

THE USE OF FINANCIAL AND ACCOUNTING INFORMATION AND COMPANY'S PERFORMANCE

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Abstract

The development of international financial markets, financial scandals in 2000 and the crisis in 2007 showed the need for the existence of clear simple, concise rules regarding the drafting and presentation of financial and accounting information of the companies, especially transnational ones. Amid the fact that the 2000s were shaken by issues such as accounting frauds, the question of transmitting information in the most correct, real and representative way emerged. The more the information is accurate, without being embellished in accounting terms, the more users are better informed and can make decisions knowledgeably. Also in the paper, a correlation is made between performance and information contained in financial reports, each user being interested in certain performance indicators.

Keywords: information user, performance, International Financial Reporting Standards, accounting information dissemination

Clasificare JEL : M40, M41

1. Introduction

Globalization and the free flow of capital and labour, financial scandals that have shaken the financial markets in the 2000s, the financial crisis of 2007-2008, were the factors that led to the need for the presentation of registered financial and accounting information of the companies in a coherent and unitary form.

This necessity also arises from the fact that there must be comparability of data at the level of companies in the same sector of activity but also due to the fact that there must exist a communication departing from the same base for multinational firms.

Accounting and financial information broadcasting is, according to legal provisions, periodical (annual or biannual) or permanent (for companies quoted on the stock market).

In the literature there is no single definition of distribution or communication of accounting information, but different concepts are used instead (table 1).

Table 1 Various aspects of the concept of broadcast/communication of financial information

Author	Concept definition
[2]	as all quantitative economic data published and what are related to the activity of a company
[5]	dissemination of financial information include all mandatory or voluntary data, quantitative or qualitative image made public through various means of communication, formal or informal.
[7]	Presentation of a state of fact, by means of balance sheet, financial statements, or external auditor
[6]	Highlights four ways that can be used: public, private, private, and secret broadcasting (regarding the company strategies)

Although accounting records are made following certain rules and principles stipulated in the legislation, both nationally and internationally, there are situations which showed that not always reported accounting information is not real or correct, but, depending on specific interests it may be truncated or unreal (there are several examples, such as: Enron, Tyco, Parmalat, etc.).

2. Financial-accounting information and the evolution of financial reporting framework

Preparing the financial statements on the basis of common principles is beneficial because it allows us data comparison, comparing the performance of companies from the same sector of activity on different time periods. These comparisons are necessary for both the state and the shareholders, as well as for any other parties involved. Comparative analyses at the level of firms which operate within the same branches have highlighted the fact that companies that register a yield lower than the average for the sector face with economic problems [10] reaching even to bankruptcy.

Therefore, we believe that it is very important the quality of information disseminated, the relevance and accurate presentation in terms of understandability, comparability, opportunity, issues which, following the conclusion of a cooperation agreement between the Board (IASB) and the Financial Accounting Standards Board (FASB), accounting information quality has increased [9].

At European level, until the 1990s there were numerous accounting directives for reporting individual or consolidated financial statements (Directive 78/660/EEC on the annual accounts of certain types of companies and Council Directive 83/349/EEC on consolidated accounts) but it became obvious, in the context of globalization and of the accession of more states to the EU it was necessary to find a common denominator in terms of financial reporting.

As the results obtained after the implementation of the directives listed above have not necessarily led to an increase in the quality of accounting information, after 2000 measures had been taken to expedite the adoption of solutions meant to improve the comparability of the financial statements published by the listed companies.

