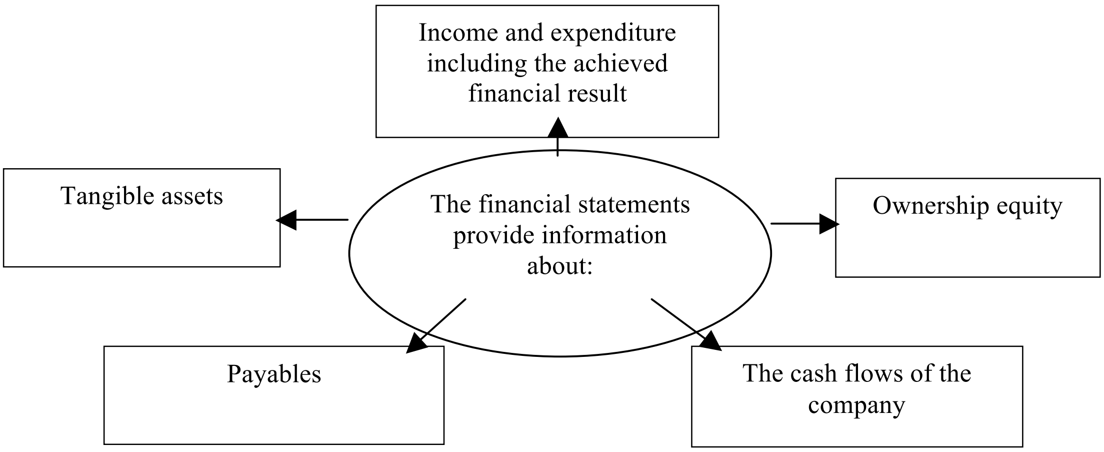
Developing this study calls for a quantitative research effectively combined with the qualitative research for granting a considerable value of this research theme. The theoretical research undertaken in this study assumes a deductive approach, based on concepts, theoretical and specific regulations of the study area. Specific methods and analysis techniques such as observation were also included in this paper.

2. Theoretical aspects related to elaboration of the financial statements within the organization.

The financial statements are a structured financial representation of a company's financial position and the operations made by this. The objective of the general financial statements is to provide information about the financial position, performance and cash flows of a company that are useful to a wide range of users in making economic decisions. The financial statements also show the results of management resources entrusted to the company leadership.

To achieve this objective, the financial statements provide relevant information about specific asset components as shown in Figure 1:

Figure 1. The financial statement items analyzed within the organization



Source: Own processing

This information, along with other information in the notes of the financial statements, assists users in predicting future cash flows of the company and in particular the timing and certainty for generating cash and cash equivalents.

As regards compliance with the International Accounting Standards, the financial statements must fairly present the financial position, financial performance and cash flows of an enterprise. The proper application of the International Accounting Standards, with additional information presented when necessary, has as result, in almost all cases, the financial statements that achieve a fair presentation.

The financial statements have sometimes been described as being "based on" or "complying with the significant requirements of" or "in accordance with the accounting requirements of" the International Accounting Standards. Often there is no other information, though it is clear that significant demands to present information or accounting requirements are not met. Such statements mislead because it diminishes the credibility and understandability of the financial statements.

Inappropriate accounting treatments cannot be rectified either by highlighting the used accounting policies or by notes or explanatory material.

In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be misleading and therefore requires a deviation from the requirement to obtain a fair presentation, the company must submit the following:

a. management has concluded that the financial statements fairly present the financial position, financial performance and cash flows of the company;

b. compliance in all significant respects with the applicable International Accounting Standards except that it has deflected from a Standard to achieve a fair presentation;

c. The standard from which the enterprise has deflected, the nature of the deflection, including the treatment required by the Standard, the reason why that treatment would be misleading in those circumstances and the treatment adopted; and

d. the financial impact of the deviation on net income or net loss, tangible assets, payables, ownership equity and cash flows for each presented period.

The economic operators are obliged to conduct double entry bookkeeping and prepare annual financial statements according to the applicable accounting regulations [1].

The entities which are incident to the Accounting regulations compliant with the 4th Directive of the European Economic Communities, part of the Accounting Regulations according to the European directives, approved by the Ministry of Finance no. 3.055/2009, with the subsequent amendments and additions, are required to prepare and submit annual financial statements to the territorial units of the Ministry of Finance according to the legal regulations in force [2].

According to the study conducted by Ciobănaşu M., the analysis of the financial statements is the art of analyzing and interpreting the financial statements. One major objective of the analysis of financial statements is to "understand the figures" or "decipher the meaning of numbers" - that is to employ the tools of financial analysis as an aid in understanding the reported financial data and then use this power of understanding to drive better a business. Various analytical measures can be developed to describe the significant relations and extract the information from the financial statements [3].

The qualitative characteristics of the financial statements determine the usefulness of the information submitted through them. The Order 3055/2009 [4], amended and updated, nationally regulates the main qualitative characteristics of the financial statements, harmonizing them with the provisions of the General framework of the

International Financial Reporting Standards (IFRS) for the elaboration and presentation of the financial statements. These are:

- *Intelligibility,* aiming a slight understanding of information by the users who have reasonable knowledge to develop businesses and economic activities;
- *Relevance*, ensuring the usefulness of the information necessary to the decision-making process and help users to evaluate past, present and future events;
- *Credibility*, quality requesting that information does not contain significant errors, and users can have what they present;
- *Comparability*, providing comparison of the information submitted in time and space.

