THE IMPACT OF THE INFORMATIONAL MARKET ON ACCOUNTING RESULT AND THE WAY OF PRESENTING IT

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Abstract:
Accounting is a social component. It records phenomena, facts, human activities and it provides information about the entities, with effect on the other agents of social and economic environment, establishing with it a connection of mutual dependence and influence. Accounting information respond to information needs and requirements that have been previously formulated. Accounting result is a product in the context of informational market and it represents an indicator that measures the performance of an enterprise. Like any product, it can be shaped depending on users and their needs. This study will emphasize precisely this aspect and it will show how the accounting result can be presented in various forms, depending on the expectations of those who access it as information, but at the same time respecting the legal provisions.

Key words: accounting result, performance, accounting information, creative accounting, knowledge society.

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Introduction
In a knowledge-based economy, the focus has moved from the physical goods-producing field to the production of information and knowledge. By its purpose to provide information, which is considered to be a great support in economic decision-making, accounting responds precisely to these social requirements. It determines behaviors, it can change directions and it can draw new roads for humanity to step on. A new accounting rule has impact on various groups of actors and it can lead to gains or losses for each category, with effect on the entire community.

The social function of accounting is not only a positive one, but also one with adverse effects on individuals and society, depending on the quality of the information it provides. It determines, in Pesqueux’s (1990) view, new approaches concerning equity on informational market, but also political, sociological and even philosophical approaches.

Given the fact that the company’s management must provide outside information on its performance, and the definition of performance is highlighted according to the interests of accounting information users, this study brings arguments according to what, the accounting result is an achievement addicted to the interests of the manager, to the users’ intentions and to the accounting models that are used.

Although the accounting result, reflected by statement of comprehensive income, is considered to be the primary indicator to measure the financial performance of the company, we draw attention to the fact that a proper assessment of an entity’s performance is not possible without using all the complete financial statements, containing information on the financial position, on performance and changes in financial position.
Determination of accounting result

The result of an economic activity is treated from two points of view: the accounting result and the fiscal result. This study submits to your attention the accounting result, which may be in the form of profit (surplus of income) or loss (shortage of income).

The accounting result (gross profit or the year’s pre-tax profit) expresses the positive/negative difference between the total revenue achieved, taxable and non-taxable, and total expenditure, deductible and not deductible. If the total revenues are higher than the total expenditures, the difference is positive and is called gross profit. If the total expenses are greater than total revenues, a negative difference is recorded, which is called gross loss. The accounting rules recognize the accounting loss as reductions of economic benefits, what may or may not be the result of the entities’ current activities.

Both revenues and expenditures, depending on their nature, can be divided into three categories: operational, financial and extraordinary.

The category of income/expenditures from exploitation is the one with the highest relevance in determining the result at the end of the period. This is because they have a permanent character, of continuity, unlike extraordinary income/expenses, that represent isolated, coincidental events. Because of this, the last category mentioned, although it affects the result size, is not defining.

Measuring the performance of the enterprise mainly aims to size the profit. The definition of profit is highlighted according to the capital concepts and the maintenance of the capital level – financial capital maintenance and physical capital maintenance. Without these, the profit can not be measured. Only active entries, in addition to the amounts needed for capital maintenance, can be regarded as profit, and so as a win, produced by the capital invested. Any amount in excess of that required to maintain capital at the level of the period beginning, is considered to be profit.

While the accounting profit is an indicator that measures the performance of the entities’ activities, used as a reference base to calculate other indicators, such as the profitability of the investment or the result per share, accounting loss expresses an accounting deficit and is a non-performance which the enterprise has to correct as soon as possible, so as not to negatively influence the company’s future activity, the enterprise’s existence and the continuity of activity being seriously put in danger.

According to accounting rules, so that the accounting result can correctly measure the performance of the organisation, it is necessary to respect the principle of connecting costs to revenues, meaning that, when quantifying an income in the results account, it is also necessary to quantify all the costs that contributed to obtaining the income.

The accounting result shall be calculated having regard to the requirements of the commitment accounting and respecting the principle of financial exercise independence. Profit is an indicator of economic efficiency only when all income and expenditures are accurately recorded and only when costs of revenue are taken into account, meaning only the expenditures which have generated that revenue.

According to the Accounting Law no. 82/1991, with the subsequent amendments and additions, „The principle of the exercises’ independence involves the delimitation in time of revenues and expenditures, for current activity, as performing and quantifying them in the exercise they refer to”. In accordance with article 19 of the same law, the profit or loss is cumulatively established from the beginning of the financial year (calendar year in our country), by closing the revenue and expenditure accounts at the end of the period.
The financial accounting information market and the accounting result

The information market is the frame in which enterprises draw up and publish financial accounting information, in order to meet the users’ demand and needs.

