THE IMPACT OF THE NEW LEGISLATIVE PROVISIONS ON THE INFORMATIONAL ROLE OF ANNUAL FINANCIAL STATEMENTS

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Abstract:
In this paper we want to capture the effect that the new legislative provisions had on the structure of annual financial statements, not only on the form, but especially on accounting information that can be drawn from them, focusing on the way in which these new laws lead to the improvement of the quality and comparability of accounting information contained in the financial statements. Based on OMPF 1802/2014 it was achieved at a national level a unity of legislative provisions on annual financial statements, and also they have been harmonized with the provisions of Directive 2013/34/EU, through which they attempted to reduce the administrative burden, especially for small businesses, not only to increase the relevance and understandability of financial reporting requirements but also to protect the information needs of different categories of users of financial statements.

Key words: *annual financial statements, legislation, economic entities, financial position, performance.*

JEL classification: M41 – Accounting

1. Annual financial situations – synthesis documents and essential reports in the decision-making process

On the legislative level, there has always been a preoccupation to create a common language for the entities acting on international financial and capital markets, by means of a single set of bookkeeping standards, known as accounting harmonisation and normalisation. We understand by harmonisation the process by which a common frame is established, circumscribing all the efforts of national and international organisms of accounting normalisation and regulation, in order to obtain a set of standards in the matter of financial bookkeeping reporting (Breuer A., Lesconi-Frumuşanu N.M., Breuer B., Manciu A., 2012). Normalisation in its turn is defined as a process mainly aiming at the „definition of accounting concepts, principles and norms based on a precise terminology, identical for all producers and users of accounting information and their practical application in view of ensuring comparability in time and space, relevance and credibility of bookkeeping information" (Ştefănescu A., 2005).

Given the modifications in the European plane, we may claim that the field of financial reporting on the international level is definitely important, especially if we keep in mind the influence of the accounting harmonisation process of the national accounting regulation. Taking into account the process of convergence between the two referentials, American (USGAAP) and European (IAS/IFRS), we consider it important, for the identification of the impact of legislative modifications brought to the annual financial situations, to monitor the evolution in time of these regulations at the basis of the elaboration and presentation of the annual financial situations. Kaplan and Norton define accounting as „the language of business" (Kaplan and Norton 1996, pag.6). In this context, normalisation is essential for constructing a common international accounting language. The term of normalisation should not be regarded and interpreted distinctly and singularly, but together with the term of accounting harmonisation, and they are interlaced in a relation of inter-conditionality and mutual coordination, both processes having the same purpose: elaborating a common international bookkeeping language.

The issue of accounting harmonisation and normalisation have constituted and still represents a widely debated topic in the literature, as there are a series of studies approaching this theme from diverse points of view: economic, accounting and even political, considering that the political stakeholders have a significant role in the establishment of accounting regulation. In this respect we may mention studies having analysed the issues of accounting harmonisation from the historic (Zeff, 1993, 2002, 2005 and 2012), empiric (Bertomeu and Magee, 2011) or analytical viewpoint (Johnston and Jones, 2006; Ramanna, 2008).(Windisch D., 2012)

A special importance should be granted to the reflection of the entity's situation, at the end of each budgetary year, desideratum for whose realisation different terminologies are used: synthesis bookkeeping documents, annual accounting financial records, financial reports, which highlight the official "snap-shot" image produced by the very company; they are elaborated regularly and require the longest time for reading and digesting the information contained therein (Malciu L., 1998).

Annual financial situations, result of economic practice, component of synthesis documents and bookkeeping reporting, constitute the prelude of users' reactions, being the quantitative and qualitative expression of the balance value relations from the patrimony administration (Dănescu T., 2000). This offers a „structured financial representation regarding the financial position and transactions performed by the entity..., and information about the financial position, performance and treasury flows that should be useful to a wide range of users in the making of their economic decisions" (Feleagă N., Malciu L., 2002).