Due to these factors, Regulation 1606/2002 on the application of international accounting standards has emerged, requiring that for each financial year starting on or after 1st of January 2005, publicly traded companies in the EU must draft consolidated financial statements using international accounting standards adopted in the Union and Directive 2013/34/EU which aims [3]:

- to simplify financial reporting obligations,
- reduction of administrative burdens,
- to ensure the comparability of financial information at the level of countries of the European Union

In Romania, the adoption of international standards needed the completion of a process that began in 1999 (table 2):

Table .2 The evolution of financial reporting regulations in Romania

Year of implementation	Regulation	Applies to
1999	Order Of The Ministry Of Finance 403/1999 [11]	Experimental order only for 13 stock market listed companies
2001	Order Of The Ministry Of Finance 94/2001 [12]	Large companies, classified according to turnover, total assets and average number of employees, companies listed on the Bucharest Stock Exchange, autonomous administration and national corporations, enterprises of specific interest, as well as some specific categories of societies operating on the capital market, as established by Annex to Order
2006	Order Of The Ministry Of Finance MF 907/2005 [13] Order Of The Ministry Of Finance 1121 din 4 iulie 2006 [14]	Banks were required to complete a set of financial statements, distinct from the one compiled in accordance with current accounting according to IFRS, but only for the needs of the users. Financial statements in accordance with IFRS could be also published by other entities of public interest set out in the Order but still distinct from that drawn up in accordance with the current accounting Companies whose securities were admitted to trading on a regulated market and which drafted consolidated financial statements had an obligation that, starting with the financial year of 2007 to apply IFRS
2009	Order 3055/2009 [15]	To approve accounting regulations consistent with European directives for companies of regulations
2012	Order Of The National Bank of Romania 9/2010[16] Order Of The National Bank of Romania 27/2010 [17] Order Of The National Bank of Romania 1 /2011[18]	Banks, Romanian legal entities; credit cooperative organizations; saving and credit banks in the area of housing; mortgage banks; Branches in Romanian branches of foreign credit institutions;

	Order Of The National Bank of Romania 2/2011 [19] Order Of The National Bank of Romania 6/2014 [20] Order Of The National Bank of Romania 7/2016 [21]	abroad branches of credit institutions, Romanian legal entities
2012	Order no. 881/2012 [22] Order no. 1286 /2012 [23]	Companies whose securities are quoted on a regulated market credit institutions
2014	Order no. 1802/ 2014 [24]	Approval of accounting regulations on the annual individual and annual consolidated financial statements for entities of regulations
2015 (for a period of 3 years in a row)	RULE nr. 19/2015 of the FSA (financial supervisory authority) [25]	Authorized insurance, insurance-reinsurance and reinsurance companies, regulated and supervised by ASF but shall not apply to branches established in Romania, which belong to an insurance, insurance-reinsurance and reinsurance undertaking, headquartered abroad
2016	Order no. 666 /2015 [26]	17 Entities (autonomous administration, national companies, state owned companies) shall draw up annual financial statements on the basis of individual accounting regulations in accordance with the IFRS, by restating information from statements organised on the basis of Accounting Accounting Regulations concerning annual financial statements, approved individual and consolidated annual financial statements

3. The disseminated information and the financial performance of the company

The information disseminated through various means and at certain times offers the possibility to all interested parties to get to know the financial situation of the company at a time, more often a static analysis being performed.

Users of accounting and financial information are interested in locating relevant, credible, reliable information depending on which to carry out future plans (Figure 1).

Each of these users on the basis of the data will take certain decisions:

- The State will watch with more concern the fiscal aspects, such as establishing taxes, fees, contributions and will make decisions regarding the modification of the regulations, setting tax policy, etc,
- Private and institutional investors aim at investing on capital market and the extent to which the company in question meets the criteria established for investments,
- current or potential clients seek either the continuation / extension of existing contracts, either signing new ones or modifying existing ones, including other clauses in respect of time limits or methods for payment, discounts,
- actual or potential suppliers estimate some elements depending on which will continue or not signed contracts, concluding new ones,
- Competitors are directly interested in the politics of their competitors, according to which they will establish various directions of action,
- Employees of the company are interested in the stability of the employer because it affects the process of negotiation of the collective work contract, they may demand certain rights, may or may not agree with the proposals of the management company,
- External Auditors of financial information use financial information for expressing an opinion on the fairness of financial statements and given appropriate their credibility
- Company shareholders can analyze the company's policy in what concerns the distribution of dividend, development strategy or future development,
- The creditors analyse the capacity of the firm to honor their debts, and take decisions on granting loans be continued, either amending the terms and interest rates, guarantees etc.
- civil society find the role of the company in society, measures taken for the conservation of resources, actions for social responsibility, environmental protection, etc.