The most „traded” and known product in this market is the accounting result. According to it, those interested assess and decide whether an enterprise is prosperous or not, what are the chances to survive competition and if it is worth or not being the subject of an investment decision.

The company is both the subject of the information, and the information issuer. Thus, even if we rely solely on this aspect, we can affirm that the informational accounting products are subject to subjectivism.

Users are those that stimulate the release of information and that, without a doubt, influence both its form of presentation and its loyalty.

Source: Own projection.

The ensurement of good relations between the two groups is provided by the intervention of the accounting profession and the accounting regulatory bodies, national and international. They supervise, regulate, monitor, improve and ensure the quality of the information provided.

In a centralized economy, the main user of a company’s financial reporting is the Government, which uses the information for tax and statistical purposes. In a market economy, user groups will be larger and will include: investors, current and prospective shareholders, creditors, leadership, tax authorities, employees, customers, suppliers and others. Each of them has its own interests and requirements, and some even have a privileged status, as is the case of investors.

Romania has considered the provisions of the General Framework of IASB, to the extent that the priority structure of users in our country is similar to the one approved by the International Organization for Standardization (ISO).

The data from the financial statements is used to:

- to assess progress, past results and the present situation of the company;
- to estimate the potential future of it and the associated risks;
- to make predictions and decisions investment/collaboration decisions.

Below we make a critical analysis of the users’ interests and expectations, regarding the accounting result:

- **Investors** particularly aim the net profit, from which they can obtain benefits from the investments made, in the form of dividends. Some prefer a profit as big as possible, associated also to a big risk, while others track a moderate profit, continuity and a minimum risk. On the basis of accounting information they will decide whether to keep, sell or buy shares in an activity, depending on how profitable it proves to be.

The recorded results mean for investors, but also for other categories of financial accounting information users, the mirror of business profitability, of its prospects of continuity and development.

- **Employees** – in their vision, a positive result at the end of the period, signifies a profitable activity, what provides continuity of the work and, by default, job
stability, professional opportunities as well as a possible wage increase. The unions also seek the stability of the company and the degree of profitability.

- **Financial lenders** – are interested in the capacity of the company responsible for payment, to pursue a profitable activity, that allows the reimbursement of the rates established, at maturity, including the related interest rate.

- **Commercial lenders and suppliers** track the results obtained by the enterprise, in order to know what the successful prospects and chances of a fruitful collaboration are, as well as the risks of not recovering the debts. If the suppliers accept the payment at maturity, based on payment instruments, (promissory notes, for example), they want the entity to obtain profit, so that it can meet its obligations and settle the debts incurred, according to maturity graphs. Otherwise, the recording of loss and non-payment of debts, may seriously disturb the activity of business partners that have credited the undertaking concerned.

This category shows interest also to the accounting result materialized in the form of loss. If the company records a loss several years in a row, and enters the state of insolvency, commercial suppliers and creditors seek recovery of claims, by registration to credal mass. It is not the case of those suppliers that have been paid in advance.

- **Customers** – for them, a positive accounting result means business continuity and availability of the products and services they consume, especially if the producer/offeror is a dominant trading partner.

- **The state, the Government and its institutions** - oversee economic activity of enterprises and the results posted, to be able to make decisions regarding the elaboration of tax and investment policies, the collection of fees and taxes, and for statistical purposes and indicators determination, at the national economy level.

- **Public** - indirectly concerned, they want to obtain positive results due to the general social effects of the economic development. A profitable activity of an enterprise occupies a part of the active workforce, being regarded as an opportunity and temptation for future employees of the firm. The organisation, whose business is profitable, brings prestige, benefits and helps develop the area in which it operates. Major enterprises, which successively record positive results, may constitute true kernels for the population. They attract people and help the development of construction in that area, as well as the trading prices increasement for buildings located in the vicinity, can fundraise from the state in the form of investments in schools, parks and infrastructure.

If the recorded results represent decreasments of economic benefits, public’s mistrust and fear regarding economic development and wealth appear.

Without forgetting, but intentionally, we have left the **group of managers, members and shareholders** at the end. Accounting information is produced with the imposition and compliance with legal provisions, but under the control and, most of the times, depending on their interests. We can say that they have access to the information with the highest degree of fidelity. Other categories of users have access to the information „touched” by their interests.

