

SOME OPINIONS ABOUT THE ANNUAL FINANCIAL STATEMENTS' OBJECTIVES AS PRESENTED IN THE I.A.S.B. CONCEPTUAL FRAME

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Abstract:

The conceptual frame having the quality of accounting representation system sets the concepts on which the elaboration and presentation of financial statements for the external users are based. It was conceived to impel the creation, development and revision of the International Accounting Standards, to support the accounting harmonization by reducing the number of accounting alternatives and treatments, to offer assistance to the producers of financial statements and the national standardization organisms.

Key words: *conceptual frame, annual financial statements, financial informing, the objectives of the financial statements, the financial information users.*

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In an article of reference, titled *Commentaire analytique et du projet de cadre conceptuel de CPDC – 1996*, Bernard Colasse specified: for practical reasons, not the entire assembly of the enterprise's accountancy can be put at the disposition of all external persons that are interested in the entity, also known as **external or public users**. Those users are informed about the accountancy through the presentation of situations resuming it; these situations designated by the generic name of **accounting statements**; since the information presented in them is of financial nature, the most common name for them is **financial statements**.

Bernard Colasse also mentions in the 7th paragraph of the previously mentioned study that: the objective of the accountancy conceptual frame is to create these statements, so they can offer the large public a useful representation of the enterprise – more precisely, about the achievement from the financial perspective of its finality.

By synthesizing the above, the accountancy fulfills its main role by the presentation of accounting (financial statements).

For almost four decades, the international accounting thinking tries to formulate a conceptual frame able to assure the theoretical fundament of this discipline.

The accounting practices of the market economy countries can not be conceived nowadays without the references to the principles governing the accountancy.

The studies made regarding the accountancy's conceptual frame are unanimously agreeing that the accounting statements have for objective the necessity to put at the users' disposition the informational base necessary to fundament the economic decisions.

There is also consensus about the fact that, in order to take economic decisions, the users of financial statements must first do analyses to determine the enterprise's ability to generate liquidities as well as the moment and the certainty of their generating.

The general frame for the elaboration and presentation of the financial statements was elaborated by the I.A.S.B. and published in 1989, is not a standard and includes, according to the I.A.S. stipulations, the following:

- The financial statement's objectives;
- The qualitative characteristics of the financial statements;
- The structures of the financial statements;
- The concepts of capital and preserving the capital.

In agreement with the ideas presented already, we can affirm: **the general frame represents “a coherent set of objectives and fundamental principles, related to one another, capable of leading to the creation of solid norms and identifying the nature, role and limits of the financial accountancy and financial statements.”**

The most important aspect of the general frame is therefore the one regarding the **describing of the financial statement's objectives**. In other words, *“the main characteristic of a conceptual frame is the clear delimitation of objectives specific for the accountancy. The objectives represent the targets and the aim the accountancy pursues.”*¹

The 2002 edition of the International Accounting Standards points out: **“the general frame sets the concepts on which the elaboration and presentation of the financial statements for the external users are based”**².

It was conceived to impel the creation, development and revision of the International Accounting Standards, to support the accounting harmonization by reducing the number of accounting alternatives and treatments, to offer assistance to the producers of financial statements and the national standardization organisms.

The International Accounting Standards are based on the general conceptual frame, without limiting the manifestation of the professional reasoning.

The major disadvantage of an accounting system based on the general frame, besides the multiple advantages derived from its definition, resides in the exacerbation of the accounting creativity having as real consequences the artistic cosmetic transformation of the financial statements and the misleading of certain, less sophisticated, categories of users.

For these reasons, we noticed that the Romanian accounting system, at the same time with the new regulations imposed by the accounting harmonization program, chooses an original solution: **adopts the I.A.S. general frame and keeps the accounts plan** (with the necessary improvements afferent to the requirements of the International Accounting Standards).

We hope that in the future the state will not be able to control anymore the phenomenon of financial reporting and the national plan of accounts will be dismissed, making space for the affirmation of the professional reasoning and the applying of the International Accounting Standards' concepts and principles.

