REPORTING FINANCIAL POSITION THROUGH THE BALANCE SHEET

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Abstract:
In order to achieve their performance objectives in the current economic context, characterized through exceptional dynamism and complexity, companies are encountering difficulties, therefore the ***analysis of the financial position*** *of the last period allows forecasting of the future position. The presentation instrument for the financial position in Romania is the balance sheet, which is the synthetic accounting document which presents the assets and equity and liabilities of companies at the yearly closure, as well as in other cases provided by law.*

Key words: *balance sheet, financial position, analysis of the financial position, performance, the synthetic accounting document*

JED Classification: M41

Introduction

An important component of the informational field was and still is today the financial and accounting functional field, because of the general interest in economic and financial management issues of performed activities and transactions.

The need for information has become increasingly pressing given the coordinates of continuous disclosure of the civilized world and it seems that it imposes new demands regarding its presentation, approach and its use. Thus, the information provided by the balance sheet in the information and knowledge era dominates the economic life of companies, and access to information is a necessary condition for business success, to survive given the economic crisis conditions that still characterize the current period both globally and at national level.

Materials and methods

The research methodology was represented by documents of analysis and synthesis of the relevant literature and accounting regulations regarding the balance sheet, as well as the financial situation of the economic entity.

Results and discussion

The balance sheet regarded as a financial statement represent a source of information required to achieve the performance analysis and control of companies, but also for substantiating decisions regarding the company's future activity, thus having a strong practical applicability.

According to OMPF 1802/2014 (Order of the Ministry of Public Finances no. 1802/2014 Accounting Regulations compliant with European Directives, chapter 2, Section 2.1.) one of the objectives of annual financial statements is to provide information about the financial position and the items directly related to the evaluation of the financial position, as reflected in the balance sheet are: assets, liabilities and equity.

According to the previously mentioned order, **an asset** is a resource controlled by the entity as a result of past events from which future economic benefits are expected to generate to the entity, being recognized in the accounts and presented in the balance sheet when it is probable the achievement of a future economic benefit by the entity, and the asset has a cost or value that can be assessed reliably.

A liability represents, according to order 1802/ 2014, a present obligation of the entity arising from past events and its settlement is expected to result in an outflow of resources embodying economic benefits, being recognized in accounting and presented in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and that the amount of this settlement will be achieved can be measured reliably.

Equity is the residual interest of the shareholders or associates in the assets of an entity after deducting all of its liabilities.

Financial analysis based on the balance sheet aims to formulate value judgments on value, balance, health, and financial position of a company (Moroşan, I., 2006, p. 234).

The **balance sheet** (According to the International Accounting Standard, No. 1) is the basic component of financial a statement through which is reflected the financial position of a company at a given moment, for example at the end of the financial year.

Analyzed as a financial statement, the **balance sheet** is a synthesis accounting document that provides information grouped, summarized and generalized on the financial position of a company in terms of interdependencies and correlation between assets, liabilities and equity.

As an annual financial statement, the balance sheet provides basic information regarding the company's ability to adapt to environmental changes, to disengage future cash flows and cash equivalents, future lending needs and the ability to cover them, and future allocations to creditors and shareholders.

Synthesizing the aspects regarding the concept and approach hypostases, we can consider the **balance sheet** as the synthesis and static balance document in monetary expression of assets, liabilities and equity at a given moment, usually at the end of which gives users information about the position the company's financial, creating premises for present and future decisions, usually at the end of the year which gives users information about the company's financial position thereby creating the premises for present and future decisions.

The vertical balance sheet form is adopted by the accounting practice in our country, representing the financial statement model that reflects the financial position of the company, meaning the capacity to adapt to environmental changes generated by businesses involving the company, for the determination of the capital as a difference between assets and liabilities.

A company's financial position is represented by the relationship between its assets, liabilities and equity. Information about these financial structures is provided by the **Balance sheet**, but in addition, the other elements of the financial statements may also provide relatively useful information. We are talking about the component of the financial statements „Statement of changes in equity", as well as an important part of the explanatory notes (Achim, M.V. 2011, p. 116).

The **financial position** depends on (Buglea, A. 2010, p. 71):

- centralized economic resources;
- its financial structure;
- its liquidity and solvency;
- the company's capacity and speed to adapt to changes in the general and specific environment it operates.

Economic resources are recognized by the Conceptual framework IASB as assets only if they fulfill a number of conditions: to be controlled by the company (the company may benefit from economic benefits embodied in assets and at the same time has the ability to restrict the access of others to those benefits); to result from past events and generate future economic benefits for the company (respectively the assets' ability to contribute to future cash flows).

The *financial structure*, reflected by the balance sheet elements liabilities and equity, provide information useful in predicting credit needs and the company's capacity to be credited in the future, as well as about the manner in which results and future cash flows will be distributed to those directly interested in the enterprise. A liability represents a current obligation of the enterprise that arises from past events and its settlement is expected to result in an outflow of resources embodying economic benefits. Equity is defined as the residual interest of shareholders in the company's assets after deducting its liabilities. Thus, liabilities should be presented and placed before equity.

Liquidity (which regards the company's capacity to meet its financial commitments on a shorter period) and solvency (which regards a longer period of time) are dimensions taken into consideration differently depending on the government model. Thus, if the company's funding is achieved mainly through credits, then more attention will be paid to liquidity. Conversely, if the funding is performed by increasing equity, then the company's solvency is primarily concerned.