Based on this information, each interested party will assess the performance of the company starting from various indicators look just from a financial standpoint.

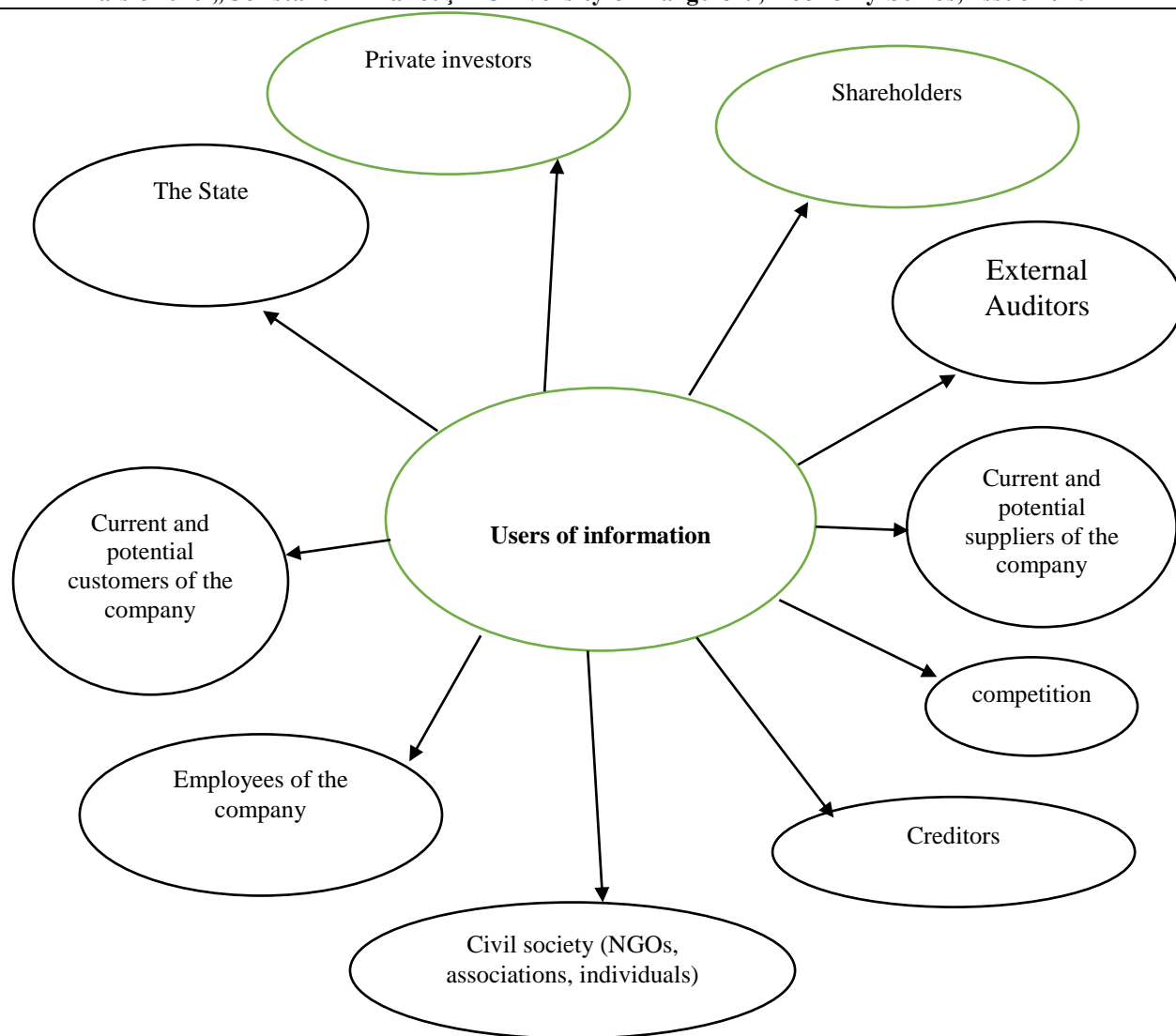


Figure 1 Users of information

But we should mention that performance is a concept that does not have a simple definition, it is seen by some authors as a combination of efficiency and efficacy [1] while [8] consider that it is a concept that needs to be looked at as a goal and an objective targeted at expected outcome. In this context, most often circulated as performance indicators are the rates of return, namely economic and financial profitability.