The role of annual financial situations in the decision-making process may be observed starting from their main objective, that of providing users with adequate information about the economic entity, information allowing each user to make decisions in full awareness as regards its position and financial performance, taking into account the activity carried on during a certain administration period. Given that this objective means that annual financial situations should be able to offer comprehensive, detailed information in relation with the data provided by the balance sheet, profit and loss account and modifications in the own capitals source, together with the afferent explanatory notes, we ask ourselves if these (simplification) endeavours to reduce administrative pressure rather harm this objective, especially when it comes to the supply of information necessary for the analysis of an entity's performance. In the realisation of these efforts, an important role is played by the analysis of the financial situations, as they are meant to identify and assess the past and present events, and the possible future performance and the financial position as regards decisions.

Annual financial situations represent financial reporting documents indicating at a certain moment the level, size of the actual and monetary flows of an economic entity, originated from its relations with the exterior, as well as from the internal activity (Matiş D., Pop A.,2010). These are synthesis documents which „supply information about the financial position of the company, the results and changes in the company's financial position" (Ristea M., Dumitru C.G., Ionaș C., Irimescu A., 2009). In another opinion (Mateș D, Pereș I., Pereș C., 2005), financial situations are regarded as „an image of wealth, exposing the financial situation of a company in monetary units by the correlation between economic assets, financing sources and results obtained at the end of the accounting period"; financial situations are also regarded as the documents which supply information about the truthful image of the financial position, performance, modification of own capitals, useful for a wide sphere of users when they make economic decisions

(Paraschivescu M.D., Radu F.,2008). In this context, we may claim that the financial situations are the synthesis documents providing information in monetary units in relation with the financial position, results and changes thereof, as well as the changes in its own capital, information that are useful to a wide range of users, enabling them to make decision related to the management of the economic entity. The financial situations are designed so that they could create the premises necessary to prove, as stated, a truthful image as regards the financial position, performance, own capital modifications and treasury flows of the company for the budgetary year they refer to, which is done by the strict observation of the quality requirements set for the information they furnish (Staicu C, Mihai M,, Ciurezu T., 2002).

Financial situations are considered the core elements of financial reporting and respond to their main purpose, that of communicating accounting information to its users, the financial reporting having three major objectives (Boţa–Avram F., 2008):

- Supply of information useful for business conduction and economic decision making;
- Supply of intelligible information, able to assist investors and creditors in the prediction of the entity' future treasury flows;
- Supply of information related to the entity's economic resources, its obligations to creditor and owners.

The analysis of the economic entity's performance has an important role in the making of managerial decision, helping to the identification of benefits and risks within the planning of the economic entity, underlined by a single set of financial indicators, which grasp the complexity of the analysis of the entity's financial performance. The financial analysis in its sense of basic component of the strategic global diagnosis, is oriented toward the investigation of complex aspects (global performance of entity, its perenniality), in a word convergent with its economic-financial objectives. (Niculescu M., 1997)

Although the data that may be identified from the financial situations grasp important aspects regarding the managerial performance, the professional accountants have to cope with numerous problems in their attempt to obtain information about the system adopted to this end, given that they have to respond to the information needs of the state's organisms, bookkeeping being a strongly legislated domain. Accounting information identifies, first of all, the financial outcomes obtained, but the management of an economic entity is interested in the entire process by which these results have been reached. Another weakness identified by the internal users of financial situations (managers) is that they provide information about the short-term performance indicators, whereas when planning strategies they need longer-term indicators.

The analysis of the financial positon is essential in the decision-making, as it analyses the resources possessed by an entity and its right over them at a given time (Needles B.E. Jr., Anderson H.R., Caldwell J.C., 2001), and a well-balanced financial situation creates the material premises necessary for making the decision required by the deployment of the business activity in the best conditions.

2. Analysis of legislative changes on the European and national level in relation with annual financial situations

In the elaboration of the present paper we have mainly resorted to the analysis of the European and domestic legislation regarding the organisation of bookkeeping records, as well as the literature having approached the issues of accounting harmonisation and normalisation (as mentioned also in the introduction).

The paper shall attempt to forward a comparative analysis between the stipulations of European directives that must be adopted in all European Union member states, including Romania (the obligation to ensure the coming into force of its provisions until the 20th of July 2015), and of the other two decisions, Directive IV and Directive VII, comprising the European accounting regulations, as well as another comparative analysis made between the European and domestic stipulations, in the context of building accounting Europe (as defined by Gerald G., 1993, who considers that the „true success of directives resides in the fact they cannot be ignored by the community and, what's more, they constitute reference landmarks for other countries beside the member states").

