Annualy/Yearly Financial Situations in European Frame

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Abstract
The primary objective of accounting is to provide information in order to ensure a fair, clear and full image of heritage, financial position and results of the entity, to all interested parties, ensuring "transparency" of accounting information to all the interested people.

This objective can be achieved by periodic preparation of summary documents and accounting reporting, which over time have worn different names such as balance sheet, annual financial statements or annual accounts.

Starting from this consideration, in this paper we proposed to approach in terms of theoretical importance, the role and principles of the annual financial statements with new accounting regulations in accordance with EU Directives.

1. Introduction

Development of Accounting System in Romania was the basic objective to harmonize legislation with European directives in the field, in order to meet the requirements of adaptation to the European Union, and alignment with the International Accounting Standards, situation which is imposed by economic globalization and capital market development.

The financial statements of a company are the most important mean by which the accounting information is available to decision makers. Therefore, companies publish their financial statements in a more explicit manner in order to be understood by the interested reader.

The continuous improvement of business environment is a priority key of governments in strengthening the functioning of market economy, and on short-term period, the achievement of the objectives pursued under the accession programme of Romania to the European Union.

In this context, the general accounting and financial audit frame continually improves its quality of accounting information through the application of accounting rules in accordance with EU Directives (Directive IV and VII).

The need for compliance is required by:
- globalization of national economies;
- access of Romania to international capital markets;
- transparency and simplify of financial reportings.

In order to achieve these goals, the last time there were a number of legislative changes which include:
- modification and amending accounting Law no. 82/1991;
- accounting regulations in accordance with Directive IV and VII of the European Union;
- adopting International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) by order of Ministry of Public Finance.

The responsibility of preparation the annual financial statements in accordance with accounting regulations, in accordance with European directives returns to management entity and is notified by a written statement attached thereto.

2. The main uniform accounting regulations imposed by OMFP no. 1752/2005

The main novelty that brings OMFP no. 1752/2005 is to unify the accounting rules, so that operators who have applied until the end of 2005 OMF no. 94/2001 and OMFP no. 306/2002 will apply uniform accounting rules, respectively OMFP no. 1752/2005.

However, it should be noted that in the next financial year, the public interest entities other than credit institutions (which implementing IFRS in a mandatory manner), are able to draw up a separate set of financial statements in accordance with International Financial Reporting Standards, for the own requirements of users' information, other than state institutions, according to their choice and if they have adequate capacity for implementation.

For the purpose of preparation of financial statements in accordance with IFRS, the legal entities which are applying this provisions retreat these financial statements prepared under specific accounting regulations, comply with european directives.

Related to OMFP no. 1752/2005, this comprises two parts:

- The accounting regulations in accordance with Directive IV of the European Economic Community on the annual accounts of individual companies which replaced the OMFP no. 94/2001 and OMFP. 306/2002;
- The accounting regulations in accordance with Directive VII of the European Economic Community related on the consolidated accounts of groups of companies which replaced the OMFP no. 772/2000.

The Fourth Directive role in the European process of normalization

Directive IV of the Council coordinates all requirements imposed on Member States and the accession of presentation and the content of financial statements and annual reports to this, the general principles on the assessment of financial performance and position of an entity, specific rules for assessing assets and liabilities and the publication of annual accounts.

Directive also provides the requirements for the statutory audit of annual financial statements by persons authorized to hear this purpose, as required by European demands.

A less stringent set of rules are established for small and medium companies, so that Member States may decide that the obligations concerning the preparation, auditing and publication of financial statements to be less stringent or may exempt small companies from the requirement for auditing the annual accounts. Also, Member States may decide that the obligations on the bookkeeping and publication of annual financial performance of the medium enterprises to be less stringent.

Directive IV is based on the Treaty of Rome, as a legislative compromise type of financial reporting and approach based on the concept of true and fair view. This accounting document provides the possibility to choice between several alternative accounts of resolving the various issues and granted to the Member States options relating to its application.

Besides the German influence, the directive had a strong Dutch influence. The influence of German marks thematic assessment under the historical cost method and the adoption of specific instructions on presentation of the balance sheet and profit and loss account.

Dutch influence is based on the option of choice the bases for evaluation and brief description of the annual accounts. At this stage the directive's objective was to obtain an image as can be safe on the enterprises/businesses.

Entry into the European Union of Great Britain imposed the concept of true and fair view, so that the annual accounts must meet the principles of accounting accordingly to the rules and to give an accurate picture on businesses. These ideas have influenced the content of the directive related on the rules of presentation of financial statements and the assessment items described therein. Historical cost has become legal the principal basis of the official evaluation of the accounts, other bases are considered derivative thereof.

Harmonization / convergence of accounting by the fourth principle imposes the principle of a true image as a main element of the group of accounting principles, considering that the other principles are derived and it is subordinate.

