

MANAGERIAL OBJECTIVES OF THE ANNUAL FINANCIAL STATEMENTS. TRUE AND FAIR VIEW OR „USERS, BE CAREFUL!”

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ABSTRACT: *The financial statements represent the less expensive and the most widely spread managerial communication method. Starting from this aspect, the paper shows the managerial usefulness of the information offered by the financial statements. But, in order to take reality, and not „creativity” based decisions, the financial statements must offer a true and fair view of the company, the managers’ opinion regarding this matter being captured, through a selective research.*

KEY WORDS: *financial statements, accounting, true and fair view, managerial, balance sheet, profit and loss account, efficiency, financial situation*

1. INTRODUCTION

Nowadays, the financial-accounting information lies at the bottom of all decisions, their accuracy and relevance having a crucial influence on reaching the proper level of the expected results. Accountancy offers a correlated and certified information system, not leaving place for subjectivity and promoting harshness and accuracy in displaying the economic and financial phenomena. The importance of managerial communication has increased as the company has widened its boundaries. Generally, the activities developed inside the company are too many to be individually reported to the people or the institutions outside of it. Moreover, each activity has its own characteristics and development strategies, as well as each user has its own necessities. It is now considered impossible to map all the activities for each user, the

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elaboration of some official financial statements trying to be a synthesis of all activities that would meet the external demands.

2. FINANCIAL STATEMENTS' COMPONENTS AND THE MANAGERIAL USEFULNESS

The financial statements represent a basic element of the management because they are the fundamental information means of communication towards users. *"The financial statements are the ones meant to meet the demands of the users who do not find themselves in the situation of demanding reports adapted to their specific needs for information. They are a structured financial representation of an enterprise's financial situation and of transactions done by that, having as purpose that of offering information about the financial situation, efficiency and cash flows, useful to a wide range of users for taking economic decisions. Moreover, they show how the resources entrusted to the enterprise's management have been handled"*.

According to regulations, the financial statements include the balance sheet, the profit and loss account, the situation of own capital's modifications, the cash flow situation, accounting policies and notes to the accounts. We shall not present these documents from the accounting perspective, as the literature is quite diversified regarding this subject. We shall try to capture their usefulness for the economic entities' managers.

Professor Schmalenbach introduced the concept of balance sheet as an image of the company's forces, discovering that it is much more important for managers to measure the company's health than to measure its assets' and liabilities' value. Therefore, Schmalenbach stated: *"in order to take useful decisions, the leader of an enterprise has to know if its business prospers, if it marks time or if it falls into decline...On the occasion of each great crisis, economists could notice that very many bankruptcies simply take place due to a late acknowledgement of their businesses' decline. But we do not only need to determine the result, when an enterprise begins to get in trouble; it is imperative that we take knowledge of its prosperity. A capable leader must take advantage of such a prosperity time, even if it is determined by a combination of circumstances or the economic structure. We can not let the favourable winds just pass and not make sail, as they (the winds) won't always blow"*.

Through the documentary potential, through the way it takes part into the "information-analysis-decision" circuit, the balance sheet becomes a reference basis, as a penetrating offer and with an accelerating effect for the company's general management. The balance sheet's purpose in the activity's management process has an increasing tendency, considering the social character of the production and the relevant nature of the information it contains. The specific characteristics which increase its informational valences are also given by the fact that the balance sheet does not only reduce itself to the condensed presentation of the data series assignable to the previous financial year, but, based on it, the analysis of the economic and financial processes and phenomena under the dialectic aspect is being carried out, the cause-effect relations between them are being identified, activity adjustment measures are being established, prognoses are being elaborated, decisions are being taken.

The information regarding performance is, first of all, offered through the profit and loss account. The performance explained by the financial statement called "Profit and loss account" is of a financial nature, since each financial-accounting information user actually has a financial stake within the company. Therefore, the profit is frequently used as a performance measure or as a reference basis for other indicators, such as the investment's profitability or the result on share. As in the case of the balance sheet, by imposing the listing format, the profit and loss account was also regarded only from the procedural point of view (finished product of the accounting activity) and from the control necessities of the public administration's point of view and not as an information instrument, an instrument which facilitates financial analyses, which supports economic decisions. *If for the small and medium-sized companies the model according to the nature is adequate, for the big companies, especially for the ones quoted on the exchange, the structuring on functions would have been much more adequate, this classification being favoured by investors and managers. Therefore, certain comparison criteria could have been answered, at an international level, precisely as a result of the financial markets' globalisation process.*

The situation of the own capital's modifications show in detail all variations that the net asset has suffered between the moment of the beginning and that of the end of the financial year. This document represents an informational basis of the management for analysing the capital's maintenance (or erosion) capacity, as well as the company's profit or general loss.

Treasury becomes "key" information "because, with it, the enterprise finances its activity and ensures its everlastingness, it contributes to the establishment of the management indicators and financial analysis, both on the short term, for measuring the solvability, and on the long term, for measuring the financial need. The information included in the cash flow statement, together with the offer made through the elaboration of the balance sheet, the profit and loss account and the situation of own capital variation, should help investors, creditors, stockholders and other users to evaluate the enterprise's liquidity and solvency, as well as its ability to get internal resources, to reimburse debts, to reinvest and distribute dividends.