It also argues that in order to present relevant and reliable information, the following are required:

- information to be appropriate for decision making by users;
- benefits from the information to exceed it costs;
- to establish a balance between the qualitative characteristics of the financial information.

The conceptual framework of the updated IFRS specifies that the financial statements to be useful, information must be relevant and presented accurately. The utility of reporting is improved by quality and comparability, verifiability, presentation at the right time and intelligibility of information [5]. Following the above it can be mentioned that the objective of financial statements is to provide users with information about the position and economic and financial performance and treasury cash flows of the company, images created through the presentation of tangible assets, payables, ownership equity and their changes, income and expenditure and cash flows.

Hampton (1997) states that the purpose of the financial statements is to transmit intelligible information about certain financial aspects of the activity developed by the company. They can show the company's financial position at a time, as shown in the balance sheet, or may present a range of activities over a period of time, role fulfilled by the profit and loss account [6].

These objectives are valid for companies in Romania, complying with the rules of the internal regulatory body represented by the Ministry of Finance, but also the international norms depending on the framing as size or domain of activity.

3. Limits of financial statements in the economic landscape of Romania

The financial statements are the result of the interaction of three parts: companies as subjects whose activities are subject to the financial information, accounting information users and professional accountants or accounting profession in general. Of all these, the role of amending the content of the financial statements and improving the credibility of accounting information is assigned to the accounting profession [7].

Hampton (1977) stated in his studies that the financial statements are an organized collection of data under the logical and consistent accounting procedures. By default, the financial statements present the results obtained when managing the resources by the company's management, which means, in fact, the competence and legitimacy of this structure [8].

The conducted investigations have identified the following limits of the financial statements for the companies in the mining industry of Romania:

- the information contained in the financial statements are presented at the historical cost, so the financial situation of the company is not presented, lacking the information about the updated real value of tangible assets, receivables and payables;
- the rate of inflation is not taken into account in preparing the financial statements, the presented information does not reflect the company's current image;
- financial statements are influenced by both the professional judgment of the experts preparing them and management's judgment;
- business qualitative aspects are ignored in the financial reporting;
- the value of human resources in the company is not highlighted in the financial statements in case of more entities, ignoring the nonfinancial factors influencing the business;
- comparisons between the financial results of the various organizations are often complicated by the use of different accounting principles and methods, both within the company over time and between companies in the same field;
- the financial statements present an interim state of the business and no conclusive information about its status.

Regarding the presentation of information at the historical cost as the limit of the financial statements, it is started from the premise that they are analyzed to make decisions about current and future business and even if the dependency on the historical cost is justified in certain circumstances, their impact on these limits should be taken into consideration in order to perform the forecasts. Thus, even if the presentation of the tangible assets and intangible assets at historical cost provides objective measures, the decisions must be forward-looking. Considering this limit, users should look for the necessary information in other sources, to make good decisions starting from real bases.

But even if the different elements of the balance sheet should be properly evaluated, for example to their fair value, the total amount of ownership equity would not indicate the overall value of the company, the balance sheet fragmenting at the same time the heritage that arises from the interaction of its various elements [9].

4. Ways of diminishing the information limits of the financial statements.

On methods of reducing the information limits of the financial statements unanimously accepts that idea that this goal can be achieved by publishing the forecasting financial statements, at least by the stock exchange listed companies. The effort is not profitable due to dimensions for small companies, especially if they do not wish to attract investments. By this modality, there would be provided a basis for comparison, but also a vision of the company's management on the short term that can be achieved, exceeded or failed.

The financial statements may also be exceeded as follows:

- the consistent use of accounting policies over time, and changing them due to unavoidable circumstances must be mentioned and explained in the financial statements;
- the elimination of alternatives in the accounting treatment on certain transactions;
- incorporating the effects of price level change to present more realistic information;
- avoid using personal judgments and focus on accounting principles when presenting the economic aspects of events;
- recognition of intangible assets in the financial statements;
- online publication of the financial statements to allow the easy access to all existing and potential users to information;
- full disclosure of the economic and financial information in the financial statements through enunciations, tables and figures;
- regular assessment of tangible assets and payables of the company to be presented in the financial statements at their market value;
- adopting a new, modern vision, so when the financial statements are prepared, the futuristic effect of the information on users should be taken into account and also the fact that the presented information form the basis of the decision making process.

5. Conclusions

The financial statements reflect all the work carried out by each economic agent individually. This provides the decision-making factor of the organization and determines a permanent reconfiguration of the decisions taken by the management to ensure business continuity under a fiercely competitive environment.

The account information provided by the company's information system through the financial statements must contain all the necessary data to the management in order to develop realistic business strategies to ensure the forecasted targets.

The accounting practice revealed over time a number of limitations of the financial statements with implications on the quality of decision-making, which is why efforts in this regard were the arrangements for the reduction of these information limits of the financial statements. In this regard the starting point was the publication of the financial statements at least by listed companies, following that overcoming the persisting challenges of the financial statements to be mainly obtained through the alignment of accounting activities developed in this regard by the community decision-makers.

The method of preparing the financial statements is marked by complexity due to the considerable volume of items subject to the activity of bookkeeping. The personnel involved in the accounting bookkeeping of the unit to be recruited on the basis of similar personal experience and solid training. The importance associated with these activities arises from the present issues to record the bookkeeping asset movements under a fiscal complex space but mainly by the activity of the organization in a competitive environment which is in a permanent transformation where the price of the offered good puts continuous pressure on the production cost.

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