CONTENTS OF EXPLANATORY NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF LEGAL PERSONS WITHOUT PATRIMONIAL PURPOSE

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Abstract:
Annual financial statements give a true and fair view of assets, liabilities, financial position, surplus or deficit on activities without patrimonial purpose and special purpose activities. Annual financial statements and annual financial statements that are simplified represent a whole. According to the law of accounting, annual financial statements must be accompanied by a written declaration from the leadership body of the legal person assuming responsibility for annual financial statements in accordance with Accounting rules for legal persons without patrimonial purpose.

Key words*: information, financial, annual, principles, activity.*

JEL classification: *M4*

Legal persons without patrimonial purpose draw up annual financial statements which include:
- balance sheet;
- profit and loss account;
- notes to annual financial statements.

Employers' organizations and unions, as well as other organizations without patrimonial purpose, which do not engage in economic activity, prepare simplified annual financial statements comprising:
- shorthand balance sheet;
- shorthand account of the income year;
- notes to annual financial statements simplified.

Annual financial statements give a true and fair view of assets, liabilities, financial position, surplus or deficit on activities without patrimonial purpose and special purpose activities.

Unincorporated subunits, which are legal persons without patrimonial purpose resident in Romania to organize and lead their own accounts to trial balance level, but do not prepare annual financial statements.

The work undertaken abroad by unincorporated subunits, owned by legal persons without patrimonial purpose established cin Romania, is included in the financial statements of the Romanian legal entity and reported in Romania, according to these regulations.

The exchange rate used for conversion into national currency of balance checks drawn in another currency is the exchange rate by the National Bank of Romania, valid for the balance sheet date. This course is specified in the notes.

The regulators may require additional information to be included in the annual financial statements in addition to those to be presented in accordance with these regulations.

The format of the profit and loss account and balance sheet, particularly regarding the form adopted for their presentation, can not be changed from one year to another. In exceptional cases, deviations from this principle are allowed. Any such deviation must be disclosed in the notes, together with an explanation of the reasons which have led to them.

The format, sequence and terminology of the elements in the balance sheet and profit and loss account that are preceded by Arabic numerals must be adapted, if the specific nature of a legal entity without patrimonial purpose requires it. Such adjustments should be made when required by special regulations issued by Regulatory authorities.

To every element of the balance sheet or the profit and loss account, the corresponding value of the element in the previous year must be associated. An element of the balance sheet or the profit and loss account for which no value exists should not be given unless there is a corresponding item from the previous financial year.

The balance sheet is the summary document which sets out the assets, liabilities and capital of the legal entity without patrimonial purpose at the end of the financial year and in other cases provided by law.

In the balance sheet, assets and liabilities are grouped by nature and liquidity or nature and chargeability, respectively.

If an asset or a liability is related to more than one item in the balance sheet format, its relationship with other elements is to be presented in the notes, if such a presentation is essential for understanding the annual financial statements.

Shares in affiliated entities should be presented only in the elements provided for this purpose.

The explanatory notes should:

a) submit information on accounting rules that were the basis for drawing up annual financial statements and the accounting policies used;
b) provide additional information not presented in the balance sheet and profit and loss account, but which is relevant for the understanding of any of them.

The accounting policies are the principles, bases, conventions, rules and practices applied by an entity in preparing and submitting annual financial statements.

Examples of accounting policies are as follows: Depreciation (choice of method and duration of depreciation), re-evaluation of fixed assets or retention of their historical cost, interest capitalization or its recognition as an expense, the choice of evaluation procedure of the stocks, etc..

The management of each entity must establish accounting policies for operations performed. These policies should be developed given the specific activity, by economic and technical specialists, connoisseurs of work undertaken and the strategy adopted by the entity. When developing accounting policy the general accounting principles set out in these regulations should be followed. Accounting policies should be drafted to ensure delivery by the annual accounts of certain information which should be:

a) relevant to the needs of users in decision making; and
b) reliable in that: accurately represent assets, liabilities, financial position and the profit or loss, are neutral, are prudent, are complete in all material respects.

Change in accounting policies is permitted only if required by law or resulting in more relevant or reliable information on the entity's operations.

The following are not considered changes in accounting policies:

a) adopt an accounting policy for events or transactions that differ in nature to events or transactions that occurred previously;
b) adopt an accounting policy for events or transactions that have not occurred previously or were immaterial.

Explanatory notes are presented systematically. For each significant element of the annual financial statements there must be related information in the notes. The explanatory notes should include information on evaluation methods applied to various elements of the annual accounts and the methods used for calculating the value adjustments. For items included in annual financial statements that are or were originally expressed in foreign currency, the bases of conversion used to express them in local currency must be presented.

The notes must also include the following information:

a) the name and registered office of each of the entities in which the entity owns either directly or through a person acting on their own behalf but from the entity’s account, representing a participating interest share capital of at least 20%, showing: the proportion of capital held, the amount of capital and reserves, profit or loss for that entity for the last financial year for which annual financial statements were approved;
b) the name, headquarters or registered office and legal status of each entity with which the entity is associated with unlimited liability.

It must be mentioned, however, whether the annual financial statements have been prepared in accordance with the Accounting Law no. 82/1991, republished, amended and supplemented and the provisions contained in these regulations.

The following information must be presented clearly and repeated as often as necessary, for their clear understanding:

a) the name of the reporting entity;
b) that the annual financial statements are its own and not belonging to the group;
c) the date on which they terminated or the period covered by the annual financial statements;
d) the currency used in the annual financial statements;
e) expression of the figures included in reporting (eg, RON).

An entity shall submit the following, if they were not presented in the annual accounts: the main place where they operate, if different from the registered office, a description of the nature of work undertaken and the main areas of activity, any other information which, according to directors and managers, helps present a true picture of entity.