The accounting policies and the notes to the accounts give a particularization and a description of certain information registered in the balance sheet and in the profit and loss account, proving users with a wider image over the assets', the debts', the own capitals' situation, over the financial situation (by calculating some liquidity, risk, profitability, activity indicators), as far as principles, policies and methods used in the accountancy are concerned. Thus, an informational excess regarding certain significant elements of the enterprise is ensured.

Using the financial statements, managers, and not only, can get information regarding the *financial situation*: the information is useful for anticipating the capacity to generate future cash flows, future credit needs and how to get this loans, the company's ability to fulfil the outstanding financial obligations etc.; *the performance*, which aims to evaluate the potential changes of the economic resources that the company will be able to control in the future, stating the reasons related to the efficiency of using certain resources; *the financial situation's modification* has in view the operating, financing and investment activity.

As a conclusion, the financial statements meet the managerial information necessities, provided that they offer a faithful image of the economic entity.

3. THE TRUE AND FAIR VIEW – PRIMARY OBJECTIVE OF THE FINANCIAL STATEMENTS

Nowadays, the competitive economy generates, at an international level, two totally different tendencies: on one hand *hiding all information* that could be used by the competition in the disadvantage of the economic entity, and, on the other hand, the *demand to offer relevant and credible information* from the same entity. Both tendencies are offered through the accountancy. From this perspective, we believe that the managerial objectives of the financial statements consists of the supplying of a true and fair view of the financial situation, the performance, the enterprise's own capital's modification and cash flow for the given period, useful information for evaluating the enterprise's and its managers' strategic planning and accomplishments.

The true and fair view has become a European concept after the introduction of the Fourth Directive of the European Economic Community Council, which states the following: "annual accounts have to offer a true image of the company's patrimony, financial statement and results".

The old character of this concept did not however have as a result the existence of a clear, unitary definition. Alain Viandier and Christian de Lauzainghein therefore mention: "*For some, truthfulness is nothing but sincerity or even the sincerity's dominance over the compliance to the rules, which makes them ask themselves which is the real usefulness to designate, through some other name, a concept that already belongs to the accounting law. For others, truthfulness is a concept characterized by a particular energy which allows the formulation of rules. On the contrary, for others, truthfulness is not a real concept and it mostly represents a guidance role. Eventually, for the others, truthfulness is the simple combination between frequency and sincerity*".

In order to have a competitive accounting activity, the true and fair view has to be not only a training process for the professionals involved, that must offer those information that are in agreement to the reality, but it is also a way to train and inform users, in order to perceive correctly the sent signals, since the accounting "artists" do not live isolated, but they are present on a market where the financial-accounting information offer and demand face each other.

Although there is not a clear definition of the concept "true and fair view", we can however state that it is the equivalent of a real view obtained from the company's faithful representation. At the same time, the true and fair view is also a challenge, an incitation to research, reflection and improvement of the provided information's qualitative level, specialists being forced to permanently look if the put into practice of a legal provision ensures or not the sought true and fair view. Since the tax collection is still an obsession for the Romanian companies, managers are not interested in the information's qualitative aspect, but rather in the quantitative one. It is true that the legal provisions abound in sanctions for breaking the rules, but the concept of true and fair view offers a new meaning to the financial-accounting responsibility, which is

however not clearly perceived within the countries where the state imposes the rules of the game.

In our opinion, objectivity, good faith and seeking the truth are few of the characteristics that can be included in the definition of accountancy truthfulness, having as purpose the offering of certain information which would comply with the previously presented qualitative characteristics, so that the users of this information could take reality and not “creativity” based decisions. Therefore, “users, be careful”! We do not hesitate to mention that, in order to have a competitive management of the financial activity, which would lead to the efficiency’s maximization, trust gaining or the company’s permanent expansion, the true and fair view, must be sought and achieved.

4. THE RESEARCH’S METHODOLOGY

The present paper aims to bring into attention the level in which the annual financial statements elaborated by the companies in Sibiu county offer a true view over the financial situation, the performance, the financial situation’s modification. This presentation is part of a much larger study regarding the concept, the role, the methodology and the mode of operation of the management in financial-accounting activities in firms, which was based on 29 objectives, supported by a number of 60 hypotheses.

Taking into account the set-up objectives, our investigation has been made up of two consecutive researches: *a qualitative research of an exploratory nature and a quantitative research of a descriptive nature.*

By using the qualitative research of an exploratory nature one had as aim determining the set of hypothesis which were the object of the quantitative descriptive research that was to follow and setting up the following priorities for the research. The methods used in this preliminary research are the following: the analysis of secondary data, which requires the usage of the available data coming from different sources with focus on discovering shortcomings, ideas, solutions; interviews with specialists with the aim of obtaining further pieces of information from those relevant in the fields of finance-accounting; group reunions or focus groups.

