PARTICULARITIES REGARDING THE AUDIT OF PROFIT AND LOSS ACCOUNT WITHIN ECONOMIC ENTITIES FROM ROMANIA

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Abstract:
An important role in the audit of financial situations within economic entities from Romania, is represented by the audit of profit and loss account. The profit and loss account or the result account is a synthesis accounting document and whereby the financial performances of an economic entity activity is being measured. The economic result of an entity represents an important source of data, as this one in the future can generate income for the interested and implicated public in the management of economic entity. The audit of profit and loss account represents a synthesis of the account flux on a macroeconomic level, as it emphasizes the income and the spending registered after the resources consume by the economic entity during a period of financial exercise.
The attentive audit of the profit and loss account brings to the accomplishing of an analysis which can influence positively the future performances of the entity.

Key words: *audit, auditing, profit and loss, economic entity ,performance*

JEL classification: M42

1. Introduction

The audit activity is essential for the businesses' success, for protecting the economic entity of shareholders and employees of this entity, as the leaders as well as the employees can receive any moment information regarding the financial situation of an entity in which they conduct their activity.

Through the audit work and audit of financial situations is understood the profit and loss account that is a part of it. The audit of the profit and loss account has as main objective the increasing of financial situation credibility in front of foreign and Romanian investors, of business partners and of Romanian bank system, this one is playing an important role in the audit process of financial situations. Through the audit of financial situations it is expressed a motivated opinion upon the real image of the economic entity's activity, regarding the income and spending registered during a financial exercise.

Through the effectuation of the audit of the financial situations which comprise the profit and loss account, many entities could prevent insolvency, liquidation, bankruptcy and loss of financial resources through a correct, accurate, true and honest to all participants in the economic and social life.

In Romania the financial audit activity is regulated by the Financial Auditors Chamber which is an organization of professional and non-profit public utility, which was founded by publishing the Emergency Ordinance no. 75/1999.

The publication Order of the Minister of Public Finance no. 403 from 22.04.1999, for the approval of accounting regulations according to the Directive IV and VII of the Directive of the European Economic Community, made it mandatory for all financial accounting of the audit company, autonomous public institutions, banks, funds investment, and so on, that accomplish certain criteria specified in this Order.

2. Audit of profit and loss account

Profit and loss account is an accountant synthesis document which measures the economic performances of a company during a financial exercise; it represents a synthesis of flux accountancy on a macroeconomic level, as it highlights the income and expenses recorded in the consumption of resources, of the economic entity during the financial exercise.

Through the audit of profit and loss account information is obtained regarding the activity of the enterprise how it manages its work by studying the income volume, expenses and economic entity's financial results that we obtained during a financial exercise.

The audit of profit and loss account is done at the end of the financial year by an auditor. Audit work consists of a carefully examination of income and expenses recorded during.

During an audit, the auditor examines carefully:

- some accounts of expenses such as rent, insurance premiums, commissions and fees, taxes, salaries, social expenses, loans and credits, tax statements, various contracts and payments made on their behalf;
- tax bases established on taxes on the income accounts;
- inadequacies and anomalies detected and it proposes, if appropriate, the recording at the extent that they are justified;
- comparative analysis of various accounts of income and expenses, intermediate management balances analyzing results, establishing the necessary conclusions.

The auditor may be required to submit annexes to the balance sheet, assessing:

- the evolution accounts for all these annexes, the measures taken or proposed by the management company;
- respecting the manner and methods of job evaluation sheet and profit and loss account;
- the methods used to calculate the depreciation and provisions and making them;

Indeed, income and expenses are fairly predictable and established, while balance sheet items are often affected by various events, such as: delays in payments, storing more or less important, cash investments in movable values, etc.

Analytical examination made on the level of each component of the result, income or expenses, enables the auditor to familiarize themselves with client assets and identify some risks of audit or accounting issues or audit. The main difficulty when implementing a screening procedure is to choose an appropriate basis for comparison. The quality of this base, with which they will compare the annual accounts, has indeed a crucial importance for the effectiveness of this procedure. Therefore, this base must be independent, credible and in relation to accounts or possibly it should be processed. In general, database independence can be presumed that if it was itself certified by auditors or if it comes from truly independent sources (eg the Stock Exchange for listed companies). Instead, it would be useless to compare two elements from which one is automatic in the other, for example, it is useless to be compared, month after month, stocks accounts receivable movements of incoming physical quantities in stock, if the method used is the predetermined price. In addition, national statistics can be an independent source of information when dealing enterprise occupies the market too much.

