

QUALITATIVE CHARACTERISTICS AND UTILITY OF THE INFORMATION CONTAINED IN FINANCIAL STATEMENTS IN MAKING DECISIONS

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Abstract:

Romanian accounting harmonization with European accounting was achieved by European directives, especially the Fourth Directive and the Seventh Directive. This harmonization was made gradually from Finance Minister Order no. 94/2001, which by moving to the vertical balance approach the format of financial statements closer to the Anglo-Saxon than the French. Also, by determining the net asset decisions provides useful information for decisions not only information about patrimonial situation. To be most useful in decision-making process the information contained in financial statements must meet the following quality characteristics: relevance, credibility, intelligibility and comparability.

Key words: financial statements, relevance, credibility, intelligibility, comparability

JEL classification: M41

1. Qualitative characteristics of information contained in financial statements in accordance with the Framework for Preparation and Presentation of Financial Statements

General framework for the preparation and presentation of Financial Statements of IASB (International Accounting Standards Board) approved by the IASC Council (International Accounting Standards Committee) in April 1989 and adopted by IASB in April 2001, classifies the main qualitative characteristics of the financial statements: understandability, relevance, reliability and comparability

Intelligibility represents a particular characteristic of the information which helps the users to understand the information in the context of decision making. Relevant information are not necessarily excluded starting from the assumption that they may be too complex or difficult to understand for some users. Intelligibility is also high when information is classified and presented clearly and concisely.

To be useful in making decisions, accounting information must be relevant; they must have a predictable value and / or confirmatory value. Another component of relevance is timeliness or the actuality. Information is timely when it is available to users early enough to be used in decision making. The need for actuality information implies that this information is regularly offered to users.

Relevance of information is influenced by its nature and the significance level. Information's are considered significant if their omission or their misleading presentation can influence the user's decisions based on the financial statements. The significance level offers a limitation rather than a fundamental qualitative characteristic of information

Reliability is another quality characteristic of information that makes it useful in the process of decisions making. To be reliable the information must not contain

significant errors, and users can be confident that transactions and events carried out by the entity are properly represented

In order that the information to be reliable, this must represent accurately the transactions and other events the information needed to present.

Also for the information to fulfill the reliability condition, the economic must prevail over judiciary. Although every transaction has a legal form it should be accounted for, and disclosed in financial statements in accordance with its economic background and their financial reality.

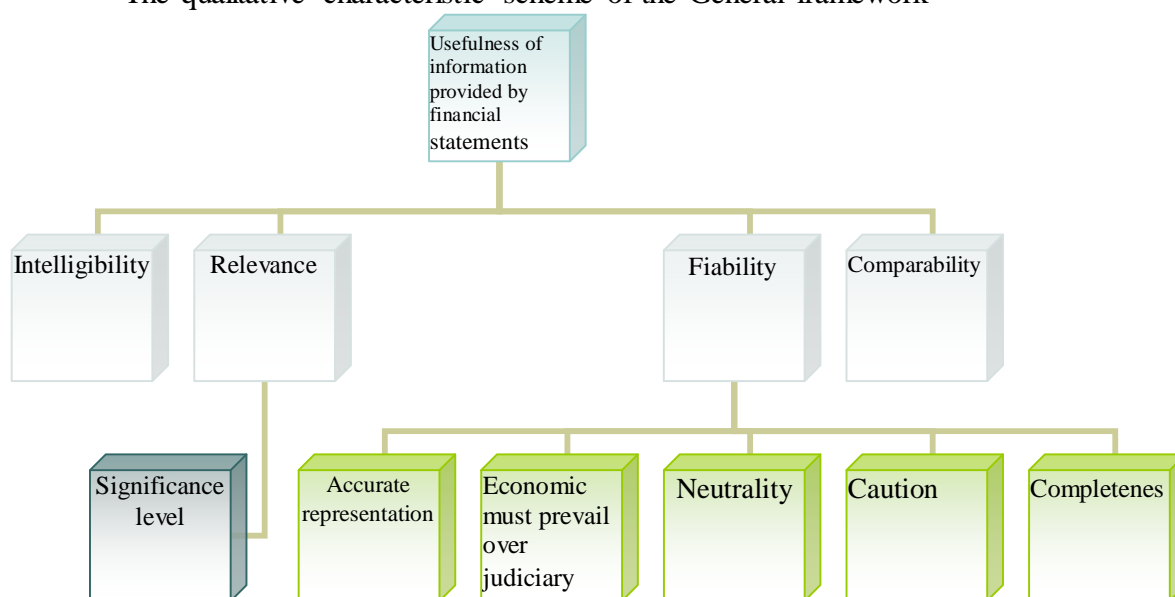
The information contained in financial statements must be neutral which means without any influence on decision making. These influences may arise by the omission of some of the information taken into account which would lead to some erroneous conclusions regarding the performance of the entity or its financial position.

Accuracy of the information contained in financial statements requires the information to be prepared and presented in a caution manner. This caution is due to uncertainties with events taking place.