Taking into consideration the location of development the research has been made *in the field*, and in what concerns the frequency of development, the research has been made *on occasion*.

In order to establish an adequate poll basis for the study, we used the data provided by the statistic Registry, the Chamber of Commerce, Industry and Agriculture and the National Office for the Registry of Commerce. Thus, we have obtained information regarding the names of the firms, address, telephone number, the name of the manager, being thus able to contact the potential respondents.

In order to set the sample we used the method of *random sampling*, which was based on a *fixed sample with restrictions* (taking into consideration the organisational restrictions, we decided upon a sample of 110 respondents). We can state that the sampling method consists of a combination between the *multi – stages sampling method* and that of the *non-proportional stratified random sampling*.

In the context of research the recollection of data has taken place at the headquarters of the firms that have been selected, the researchers being directly involved. We had a preference for the field research since some of the questions have been more complex, the number of questions has been relatively high, thus choosing other methods (auto-administering the questionnaires, the phone or internet poll) being considered by the researchers as inadequate for it left room for more errors.

We consider that the most important margin of the conducted research is given by *the size of the sample* (110 respondents) and of the relatively high margin of error (9.4%) for a level of trust of 95%. However we feel the need to mention that when the size of the sample was determined one had in view the objectives of the research, considering that the study has a high degree of precision even if the sample is narrowed down. Another limit of the research derives from the choice made in completing the size of the sample, namely our choice for the non-proportional version. Regarding this aspect, we would like to argue that, even if by using the non-proportional alternative the subjects of the sample do not correspond to the statistic realities in what regards their weight on the total of firms in Sibiu county, we started from the hypothesis that certain strata, consequently that of the large, medium and small enterprises have a larger importance in the context of research, each of those having its own conceptions and perceptions. One must also specify that the basic objective of the selective scientific research has been to develop and test the instrument of research and not the precision of the estimates.

Considering the purpose of the completed selective scientific research, the distributed questionnaire was anonymous. The focus was not on a particular category of firms, as we tried to catch certain realities with the purpose of identifying the causes of the deficiencies declared at the level of the economic activity, as well as to formulate proposals in this field. From this point of view, the researchers based their opinions on the full confidence shown by the respondents who, thus, assured them of their full cooperation.

5. DEPICTED CONCLUSIONS AFTER THE RESEARCH

The obtained information after processing the answers to the question “How much do your company’s financial statements offer a true view over the financial situation, the performance, the own capitals’ modification?” are presented in table 1 and as a graph in figure 1.

By processing the obtained information, we get that 54.5% of the companies consider that the elaborated annual financial statements meet in a large measure the true view objective, 24.5% consider that the true view is offered in a very large measure, 12.8% of the companies have a neutral opinion and 8.2% claim that they offer in a small measure a true view through the financial statements.

The calculated score for this question is of 3.95 (from 1 - in a very small measure, to 5 - in a large measure), therefore the hypothesis mentioned at the beginning of the research (*H - The Annual financial statements offer a true view in a small measure*) is being invalidated.

If we think however that for another question from the questionnaire, namely “Does your company use innovation and creativity in the management of the financial-accounting activity?” most of the respondents stated that they use such practices for negative purposes, such as the desire to cheat the tax collection, to get additional financing sources, to manipulate the result in order not to give dividends, we can only ask ourselves: “Shouldn’t the percentage of the companies that offer in a small measure a true view over the financial situation, the performance, the financial situation’s modification be bigger?”

Table 1. The level of offering a true view over the company from the viewpoint of the annual financial statements

		Frequency	Percentage	Valid percentage
Valid	110			
	in a very small measure	0	0	0
	in a small measure	9	8,2	8,2
	neither in a small, nor in a large measure	14	12,8	12,8
	in a large measure	60	54,5	54,5
	in a very large measure	27	24,5	24,5
	Total	110	100,00	100,00
Average	3,95			

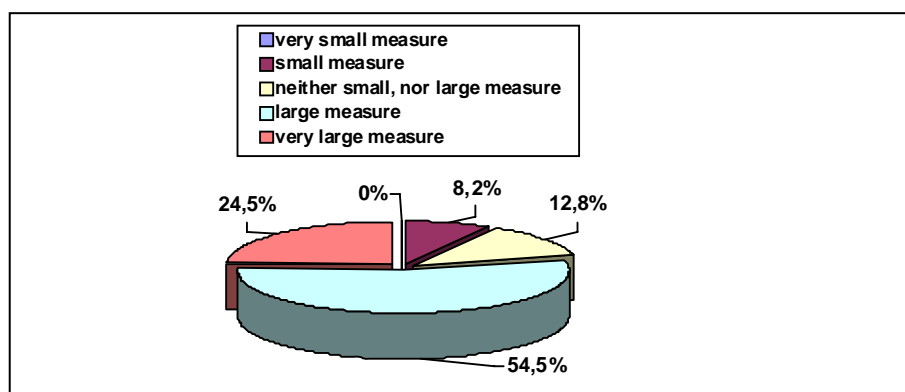


Figure 1. The true view over the company from the point of view of the annual financial statements

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