On the frequency numbers, analytical examination of monthly trial balances and quarterly or half yearly reports are more effective, allowing the isolation period in which there is a certain problem and in the high societies it makes stronger the control of data with those financial published in the Newsletter of Value Bourse. Usually, comparing actual figures with the figures forecast or recorded in the income and expenses budgets cannot be done properly unless the data presented are similar and if it is known the elaboration process of data, namely the elaboration budget of income and expenses. The fluctuations and trends analysis resulting from these comparisons may not detect a risk of material misstatement. This risk is related to the total amount of fluctuation that can be considered acceptable without further investigation. The total amount depends on materiality itself which has been fixed, and the risk accepted technique of applying the analytical review.

According to some authors the difference from any abnormal fluctuation must be explained would be at least from 10% to 20% of materiality, otherwise there is a risk to pass to the important issues. The explaining of significant fluctuations needs to be requested by the auditor or staff person responsible for managing the assets under its orders. There is a risk that the explanations given are vague and unquantifiable, such as, for example, the explanation of the strong increasing of personal staff costs that are due to an increased workload on the contrary, if the explanation is measurable fluctuation, to reflect the increase employees and their wages according to labor contracts, collective and individual, the analytical examination will be satisfactory and conclusive;

There may, however, the situation that the explanations obtained do not justify the fluctuations observed, therefore, it must be given a special attention to those accounts, requiring the multiplication of some detailed audit procedures;

The expression of audit procedures can be also vice versa, if the analytical examination gives good results and if, in addition, internal audit is satisfactory, the number of detailed procedures (eg surveys), applicable to those positions, will be reduced. The purpose of this conditionality is motivated by the overall view that is presented by annual accounts in this form. There is thus the certainty that nothing was left out of the way and did not intercede unnatural groupings of accounts, cutting edge, but a number of financial analysis rates can be constructed and interpreted on the basis of of the annual accounts. In addition, this final examination enables the preparation of final talks with the one who manages the assets, the active participation in board meeting to decide the final presentation of the annual accounts and, in particular, the completion of the auditor's opinion that the General Assembly will present through the report auditing and certification of the balance sheet.

The generator fact of a selling depends, in accountancy of entity’s activity nature. The audit of profit and loss account presupposes the audit of income recorded within a financial exercise.

Profit and loss account auditing and examination presupposes the transfer of ownership principle finding consistent with accounting income.

The income submitted to auditing activity of loss and profit account comes from:

- selling goods which are, in principle accounted on the date of their delivery (as an exception it can be retained the date of taken over by the transporter FOB delivery);
- service selling are accounted on the date of their delivery, in case of long term contracts (constructions), income accounts can be stated in advance

If the accountancy principles in business figure, applied by the entity, are an exception at those above mentioned, the auditor must:

- consider the merits of any abnormality identified;
- rate consequences upon annual accounting result, upon the net position at year-end and identify potential tax risks;
- check if the company complies with the principle of consistent accounting methods from one year to another in record turnover;
- evaluate the impact on the outcome and whether the obligations on financial information have been complied with;

- check that often, the sales of goods and services are accompanied by specific payment terms: payment of installments paid on time, and so on;
- check if the record turnover is independent of any specificity the payment;
- whether sales of goods and services are accompanied by a clause on property;
- check if the company complies with the principle of registration of turnover of such a clause;
- check if the turnover is accounted for net (without taxes recoverable) and to any rebates or discounts to customers that have accounted for separately;
- check that sales are accounted retaining currencies exchange rate applicable on the date of the transaction.

The auditor should verify the annual turnover and respect the principle of separation of accounting exercised.