For Europe, the new directive represents a modernisation and an improvement of bookkeeping directives that have had applicability in Europe since the '80s, it contributed to the attempt of reducing the administrative burden, especially for small enterprises, with possible benefits in the growth of the business and job creation, as well as a revision of European Community accounting requirements focused on the growth of relevance and intelligibility of the financial reporting requirements, but also of the protection of the need for information of diverse categories of financial situations users.

A special role, from the perspective of accounting harmonisation, was played by Directives IV and VII, meant to start the process of accounting harmonisation.

Directive IV was issued by the Council of Ministries on the 25th of July 1978 and republished in the Official Journal no. 1222, 14/08/78 p. 0011, based on article 54(3)(g) of the Rome Treaty, being a compromise between the legislative approach of financial reporting and the approach based on the acknowledgement of the truthful image prevalence. This directive refers to the annual financial situation related to the public and private entities, and refers to: responsibility of the firms' needs for information, but especially to the comparability of the information published in the reporting documents (Tabără N., Horomnea E., Mircea M.C., 2010)

Directive VII, adopted in 1983, comprises 51 articles. The actual text being preceded by 9 „considerations", detailing its objectives about consolidated accounts, i.e. the financial situations elaborated, presented and published by the gorups of companies.

These directives was brought certain alterations in 2003, when they adopted the directive for the modernisation of directives IV, VII and VIII which eliminates the contradiction among the European directives and IFRS, allowing the companies applying European directives to use the IFRS accounting option, settling the structure of the audit report and the management report.

In this context we considered it opportune to tackle this topic in the present paper, i.e. the analysis of the stipulations of Directive 2013/34/UE of the European Parliament and Council, adopted on July 26th 2013 regarding the annual financial situations, the consolidated financial situations and the afferent report of certain types of companies, for the modification of Directive 2006/43/CE of the European Parliament and Council and for the abrogation of Directives 78/660/EEC (Directive IC) and 83/349/ EEC of the Council (Directive VII). On the European level, Directive 2013/34/EU of the European Parliament and Council modifies the situations of Directive 2006/43/EC of the European Parliament and Council and abrogates the prvsisons of Directives 78/660/CEE (Directive IV) and 83/349/EE of the Council (Directive VII). By the publication of this single directive one aims at reuniting the stipulations about individual financial situations and consolidated financial situations.

This directive brings no significant changes to the structure of reporting documents, but clarifies the size criteria depending on which entities and groups are ranked as small, medium or large, the prescriptions regarding the simplifications granted to certain categories of entities (microenterprises and SMEs), and the additional information requirements imposed to others (large entities and groups).

One of the reasons having triggered the adoption of this decision was the need for reducing the administrative burden, especially in the case of small companies with possible benefit in the business growth and job creation, as well as the increase of relevance and intelligibility of financial reporting requirements, but also the protection of the need for information of diverse categories of financial situations users.

We should point out that this directive was brought certain changes by the provisions of Directive 2014/95/EU, but these stipulations refer only to the nonfinancial information and the information regarding the diversity related to certain large enterprises and groups, more precisely to the annual financial situations and the consolidated ones, where the following mentions are made:

- The obligation of large companies to elaborate a non-financial declaration containing information regarding the environmental, social and personnel issues, the observance of human rights, fight against corruption and bribery, as well as additional explanations concerning the amounts reported in the annual financial situations.;
- The member states' obligation to introduce to the domestic legislation stipulations related to the collective liability of the members of the organisms of a company's administration, management and supervision, who act with the limits of their competences conferred by the internal law, in relation with the manner of presentation, elaboration and publication of annual financial situations / consolidated financial situations, the administration report, the declaration of corporate governance in accordance with the requirements of the aforementioned directive and, when need be, with the international accounting standards adopted in compliance with the (EC) Regulation no.1606/2002. The latter refers to the definition of financial situations as the set of the synthesis bookkeeping documents published in order to provide financial information to third parties interested in the entity's financial position and performances, set which includes: the accounting balance sheet, the profit and loss account, the treasury flows table, the own capital variation, the explanatory notes and situations (Ionaşcu I., 2002).