Profitability assesses the effectiveness of the company's capacity utilisation and is dependent on the expected results, without losing sight of how to achieve profit, a company's success being conditioned upon a long-term recorded profitability [4].

Analysis on the basis of the financial statements is a static analysis because it captures the accounting elements at a time, being a systemized numerical analysis.

Each user of the information is concerned by certain indicators, as it results from figure 2:

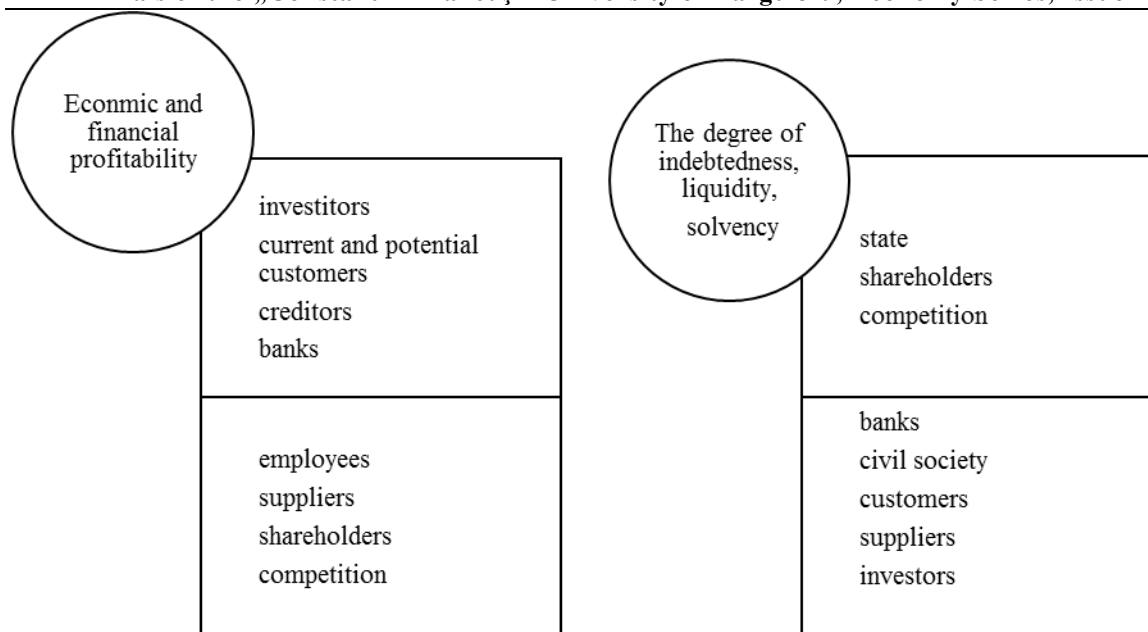


Figure 2 Performance indicators targeted by users of accounting information

Correlations between economic, financial profitability and interest and inflation rate are also had in mind. In this context, indebtedness is very important because contracted debts influence the value of the company in relation to the balance of power of a company, i.e. depending on the power of control owned by shareholders.

5. Conclusions

Analyzing financial statements by various parties concerned can influence their decisions on the medium and long term, especially if we are talking about institutional investors. Also, situations where the information does not correspond in terms of quality were resolved at the international level, through the largely uniform regulations that take into account the impact of such information on the transnational companies. The application of IFRS in Romania was gradual, beginning in 1999 and which still continues today, and there are still regulations that are to be applied. We mention that applying, even if not complete of these regulations, has brought both benefits and costs, the costs being especially in terms of taxes.

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