Another condition for the reliability of the information contained in financial statements is that they are exhaustive, meaning, they are integral (complete). This condition of completeness should not be treated in an absolute mater, but must be considered the cost of obtaining information and the significance level.

Comparability of information is the ability to help financial statement users to observe similarities and differences between events and conditions. Closely related with the comparability are the consistencies of accounting practices used over time to allow comparisons between different periods. As a conclusion, accounting information must be comparable between various entities and between different periods of time.

The qualitative characteristic scheme of the General framework



The qualitative characteristic scheme of the General framework for preparing and presenting financial statements is presented below.

2. Qualitative characteristics under the new conceptual framework

Under the new conceptual framework, the objective of financial statements has been modified to clarify that their purpose is to help users in making decisions about providing resources for the entity. Qualitative characteristics are grouped into principal

characteristics and complementary characteristics; there is only one condition for providing useful information and cost. Reliability was, according to the general framework, a fundamental qualitative characteristic of the financial statements. This is the reason that this term has been understood differently by users. Some have placed more emphasis on the absence of errors, while some have associated the term of reliability with the concept of precision. This lack of understanding of the term reliability has resulted in replacement of the term reliability with faithful representation.

The main features according to the New Conceptual Framework are relevance and fair representation.

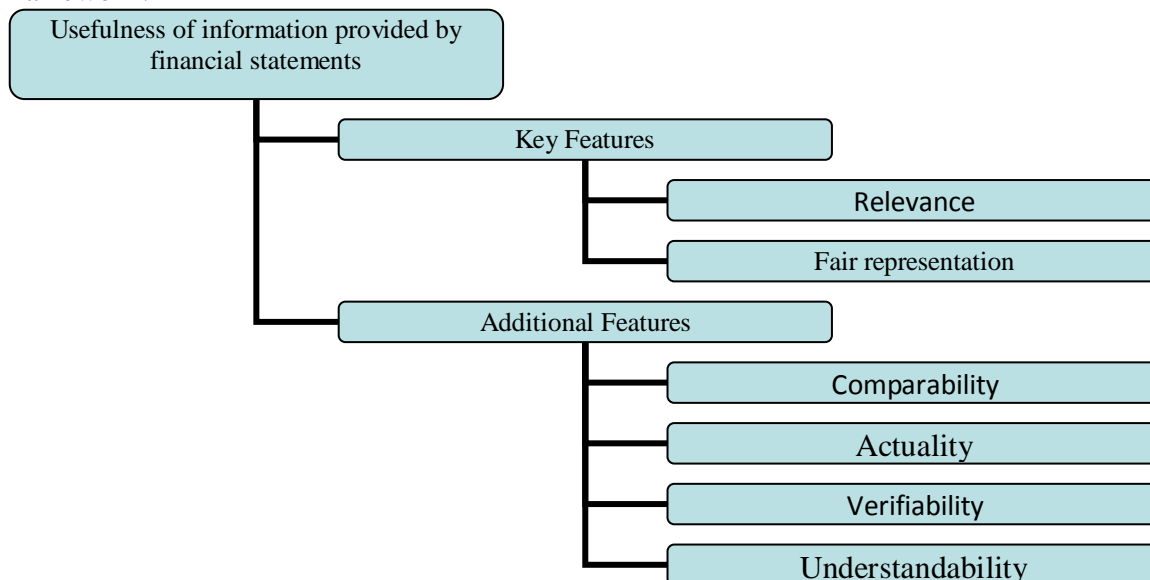
Relevance means that information has a forecast value, confirmation and insurance of the signification level.

Fair representation requires that the following conditions: neutrality, completeness, accuracy.

Complementary characteristics of accounting information are: comparability, actuality, verifiability, and understandability

These characteristics of the accounting information according to the new conceptual framework are presented in the following figure.

Characteristics of the accounting information according to the new conceptual framework:



3. Qualitative characteristics of financial statements according to accounting regulations in Romania

Romanian accounting harmonization with European law was achieved by European directives, especially the Fourth Directive and the Seventh Directive. This harmonization was achieved gradually starting from the Ministry of Finance Order no. 94/2001, which by passing to the balance sheet in the vertical format brings closer the financial statements to the Anglo-Saxon rather than the French.

The most recent regulation in this area is the Public Order of the Ministry of Finance nr.3055/2009 for approval accounting regulations harmonized with EU directives. Regarding the quality characteristics of the annual financial statements, this settlement takes over the main four qualitative characteristics of the Framework (understandability, relevance, reliability and comparability). These terms have been used in the General Framework for preparation and presentation of financial statements existing on January 1, 2007, but according to official regulations issued on January 1, 2009 credibility term has been replaced with that of reliability.

4. Conclusions

This compared presentation shows that the Romanian regulations have lagged behind the general framework of both the old (existing on January 1, 2009) and especially to the new conceptual framework. This demands the necessity of adopting in the Romanian regulations, of new terms used in the new Conceptual Framework

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