Fourth Directive of the European Economic Community explains the need for the adoption of uniform accounting policies for the Member States in the following situations:
company's work in Member States often extend outside national territory, providing them as collateral for third parties only capital; 

- competition between companies may be unfair due to legal conditions favorable to certain activities in some countries;

- presenting a true picture of business.

The VII th Directive role in the European process of normalization

The VII th Directive of the European Union is aimed primarily to uniform regulation on the Community rules and practices for preparation and presentation of consolidated accounts. The VII th Directive of the Council is coordinating the legislation on consolidated accounts (at group level) and defines the circumstances to be drawn up the consolidated accounts.

Done in June 1983, Directive VII is presented as a continuation of the process of European accounting harmonization, process started by the IV Directive, having the following main objectives:

- to ensure comparability of information provided by the consolidated accounts for external users, particularly for investors and third parties;
- to create some uniform conditions for the operation of a common capital market, by eliminating national differences regarding the preparation of these consolidated accounts;
- to achieve a true picture in terms of assets, financial position and results of groups of companies.

In Romania, the regulations comply with Directive VII of the European Union, largely assimilated provisions applicable to groups of companies and conducting business in Romania. Generic, the group, according to national regulations and European companies is the body of companies composed of parent company and its subsidiaries.

In principle, the group illustrates consolidated financial statements, with the main objective faithfully informing users on the financial position and results for entities members of the group, considered as a whole.

3. The importance and purpose of the annual financial statements

The purpose of financial statements is to provide an accurate picture of financial position and performance of the legal person for that financial year. As such, the financial statements:

- must to provide an information about financial position, performance and cash flows of an enterprise;
- must to provide information to enable users to conduct forecasts of future cash flows, in particular relating to maturity (sequence) and their likelihood/probability.

In this sense, the information concerns:

- the assets controlled by the enterprise, so the resources generating future cash flows;
- the enterprise debt, so external liabilities which mean to be found to the origin of payments;
- equity, as a residual ownership interest in the assets controlled by the enterprise;
- the net result of the company and to a wider acceptance, its economic performance, reflecting the evolution played by equity (net assets), development of which the operations are not conducted direct by business with its owners;
- the past derived cash flows which may be the basis for determining future cash flows.

In exceptional circumstances, established by order of the minister of public finances, the Provisions of simplified accounting regulations harmonized with European directives will not apply if they contradict the image of the true financial position and performance of the legal person.

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Any such waiver will be disclosed in the notes, with the reasons which led to the base of indication and influence of assets, liabilities, financial position and performance of the legal person, located in one of these cases.

The annual accounts situations must comply with the Accounting Law no. 82/1991 republished, with subsequent amendments and accounting regulations harmonized with European Directives.

When applying accounting regulations harmonized with the European directives is not sufficient to give an accurate picture, the accounting treatment applied must be accompanied by presentation, in the explain notes, of some additional information that is credible and relevant to users' needs in decision-making.

4. The principles concerning the preparation and presentation of financial statements

According to accounting regulations in Romania, the evidence presented in the annual accounts shall be valued on the basis of the accounting principles set out in Order no. 1752/2005 - the "General Accounting Principles", under the accrual accounting.

Thus, the effects of transactions and other events are recognized when transactions and events occur and not as the treasury or its equivalent is received or paid and are recorded in the accounts and reported in the financial statements of the periods involved.

Principles concerning the preparation and presentation of financial statements are the following: the principle of business continuity, the principle of consistent methods, the precautionary principle, the principle of independence of the financial year, the principle of separate evaluation of assets and liabilities, the principle of no-compensation, the principle of prevalence of the economic over the legal, the principle of threshold meaning.

The principle of business continuity. This principle implies that the entity continues functioning normally, without going into liquidation or reduction of activity. If an entity managers have become aware of some elements of uncertainty related to certain events that may lead to its inability to continue their work, these elements must be presented in the notes.

If the annual situation accounts are not prepared on the basis of continuity, this information should be presented, along with explanations on how to draw up their reasons for the decision to state that the entity no longer can continue business.

The financial statements should be prepared on the basis of principle of continuity the business, unless management intends to liquidate the enterprise or to cease the activity, or has no alternative. When the management drawing up the financial statements and has knowledge of the uncertainties regarding events or conditions that cause doubts about the capacity to continue their work, these uncertainties should be highlighted in the explaining notes. If financial statements are not prepared on a continuity of work, this must be shown together with the preparation of financial statements and the reason why they enterprise will not be able to continue business.

Given that the enterprise appreciates the presumption of continuity of work should be taken into account all the information available for the foreseeable future, at least 12 months from the balance sheet date, but this standard does not restrict this period.

The importance of this is relative:
  a. if the activity was profitable in the past and easy access to financial resources can reach the conclusion that the presumption of continuity of work is appropriate through a detailed analysis;
  b. the leadership is forced to consider a range of factors affecting the current and anticipated profitability, graphs debt repayment and potential sources of refinancing before being sure that the presumption of continuity of work is appropriate.