3. The new legislative stipulations about annual financial situations – reduction of administrative load or failure to satisfy the information needs

Given the fact that since the early 2000s it has been tried to achieve a common language for all the entities that operate on financial markets and international capital through a single set of accounting standards, known as accounting normalization we consider the adoption of OMPF 1802/2014 an important step in this process.

In order to grasp the impact of the new legislative provisions, we considered it necessary to conduct a comparative analysis between the national provisions and the regulations contained in the latest European directive (Directive 2013/34/EU) which comprises issues related to annual financial situations. We shall dwell upon certain aspects such as the accounting principle underlying the elaboration of annual financial situation, the core interest of the present paper.

Thus, Directive 2013/34/EU mainly comprises regulations in relation with the principles at the basis of the elaboration and presentation of annual financial situations, i.e. the principle of activity continuity (it is presumed that the company carries on its activity on the basis of this principle), the principle of methods permanence (the accounting policies and the assessment bases are steadily applied from one budgetary year to the next), the principle of caution (acknowledgement and evaluation are made on a prudent basis, more precisely: one can acknowledge only the profits earned on the date of the balance sheet, one recognises all the debts occurred during the current budgetary year or during a prior budgetary year, even if they become evident only between the balance sheet date and the date of its elaboration, and one recognises all the negative value adjustments, irrespective if the result of the budgetary year is loss or profit), the principle of engagement accounting (the amount recognised in the balance sheet and in the profit and loss account are calculated based on engagement accounting), the principle of intangibility (the opening balance sheet for each budgetary year must correspond to the closing balance sheet of the previous budgetary year), the principle of separate assessment (the components of the assets and liability items are assessed separately from value, no matter if the result of the budget year is loss or profit), the principle of non-compensation, the principle of economic prevalence, the principle of significance threshold (it is not mandatory that the requirements stipulated in the present directive related to the recognising, assessment, presentation, publication and consolidation should be respected when the effects of their observance are insignificant).

As for the classification criteria, we may remind that on the national level one first simplified, by the modification of the Order of the Minister of Public Finances OMFP 3055/2009 (for the approval of the bookkeeping regulations compliant with the European directive meant to unify accounting regulations) the requirements for entities exceeding two of the following three criteria: total assets 3,650,000 euro; net turnover 7,300,000 euro and average number of employees during the budgetary year 50, had to elaborate a complete set of financial situations, whereas those which do not exceed two of the three size criteria had to present only the abridged balance sheet, loss and profit account, and explanatory notes to the simplified financial situations; simplification continued by the Order of the Minister of Public Finances 2239/2011 (for the approval of the simplified accounting system, attempting to lessen the burden for small economic entities), order stipulating that the persons who in the prior budgetary year recorded a net turnover below the lei equivalent of 35,000 euro and the total assets below the lei equivalent of 35,000 euro may opt for the simplified accounting system. Starting with the 1st of January 2015, the two normative acts were abrogated by the Order of the Minister of Public Finance's OMFP 1802/2014 (for the approval of the accounting regulations related to the individual annual financial situations and the consolidated annual financial situations) which introduced new regulations aiming at the alignment with the European situation in the domain, i.e. the increase of relevance and intelligibility of financial reporting requirements, the main information source for several categories of users, but also the protection of their need for information, along with the simplification of the process of annual financial situations elaboration. This normative act partially transposes the provisions of Directive 2013/34/EU, so that, according to the new normative act at the basis of the organisation of bookkeeping evidence on the national level, the economic entities are classified into:

a. micro-entities (art.9 (2) of OMFP 1802/2014), companies which, on the data of the balance sheet, fulfil at least two criteria of the following three:

- Total assets 350,000 euro;
- Net turnover 700,000 euro;
- Average number of employees in the budgetary year 10.