The explanatory notes outline the nature and purpose of the entity's liabilities, not included in the balance sheet, and the financial impact of such undertakings on the entity, if the risks or benefits from such commitments are significant and to the extent that the submission of such risks or benefits is necessary for assessing the entity's financial position.

Information on balance sheet items. Explanatory notes should include: periods of useful life or depreciation rates used, methods of depreciation used, increases in the value of property, with separate indication of those arising from the internal development process; value of intangible assets in progress.

When intangible assets presented in the balance sheet include costs of development, the notes must include the following information:

a) the period during which the fixed expenditure will or is to be written off;
b) the reasons which led to their recognition as assets;
c) the explanatory notes must show, for each group of tangible assets, the following information:
    a) the bases of evaluation used to determine gross book value (historical cost or re-evaluated amount). If you have used different bases for assessment, then they presented for each group separately the gross book value of the group;
    b) the depreciation methods used;
    c) the current value of tangible assets.

If the tangible elements are expressed in re-evaluated amounts, the time and conditions of the revaluation must also be shown.

The acquisition or production costs of the stocks highlighted in the review are also to be presented in the notes along with the stock assessment methods. If, in exceptional circumstances, the directors decide to change the method of valuation for a particular item of stock or other fungible assets, the following information is to be presented: reason for the method change, and the financial effect on the outcome of the financial year.

The amount of inventories pledged to debts must also be submitted. An entity must submit in its notes a classification of claims presented in the balance sheet classified in an appropriate manner to the work undertaken and amounts receivable from affiliated entities and associates should be shown separately. The notes should show the amounts owed by the entity that fall due after more than five years and total debt of the entity covered by collateral deposited with it, with indication of the nature and form of collateral. This information should be presented separately for each item of the balance sheet of the nature of debt, according to the balance sheet format provided in these rules.

If the entity has issued financial securities during the financial year, the following information should be submitted: type of securities issued, for each class of securities issued: the amount of the issue and the amount received.

If bonds issued by an entity are owned by a person designated or empowered by that entity, the notes indicate the nominal value of the bonds and their book value.

In the case of obligations for which reserves have not been established, the following information shall be submitted:

a) exact or estimated value of that obligation;
b) the legal nature of the obligation and its effect
c) whether the entity has made a significant security on that obligation and, if so, the nature of the guarantee.

Any commitments concerning pensions and affiliated entities should be presented separately.

If during the financial year an amount is transferred to or from reserves, the following information is to be presented in the notes:

a) the amount of provisions at the beginning of the financial year;
b) the amount by which reserves have been increased or decreased during the financial year;
c) the nature, source or destination of any such transfers;
d) the amount of provisions at the end of the financial year.

Regarding the entity's capital, the following information shall be provided:

a) if the entity has no authorized capital, the capital contribution;
b) if, under the act of association, entity has an authorized capital, its value and the amount of capital contribution when setting up the entity or when the entity is authorized to commence business and when any change in the authorized capital occurs.

For each category of reserves included in equity, its nature and purpose are described.

The explanatory notes should include information on income and expenditure for the financial year, grouped according to the nature of the activity meaning activities without patrimonial purpose, special purpose activities or economic activities as well as information on the creation and use of funds for non-patrimonial activities.

It sets out the extent to which the calculation of surplus / profit or deficit / loss for the financial year was affected by an assessment of the evidence, notwithstanding the general accounting principles and valuation rules set out in these regulations has been made in the current financial year or in a year before.

The notes should include separately proposed distribution of surplus / net income by function, as follows: amounts allocated to reserves, the amounts allocated to cover the deficit / loss accounting in previous years, other allocations.

General accounting principles

Evidence presented in annual financial statements is evaluated in accordance with general accounting principles provided in this section, under 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 recorded in the accounts and reported in the financial statements of the periods involved.

The principle of going concern. It must be presumed that a legal person without patrimonial purpose operates on the principle of going concern.

This principle requires that the entity continues its normal operation without going into liquidation status or significant reduction in activity. If the managers of an entity are aware of some elements of uncertainty related to certain events that may lead to inability to continue work, these elements must be presented in the notes. If the annual financial statements are not prepared on the basis of continuity, this information should be presented, together with explanations on how they are drawn and reasons for the decision that the entity no longer able to continue working.

The principle of consistency. Assessment methods must be applied consistently from one year to another.

The principle of prudence. Assessment must be made on a prudent basis and, in particular:

a) only the surplus / profits made at the time of the balance sheet can be included;
b) must take into account all debts incurred during the current financial year or a previous year, even if they become apparent only between the balance sheet date and the date it is drawn up;
c) must take into account all foreseeable liabilities and deficit / potential losses arising in the current financial year or a previous year, even if they become apparent only between the balance sheet date and the date it is drawn up;
d) must taken into account all depreciation, whether the result of the financial year is lack / loss or surplus / profit.

The principle of independence of exercise. You must take into account the income and expenditure for the financial year, regardless of the date of receipt or payment of such income and expenditure.

The principle of separate assessment of assets and liabilities. Under this principle, the components of the assets or liabilities must be valued separately.

The principle of inviolability. The opening balance for each financial year must correspond with the closing balance of previous financial year.

The netting principle. Any offset between assets and liabilities or between income and expense items is prohibited. Any compensation between claims and liabilities of the legal person without patrimonial purpose to the same entity can be made, respecting the law, but after recording accounting revenue and expenditure at full value.

Deviations from the general accounting principles in this section may be made in exceptional cases. Any such deviations must be listed in the notes and the reasons which have led to them, together with an assessment of their effect on the assets, liabilities, and surplus / profit or deficit / loss.

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