To define the company's ability to adapt to the environment in which it operates, maybe we should start from the concept of a company in difficulty. The difficult situation may translate into an important and progressive serious lack of control over obstacles and difficulties, which is caused, on the one hand, by the inability of managers to effectively lead the organization and, on the other hand, its development in the economic context. As long as the continued operation is not disrupted we can appreciate that the company is adapting to the environment in which it operates, basically the company is going through a „normal” situation.

The **analysis of its financial position** of the last period allows the forecasting of its future position. The information regarding its financial structure will be useful when the financing needs will be estimated and the results will be distributed between owners and creditors.

The financial position (Achim, M.V. 2011, p. 116) analysis can be divided, depending on the objectives pursued in the analysis of the financial position, in diagnosis categories of the partial financial position presented in figure 1.

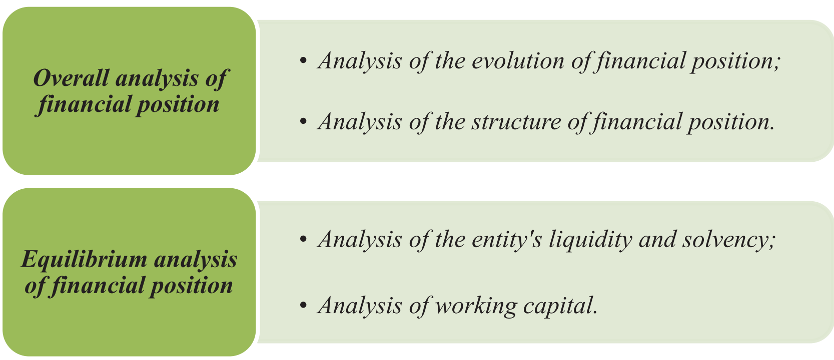

Figure 1 Types of diagnosis of the partial financial position

The analysis of the financial position aims at assessing the financial structure of the company's financial structure, namely the formation of funding resources after maturities (short, medium and long), respectively origin (own, borrowed and attracted) (Ştefea, P. Pantea, M. Brîndescu-Olariu, D. 2008, p. 42).

The analysis of the company's patrimonial items is based on the information provided by the balance sheet. They reflect the financial situation of the company at the end of a financial and accounting year (Chebac, N. Antohi, V., 2010, p. 92). This type of analysis comes to capture the structural changes occurring in the components of the financial position (assets, liabilities, equity), within a vertical analysis of the financial position.

In this respect, the **financial position structure rates** are calculated, specifically the structure rates of assets, liabilities and capital (equity). These rates reveal the company's financial characteristics such as: the ability to convert assets into cash, autonomy and financial independence of the company, the quality of financial balance on short term and long term etc (Achim, M.V. 2011, p. 156).

Structure rates compare the analytical size of assets or liabilities with the total size of the latter.

The ***analysis of the structure of liabilities reflects*** the company's funding policy and highlights the company's financial autonomy and the manner to ensure resources within the structures of equity, short term debt and long term debt. Rates on liabilities express funding stability and the autonomy degree in ensuring funding resources.

The structure indicators of liabilities are obtained by dividing some liabilities elements to total liabilities or to the group of assets to which they belong.

The analysis of the liabilities structure rates aims at calculating two major categories of structure rates:

a*) General structure rates of liabilities that aim aspects regarding the financial dependence degree;*

b) Internal structure rates of liabilities (internal rates of liabilities and equity) that highlight the structural changes in the company's liabilities and equity.

The analysis of the structure of assets (patrimonial structure) aims to research the manner in which the tangible - real assets are build, to identify the economic destination of assets and evaluate the company's capacity to change its asset structure as a result of the environmental changes, in order to improve the economic efficiency parameters.

The diagnosis of asset structure depends very much on the nature of the activity. In heavy industry branches and the ones that require costly and major equipment as volume, the share of tangible assets is much higher than in the commerce sector.

Also, the stock share is much higher in the manufacturing sector where the rotation speed is slower than in the commerce sector, because here the duration of keeping the company's stocks is far superior, involved by the duration of the production process.

For the reasons stated above it is relatively difficult to give a generally valid diagnosis recipe, but we will try as much as possible the constant folding of the conclusions on the alternatives of the nature of existing activities.

The ***structure indicators of assets*** are obtained by dividing some asset elements either to total assets, or the group of assets to which they belong (Buglea, A. 2010, p. 71). The rates on assets generally express the influence exercised on the economic composition of the company's assets by the economic and technical terms of its own activity.

The diagnosis of the structure of assets involves the calculation of two types of structure rates of assets:

a) General structure rates of assets determined as the ratio between fixed assets, current assets, prepaid expenses in total balance sheet assets.

b) Internal structure rates of assets calculated as the ratio between the elements at different levels of reflection in the balance sheet and assets from superior levels, with a higher degree of generalization.

Even if we are talking about a structural analysis which implies a vertical approach of the analysis, we can't speak about a correct diagnosis of a particular economic and financial reviewed aspect, if it is not also followed as a tendency. As such, in this case also we will address the analysis of the structure rates of assets on different levels and in terms of the trend.

Conclusions

Based on the information from the balance sheet, the company's manager must make the right decision on further economic development.

Current developments of the modern society require continuous improvement of economic and financial information. It must be constructed so that it meets management requirements for substantiating decisions, as well as information requirements of the company's partners.

In conclusion, accounting truth is a stake for different social protagonists, and the fair picture on the financial position should be searched depending on the interests of producers and users of information.

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