Returning to the aspects aimed by the conceptual frame, **“the objective of the financial statements is to give information about the enterprise's financial position (the balance sheet), the performance (the profit and loss account), the changes of the financial position (the cash flows statement) that are useful for a large amount of users in economic decisions taking process.”**³

The financial statements also present the result of the enterprise's management by its leadership, inclusively the manner of the resources' administration.

Those users that want to evaluate the way in which the administration of the firm is made or the leadership's responsibility use those to help them take economic decisions.

¹ Farcane N., Cotlet D. – The Reform in the Romanian Accounting System, Ed. Orizonturi Universitare, Timisoara, 1999.

² *** The International Accounting Standards, Edition 2002, Ed. Economica, Bucuresti, 2002.

³ Greuning H., Koen M. – The International Accounting Standards. Practical Guide., Bilingual edition, Editura Irecson, Bucuresti, 2003.

The financial statements elaborate are usually satisfying the common necessities of the large majority of users. However, they do not assure all the information necessary to the users for the fundament of their economic decisions because they reveal the financial effects of past events and do not generally offer non-financial information.

The principal responsibility to elaborate and present financial statements belongs to the enterprise's leadership

The objectives of the financial informing are always various, in permanent correlation with the users' necessity of informing.

The common denominator of different authors and accounting organism points of view regarding the main objective of the financial informing seems to be the necessity to be useful to the users in taking the economic decisions.

The objectives of the financial statements can be synthesized in three categories:

- **Objectives for taking the economic decisions;**
- **Objectives concerning the presentation of an information that evaluates the future cash flows;**
- **Informing objectives regarding:**
 - **The entity's financial situation;**
 - **The entity's performance;**
 - **The debts and solvency;**
 - **Liquidity, eligibility and financial flexibility.**⁴

Taking into account the realities of the economic-social domain and their evolution, we consider that in the future will emerge other objectives of the financial statements targeting the following aspects:

- The relation with the personnel of the firm;
- The relation with the surrounding environment.

We found out that the objective of the accounting information is to offer utile information for taking the best economic and financial decisions by reading the specialized literature that the notion of utility is treated in the opinion of the Financial Accounting Standards Board (FASB) as it was affirmed in the *Statement of the Financial Accounting Concepts nr. 1*.

So, it can be said that "the objectives of the financial statements are those through which is guaranteed the offer of information like:

- That are used by the ones taking decisions of investment or credit;
- Useful for the present or potential investors and creditors, but to other users too in regard to estimation of the sum, some scheduling, and the future cash flows' degree of uncertainty;
- Regarding the economic resources, the rights on those resources and their variations."⁵

In the vision of the F.A.S.B., these synthetic accounting statements by the information generated give priority to the decisions of the investors and creditors, recognizing however the necessity of offering information for other users, like the managers, employees or state.

F.A.S.B. starts from the premise the decision takers take "*decisions based on rational patterns, though in real life the decisions are taken by individuals based on irrational patterns.*"⁶

⁴ Tabara N., Chettrariu G. – The Annual Accounts in the Enterprise's Informational System, in the Firm's Management and Accountancy Review nr. 2/2002, Bucuresti .

⁵ Doinea Ov. – The Annual Financial Statements – national theory and methodology, Ed. Universitaria, Bucuresti, 2005.

⁶Olimid L. – The Measurement of the Accounting Result, Ed. Economica, Bucuresti, 1998.

M. Page proposes in fact an objective of the financial statements that accentuates responsibility in accountancy, respectively: *“to allow the enterprises and other economic agents to enter economic partnership and make transactions impossible in other conditions represents the aim of the financial reporting.”*⁷

The general formulation specific for France concerning the objective of the financial statements underlines the fact **they should offer a true image of the patrimony, the financial situation and the results.**

The General French Accounting Plan points out nevertheless that the information given by the synthetic accounting documents must be in concordance with the needs of the different users interested in them, their palette being rather vast, and they have various and heterogeneous requests.

As we said before, the financial statements' objective as presented in the I.A.S.B. conceptual frame is to offer an informing regarding the financial situation, the performance and the evolution of the financial situation, that could be useful for a large range of potential users, found in the position of taking economic decisions.

The Romanian Accounting Regulation shows that the financial statements represents a part of the financial reporting process, having for objective the provision of information about the enterprise's financial position, the performances and the changes of the financial position useful to many users in their decision taking process.