Given the economic entity's activities we have the following details:

- to appreciate the importance of deliveries or benefits in course at the end of the year exercise;
- check their consistency with the principle accounting separating exercises;
- obtain a detailed account balance "accrued income" and to confront the amount appearing in the balance sheet and verify that are related operations in the following year;
- check if such income were accounted accrued without VAT;
- obtain a detailed account balance "Customer invoices issued" and verify that:
  - *sales that actually refer to the year ended;*
  - *sales that have already been counting to the account of customers, so we have a double-counting;*
- check by sampling the actual billing of these operations after the closing of the financial year;
- check correct counting of rebates, discounts or rebates to customers if there are substantial amounts by reducing turnover;
- analyze rebates discounts, rebates accounted for by end of the year if these reductions relate to transactions recorded in the year ending turnover to ascertain whether they were closing provisions for these reductions;
- identify rebates, discounts and rebates granted by contract customers, their calculation can be done depending on the volume of business and ensure proper recording of these commitments, if the business requires regular grant of these reductions;
- to assess annual progress of, rebates, discounts / turnover and explain any significant evolution;
- check the log of sales during the year-end and the date of the audit and ensure that these sales do not relate to the year audited;
- check the evolution of turnover in the last 2-3 months of the year compared to previous months and explain any irregular development;
- calculate a gross margin for the year audited, resulting from the difference between the turnover and major operating expenses, depending on the specific business activity: personal expenses, cost of production or acquisition cost of goods;
- calculate margin rate released annually, reporting gross margin on turnover appropriate;
- analyze and explain any developments margin rate from one year to another, which can hide aspects of the principle of separation of financial years;
- to analyze the annual evolution of the margin, as a rate as well as a volume:

Rat= (rate margin (n) - margin rate (n-1) x turnover of year n)

Volume= (in year turnover - turnover year (n-1) x separation margin rate in years)

During its audit mission of the profit and loss account, the auditor may obtain results and the calculation of financial indicators such as:

a) ***CAF = RN + CC - VC***

CAF = Self-financing capacity
RN = Net income
CC= Expenses calculated
VC= Income calculated

- the ability of self-financing expresses a surplus or financial deficit from the operations of economic self-financing as an internal source.

b) ***GOS = CM + EP - EC + VSE - CHP-Other taxes, duties***

GOS = Gross operating surplus
CM = Marketing margin
EP = Year production
EC = External expenses
VES = Income from subsidies
CHP= Expenses of protocol
Other taxes, duties

- through this indicator it is calculated the surplus or deficit resulting from the analysis performed on the operating activity of the economic entity. By calculating this indicator results can be obtained about the potential of self-financing and to pay various creditors.

c) ***MPB = PB /CA***

MPB= Gross profit margin
PB = Gross profit for the year
CA = Net turnover

- tracking and calculating these indicators can lead to obtaining information on the profitability of the entire economic activities and the strategic and operational decisions that can help increase the performance of the economic entity audited.

The auditor can consider at the end of the financial year the profit and loss results which can be:

- positive, implying that the economic entity recorded a profit, which will be distributed in the next financial year dividend, other reserves and if necessary the accounting losses of previous years;
- negative, which means that the company recorded an accounting loss that would be covered in future financial year's profit.

Auditing of the profit and loss account, is to provide assurance that the data contained therein have been tested and are complete and accurate and that made economic transactions were conducted according to regulations.

The audit work performed in the profit and loss was defined by the auditors as professional examination of information in order to express an opinion responsible and independent in relation to quality criteria.

3. Conclusions

Profit and loss account is an accountant synthesis document which measures the economic performances of a company during a financial exercise; it represents a synthesis of flux accountancy on a macroeconomic level, as it highlights the income and expenses recorded in the consumption of resources, of the economic entity during the financial exercise. Through the audit of profit and loss account information is obtained regarding the activity of the enterprise how it manages its work by studying the income volume, expenses and economic entity's financial results that we obtained during a financial exercise. The audit of profit and loss account is done at the end of the financial year by an auditor.

Through the auditing of loss and profit account by an auditor, there are measured the economic performances registered within a financial exercise by an economic entity, the analytical examination effectuated on the level of each component of the result, income or expenses, allows the auditor to identify some risks specifically the audit activity or specific problems regarding the accountancy. In the activity of auditing profit and loss account it can be used different economic-financial indicators.

Through the mission of auditing the profit and loss account are obtained results that could prevent bankruptcy, liquidation, insolvency, and financial loss through a correct exact real and honest participation of all participations in economic-social life. If behind this audit activity it is stated that the economic entity has a descendent trend, this thing must be known by the managers, in order to be solved through some marketing and management studies, taking into account the opportunities and legislative situation for a better improvement of the society.

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