Depending on the result and its size, business owners decide policies and plans for action and business development, substantiate strategies, schedule processes, make investment decisions, dividend distribution and loss coverage decisions.

If we call upon American specialist literature, accounting information users are divided in the following three categories (B.E. Needles, s.a., 2000):

- **Users in the management of the company**: owners, partners, board of trustees, managers, chiefs of departments, censors;
• **Users who have a direct financial interest:** current or potential investors, current or potential creditors;

• **Users who have an indirect financial interest:** tax components (central, local, etc.), monitoring bodies, planning components at different levels, miscellaneous groups - employees, trade unions, customers, the public, financial advisors, etc.

After all the aspects presented, we appreciate that the result is intended to serve, in particular, to the information needs of the firm’s investors and managers. While managers can have access to a real result, on the basis of which they will substantiate their decisions of internal politics and not only, investors will access an embellished result: if the accounting result is loss, it is surely bigger than the level shown in the profit and loss account, and if the result is profit, it is above the level of the real profit, in order to attract investments.

Although the accounting rules and practices are subordinate to faithful representation, we must admit and accept a truth: accounting system, at both national and international level, allows obtaining several informational endpoints and also financial, managerial, fiscal, operational endpoints, for the same events and economic transactions.

Profit is the most known and usual indicator used for assessing economic activity. Due to the importance granted in the assessment of an enterprise evolution, it is often modeled. This can be done by accounting methods and estimation methods used, or through the elements from the result account, which are not related to the exploitation activity, but may significantly influence the accounting result. We draw attention to the fact that the adjustment of result is done in accordance with the legal provisions, but taking advantage of the maleability of accounting rules, a practice known as *creative accounting*.

Thus, we can say that the result has a highly subjective character, due to a large diversity of users, each with its own interests which, many times, end up in conflict. As a product offer is being shaped depending on the demand for that product, in the same way it seems that information production is adapting, depending on users’ needs. We must attract attention to the fact that, through creative accounting, users will rather receive information that determines them to take decisions in the company’s benefit and not what wait and need – real, non-distorted, ethical information.

Importance and freedom granted to accounting judgement also increase subjectivism and result’s relativity. The management of the enterprise and the accounting professional have different forms by which they may change, significantly, the real situation of the result.

Business managers have to make a delicate choice, between the obligation to present the results at their actual size (in accordance with *the principle of true image*) and the temptation to optimize them, in such a way that investors consider them very attractive.

If we take into account the conflict of interests on the informational market and the fact that the truth surprised in the result account is being influenced by the human subjectivism, we appreciate that the information provided by the financial statements must be carefully interpreted.

Although the representation of reality is imperfect, the accounting shall transmit, however, through accounting result, a message regarding the company’s performance. We have to regard the fact that it will be, most of the times, one that aligns with the interests of the entity.

**Conclusions**
We appreciate that accounting result is a construct, because rules compliance is relative, users’ interests and requirements are diverse, and the truth concerning the faithful representation of the result corresponds to a particular period, to a particular economic and social environment and to a certain culture.

A multitude of information needs, of the various users of accounting information, require the construction of two representations of the same reality: an internal representation for the needs of the company, for management, and an external one, known as general accounting. Both relate to the performance of the organisation. General accounting deals with the overall result and management accounting with the analytical result.

If we should take into account the fact that accounting system serves with priority to the management of the company and its interests, and that businesses are able to juggle with various accounting policies, the issues relating to reliability, trustworthiness and usefulness of accounting information, become questionable. From an investor’s point of view in particular, but not only, we must analyze if, after communicating the results, information users are informed or misinformed.

Most often, accounting information users are interested in the company’s ability to generate profit and in its size. As long as they will judge the performance of the work depending on how big is the result obtained, managers will be tempted to use practices which further obtaining a sized profit, according to the users’ expectations. Thus, information request has an influence on their own production.

The question arises whether the phenomenon of information manipulation concerning the results can be removed. In our view, this remains a difficult task as long as the accounting rules leave room for interpretation and alternative solutions. As in any field, there is no perfection in accounting. However, it is the main provider of information products that meets the request expressed by users in the informational market.

Finally, we appreciate that the profit/loss, as a form of metrialize the accounting result, and its size, is a construction more or less anchored in reality. Whatever the purpose regarded is, manipulating the size of the result has a negative impact on the quality of information provided by the financial accounting system.

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aprobate prin Ordinul ministrului finantelor publice nr. 1.752/2005, cu modificarile si completarile ulterioare.