As regards the aspects discussed in the present paper, micro-entities file annual financial situations with the following structure: abridged balance sheet; abridged profit and loss account; explanatory notes with reduced amount of information (art.576 and 577 of OMFP 1802/2014). The accounting information comprised in the explanatory notes refers to the accounting policies about: assessment bases applied to different patrimonial elements; conformity of the accounting policies adopted with the accounting principles provided in the national legislation, any significant change in the bookkeeping policy adopted. The modification of the accounting policies may be realised by a decision of a competent authority or at the initiative of the entity, the latter being possibly determined by an exceptional change occurred in the situation of the entity or in the economic-financial context where it operates or by the obtaining of more relevant or credible information related to the entity's operations.

b. Small entities (art.9 (3) of OMFP 1802/2014), more precisely the companies which, on the balance sheet date, do not fall within the category of micro-entities and do not exceed the limits of at least two of the following criteria:

- total assets 4,000,000 euro;

- net turnover 8,000,000 euro;
- average number of employees in the budgetary year 50.

From the perspective of annual financial situations, these companies must file: the abridged balance sheet, the profit and loss account, the explanatory note, more detailed than for micro-entities, and optionally they may file: the situation of treasury flows and registered capital (art.20 (1) OMFP 1802/2014);

c. Medium and large entities (art.9 (4) of OMFP 1802/2014), the companies which exceed the limits of at least two criteria out of the following three:

- total assets: 4,000,000 euro;
- net turnover 8,000,000 euro;
- average number of employees in the budgetary year 50.

This category of entity has the obligation to annually file the complete financial situations, comprising: balance sheet, profit and loss account, situation of the own capital changes, situation of treasury flows, explanatory notes to the annual financial situations, as well as reports containing the payments to the budget (entities active in the ore extracting industry or primary forestry exploitation) (art.21, art.580 OMFP 1802/2014).

Starting from this aspect, we may ask ourselves whether annual financial situations still respond to the need for information of all categories of users, even if the aforementioned normative acts stipulate that they should allow the determination of information (that should fulfil the quality characteristics: to be useful, relevant, comparable, verifiable, opportune and intelligible, and to assure the truthful representation of the economic phenomena in words and figures) and of the obligations stipulated by the law.

As for the principles underlying the elaboration of financial situations, in the OMFP 1802/2014 we find both the principle of activity continuity, the principle of the methods permanence (the steadiness invoked in the European directives), the principle of caution (recognition and assessment performed on a prudent basis provided in the European directives), the principle of engagement accounting (stipulated in the European directives related to the acknowledgement of the amounts in the balance sheet and the profit and loss account, on the basis of calculations specific to engagement accounting), the principle of intangibility (recognised also in the European directives by the fact that the opening balance sheet for each budgetary year should correspond to the closing balance sheet of the prior budgetary year), the principle of distinct assessment (in this respect we remind the provisions of the European directive related to the fact that the components of the assets and liability items are assessed separately from value, no matter if the result of the budgetary year is loss or profit), the principle of non-compensation (described in the European directives by the interdiction of any compensation between the assets and liabilities items or between the revenue and expenditure elements), the principle of the assessment at pruchase cost or production cost, as well as the principle of significance threshold (provided also in the European directive by the fact that it is not obligatory to observe the requirements stipulated in the directive in relation with the acknowledgement, presentation, publication and consolidation when the effects of their observance are insignificant).

As regards the auditing of annual financial situations, we wish to point out that the new regulations stipulate the obligation that the annual financial situations of medium and large entities, as well as of the national enterprises / companies, companies with entire or majority state capital, and autonomous enterprises under state's supervision should be audited by one or several statutory auditors from audit firms. Moreover, one subjects to the audit the financial situations of entities which, on the date of the balance sheet, exceeded the limits of at least two of the following three criteria, in two subsequent budgetary years, as follows: total assets 3,650,000 euro, net turnover: 7,300,000 euro, and the average number of employees in the budgetary year: 50.

Taking into account the set of indicators used in the analysis of the position and performance of economic entities, we consider that the latest alterations are opportune, in the sense of aligning to the European stipulations , in order to reach the desideratum to reduce the administrative pressure on economic entities, but at the same time we consider that the simplification of the composition of annual financial situations for micro-entities and small and medium entities hinder the external users when they attempt to identify the accounting information they need for making their own analyses.

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