The principle of consistent methods. Methods of assessment should be applied consistently from one year to another. The presentation and classification of items from the financial statements must be maintained from one period to another, unless:

a. significant change in the nature of the enterprise or a review of financial statement presentation demonstrates that the change will result in a proper presentation of events and transactions;
b. a change in presentation is required by an International Accounting Standard.

**The precautionary principle.** Assessment should be made on a prudent basis and in particular:

- can be included only profits made at the balance sheet date;
- must take account of all debts incurred during the current financial year or a previous year, even if they only become apparent between the balance sheet date and the date of its preparation;
- must take account of all foreseeable liabilities and potential losses arising in the current financial year or a previous financial year, even if they only become apparent between the balance sheet date and the date of preparation;
- must take account of all depreciation, whether the result of the financial year is profit or loss.

**The principle of separate evaluation of assets and liabilities.**
Under this principle, the elements of assets or liabilities should be assessed separately.

**The principle of intangible.** According to it, the opening balance for each financial year must correspond with the closing balance of the preceding financial year.

**The principle of no-compensation.** Any compensation between assets and liabilities or between items of revenue and expenses is prohibited. Any eventually compensation between the claims and liabilities of the entity against the same trader can be performed, with respect of the legal provisions, after recording the accounts of revenue and expenditure to the full value.

The compensation, either in balance sheet or in the profit and loss account, unless it reflects the economic substance of transactions or events, diminishing the ability of users to understand the transactions undertaken and to assess the future cash flows of the enterprise.

**The principle of prevalence of the economic over the legal.** Presenting the values in the balance sheet and profit and loss account is done taking into account the economic background of the transaction or the reported operation not only on their legal form.

**The principle of materiality/significance threshold.** The balance sheet items and the profit and loss account are preceded by arabic numerals which may be combined if they represent an insignificant amount, or such combination makes for greater clarity, provided that such combination of elements to be presented separately in notes.

The deviations from the general accounting principles provided for in this section may be made in exceptional cases. Any such deviations must be presented in the notes, also the reasons which have led, together with an assessment of their effect on the assets, liabilities, financial position and profit or loss account.

**The materiality/significance and aggregation threshold.** Significant elements of the financial statements should be presented separately in the financial statements. The insignificant values should be aggregate with value of similar nature or function and should not be presented separately.

The objective process of aggregation and classification is the presentation of condensed and classified data that form the rows will be in the financial statements or in the notes. Between the lines of financial statements and the notes there is a direct correlation is a sense that an element which is not significant enough to be presented in the financial statements as such, may be sufficiently significant so as to be presented separately in the notes. Conceptually, the information is material if its failure could influence economic decisions of users taken on the basis of financial statements, in this regard the materiality threshold plays a significant role.

It depends on the size and nature of the item judged in the circumstances of its omission.

All these principles, however, should be reported to the IASB Framework, which makes explicit the concepts of commitment accounting and business continuity as basic principles.

By interpreting and assimilating to them it add concepts: fair representation, the prevalence of economy over the legal, prudence, intangibility, threshold of significance, permanent of methods, the neutrality of information, the nature of the information.
In order to achieve its objectives, the financial statements are prepared under the accrual accounting. Thus, the effects of transactions and other events are recognized when transactions and events occur (and not as cash or its equivalent is received or paid) and are recorded in the accounts and reported in the financial statements of the periods involved.

The financial statements prepared on the basis of this principle give users data not only about past transactions, which involved payments and receipts, but also the payment obligations of the future and the resources on future earnings.

Thus, they provide the most useful type of information relating to transactions and other past events that are required of users in making economic decisions. For the operation of these accounting systems is required to respect the principle of continuity of work, principle governing their operation.

5. Conclusions

Businesses/enterprises around the world prepare financial statements to be presented to external users.

The objective of financial statements is to provide information about the company's financial position, the results (performance) and changes in financial position of the enterprises (cash flows). All this information satisfy common needs of most users, leaving out some non-financial and predictive informations.

Economical decisions, which are taken by users of financial situations require an entity to assess the ability to generate cash or cash equivalents and the safety of their generation. Users are able to assess this ability to generate cash or cash equivalents if they are offered information focused on financial position, performance and financial position changes of an entity.

Data on financial position are provided, first, by balance sheet, the ones regarding the outcome, through the profit and loss account, and information on changes in financial position through different situations.

Parts of the financial situations are correlated, because they reflect different aspects of the same transaction or of the same events. While each situation provides different information, it is likely that none will not serve a single purpose or provide all the information required by the specific needs of users. For example, the profit and loss account gives an incomplete picture of performance, if not used with the balance sheet and situation of financial position changes.

References:
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5. XXX Order of the Ministry of Economy and Finance no. 2374 of 12 December 2007 to amend and supplement the Minister of Public Finance Order no. 1752/2005 for the approval of accounting regulations in accordance with European directives