THE PRESENTATION OF THE CAPITAL IN FINANCIAL STATEMENTS.
THE CONCEPT OF MAINTAINING CAPITAL

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Abstract
The general framework of preparation and presentation of the financial statements as the national legislation, formulates a residual definitionof equity, respectively the right of the shareholders on the assets of anentity after deducting all debts. Thus equity represent the equivalentvalue of inputs which the company must not provide goods or services to a third party. The concept of capital is synonymous with net assets or equity of the company.
*In the same time, the capital of the company can be addressed through the other two concepts: **maintaining financial capital** and **maintaining physical capital.** The selection of one of the two variants has to be realized by the company starting from information users necessities.*

Key words: *joint stock, equity, financial statements, net assets, capital contribution, reserves, retained earnings*

JEL classification: *M41, M48*

Introduction

The globalization of international markets was the premise for which The European Union and *International Accounting Standards Board(IASB)* took a very complex process of normalizing and harmonizing accounting, which seeks a comparability of information provided by financial statements.

The two strong poles, involved in harmonization and standardization of accounting were represented by a supranational body, namely the European Economic Community (EEC) and one NGO, the International Accounting Standards Committee (IASC), the fourth Directive regarding annual accounts, the seventh Directive regarding consolidated accounts and the eighth Directive regarding the audit is the foundation of harmonization at European level, while the core International Accounting Stanadardele worldwide standardization.

Investors to make right decisions, they need an information tool, which in almost all countries is made available to them by law (eg Germany, France etc..) Or at least for a company listed on an exchange (eg U.S.), is the financial statements, both individual and consolidated.

"Now almost forty years, accounting standardization efforts accounting profession worldwide have banded together creating the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), the first bearer of the spear in a real competition in the elaboration of quality standards.[1]

The problem stems from the fact that the published financial statements are based on applicable national rules. These financial statements prepared on the basis of national accounting referential are not enough to meet foreign exchange supervisory authorities.

[1] Mihai Ristea, L.Olimid, D.A. Calu, Sisteme contabile comparate, Ed. CECCAR, 2006

Market economy fosters the internationalization of capital investment. This requires the need to follow the circuit and determining results as models to ensure comparability of information across time and space. Thus, an essential item of accounting reform in Romania was the compliance with European directives and international accounting standards.

Now, after a decade from the early third millennium, the Romanian accounting and Romanian specialists are challenged in the third wave of accounting developments under the IASB Council as a body setter which should strengthen the "stable platform" by building a strong framework for convergence of national standards with international standards.

Presentation of capital in financial statements.

Annual financial statements governed under the laws of Romania[2], are the model based on historical cost and recoverable regression concept of financial or physical capital, thus respecting compliance with European norms.

OMPF 3055/2009 uses the same residual definition of equity as that provided in the Framework for Preparation and Presentation of Financial Statements-IASB: shareholders' right of an entity's assets after deducting all liabilities. This equity equals the value of resources invested in assets and undertaking not to provide goods or services equivalent to a third party. The concept of capital is synonymous with net assets or equity of the company.

In addition to information required under the provisions of other sections of OMPF 3055/2009, the notes should include information on the matters set out in **section 3** (for each significant element of the annual financial statements must be related information in the notes; the presentation of the evaluation methods applied to different elements of the annual financial statements and methods used to calculate of the value adjustments. The presentation of the conversion bases applied to items initially denominated in foreign currency).

In addition, there is requested detailed information on entities in which the entity has either directly or indirectly represent a participation interest share capital of at least 20% (proportion of capital held, the capital and reserves, profits or losses that the last financial year for which were approved annual financial statements). It has to be also presented the entities to which the entity is associated with unlimited liability.

On **capital** entity provide information such as number and value of shares subscribed during the financial year and if there are several classes of shares, number and nominal value for each class, number, description and value of the shares subject to exercise of rights related the distribution of shares, the period during which rights can be exercised and the price to pay for shares issued. For each category of reserve included in equity, describing its nature and purpose of incorporation.

Annual financial statements include a statement of changes in equity required only for those companies that exceed two of the three conditions of regulated size. In addition, entities whose securities are admitted to trading on a regulated market, as it is defined by current legislation on capital markets, are required to prepare annual statements consist of five components, regardless of their size.

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[2] Ordinul Ministrului Finantelor Publice nr.3055 din 29.10.2009, pentru aprobarea Reglementarilor contabile conforme cu directivele europene publicat in Monitorul Oficial al Romaniei 766 si 766 bis din 10 noiembrie 2009(OMFP 3055/2009)

The concept of capital maintenance

Capital company may be addressed through the other **two concepts**, namely **the maintenance of financial capital** and **physical capital maintenance**. Selecting one of the two versions must be made by the company based on the information needs of users.

Designed to be adopted if users are concerned financially maintain nominal invested capital or the purchasing power of invested capital. If users are interested in operating capacity of the company will use **the physical concept of capital**.

Under financial capital maintenance concept, profit is obtained only if the monetary value of net assets at the end is greater than the monetary value of net assets at the beginning, after excluding any distributions to owners and any contributions from owners during the period analyzed.

Financial capital maintenance can be assessed both in nominal monetary units and in units of constant purchasing power.

According to **physical capital maintenance concept**, profit is obtained only when the physical productive capacity or capability to exploit the company at the end is greater than the physical productive capacity at the beginning, after they have ruled out any distribution to the owners and any contribution from the owners, in the period.[3]

The analysis of practice, it was often found that equity (net assets) are "negative", assisting in disinvestment process, so that companies violate the law governing the minimum level of equity (not less than half the capital subscribed). Below this value the extraordinary general meeting be convened and acted either recovery or dissolution. Even if the provision is imperative for companies to support actions necessary to increase the minimum capital threshold and limited liability companies.

As is the assessment of fair value accounting, I believe that the lack of accounting landscape is inconceivable. There is urgent need for a valuation bases that can be used in the valuation of financial statements that are either modern (financial instruments or human capital, for example) or they vary significantly over time as a value (such as fair value).

The purpose of the financial statements is to show not only past but to provide reliable information on which users take a financial decision. The entity's financial position and its performance depends on the values and even the scale of values used to quantify them.

Historical cost, although it has inherent advantages and limitations, we can say that it has reached a time when other value should be used. That does not mean that will be abandoned, but that should not be substituted where face with another value.

Validation of a business through market exposure (basically fair value measurement is to determine value based on market prices and recognition performance opposite changes in fair value) believe that when there is a liquid market and when there is a process of measuring the value credible fair and equitable, given additional guarantees on the actual business users.

[3] Ristea, M., (coordonator), *Contabilitatea financiară a întreprinderii*, Editura Universitară, Bucureşti 2009

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