These financial statements generated by the financial accountancy satisfy the common requirements of the majority of users.

In order to achieve their objectives, the financial statements are elaborated in conformity with the settlement of accounts' accountancy, starting from the premise that an enterprise will continue its activity in a predictable future.

Consequently, the financial statements offer information to the users about past transactions that involved payments and cash receipts, as well as future payment obligations and cash receipts.

By presenting the opinions of various standardization organisms and some specialists that are representative for the accounting doctrine, we notice the concept of accounting information utility is situated in the center of the interest shown by the users.

We must remember with this occasion the norms of the 4th European Directive that specify that the objectives of a firm's accountancy are to furnish synthetic documents offering the true image of the patrimony, financial situation and the result of budgetary year, so to give to the users when they manifest interest in the economic decisions' taking process the useful information needed.

This study on the objectives of the financial statement would not be complete without the researches of the Trueblood Committee – a work group created in 1971 from the initiative of the American Accounting Profession Organism.

This committee that had the mission to study the financial statements' objectives presents list of 12 objectives, the first position being occupied by the offer of useful information in the economic decision taking process. This list is the mile stone for all the conceptual frames elaborated afterwards.

The Trueblood Committee recommendations upset completely the traditional accounting thinking because *“they connected the accounting information with the decisional process, specifying at the same time that the main interest of the user is rather focused on the future cash flows than on the accounting benefit”*⁸.

The conclusions of the Trueblood Committee were considered too radical, reason for which they were abandoned for the moment. But they inspired afterwards all

⁷ Page M. – The A.S.B.'s Proposed Objective of Financial Statements: Marching a Step Backwards? A review Essay, British Accounting Review, nr. 24/1992, London

⁸ Felega N., Ioanscu, I. – Treaty of Financial Accounting, Vol. 1, Ed. Economica, Bucuresti, 1998.

the I.A.S.B. papers, especially the six directives emitted between 1978-1985 and titled *Statements of the Financial Accounting Concepts*.

We can draw the following conclusion from the data presented previously:

1. The financial statements' objectives vary from a formalization organism to another as follows:
 - utility for a large range of users in the opinion of I.A.S.B. and C.E.C.C.A.R. – M.F.P. Romania;
 - utility for investors and creditors first of all in the F.A.S.B. opinion;
 - social utility of information for employees and employers in the O.E.C. France opinion;
 - achievement of a true image on the patrimony in the O.E.C. France opinion;
 - publishing the financial statements in order to inform in the A.S.C. Great Britain and I.C.C.A. Canada opinion.
2. The tendency to adjust the financial information to the financial market;
3. The tendency to privilege the short-time economic analyses;
4. The tendency to predict the enterprise's resources and performances on short-time.

It is really obvious that the formulation of the financial statements' objectives is dominated by users-oriented approach. But even if the same approach is used, the objectives aimed vary from one country to another depending on the economic, political, juridical and cultural environment.

All the standardization organisms worldwide have stated and universal objective for the synthetic documents, without mentioning that it must be differentiated depending on the enterprise's size and juridical status. Therefore, some small and middle enterprises are forced to consume important resources for the elaboration of the financial statements and they do not recognize the utility of the financial information in the foundation of the internal management decisions.

The elaboration of some universally valid objectives for small and middle enterprises is a long-term problem, since these enterprises do not represent a homogeneous group.

Disparities may exist sometimes between the announced objectives and the real ones.

*"It is possible for a manager to be reserved in recognizing that he does not use the synthetic documents for managerial decisions. Another can pretend they are useful only to be presented to the fiscal authority"*⁹.

But these disparities between the announced and real objectives can be estimated.

In conclusion, our opinion is that the achievement of the financial statements' objectives presented above will contribute to the attainment of the accounting system's objectives, respectively:

- The foundation of the economic decision;
- The control activity upon the financial engagements;
- The ability to give the justice the necessary material to prove a felony;
- The establishing of the enterprise's diagnosis;
- The furnishing of the data necessary for the national accountancy;
- And, in general, in the process of business regulation.

⁹ Malciu L. – The Request and Demand of Accounting Information, Ed. Economica, Bucuresti, 1998.

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