THE FINANCIAL - ACCOUNTING INFORMATION: AN AUTHENTIC POWER FACTOR IN THE GAIN – LOSS RELATIONSHIP OF INVESTMENTS ON THE CAPITAL MARKET

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Abstract

The purpose of this material is to present the usefulness of the financial accounting information and accounting theories applicable to financial markets, in order to highlight the extent to which the quality of the financial accounting reports influences the investment decision on the capital market and subsequently outlines ways to improve them. The quality of the information provided through financial reporting, which directly involves International Accounting Standards, is a goal in itself. These must add value to the financial reporting system in support of the financial system stability and economic growth.

Keywords*: internal users, external users, stock market capitalization, financial globalization*

JEL Classification: G3; G32; G34

1. Introduction

The perception of information in the specialized literature is that information is a generic element of the process of knowledge and representation of reality, as well as that of conception and communication, inherent in human action, on the scale of society - in general - and of organizations - in particular.

The parameters of the efficiency of the information are determined by the degree of subjectivity - objectivity, its servitude of the user, the temporary duration taken as a reference, but also by the qualitative and quantitative aspects, in this sense, the most expressive example constituting the notion of "accounting information". The information is associated with a value of utility, representing the possibility of economy, this being calculated from the difference found between the effects of a decision promoted by and without the knowledge component. The value of utility is directly influenced by the physical, but also the moral, depreciation that becomes a priority. The information is exposed to a high degree of degradation, this being automatically included by the actions of production and dissemination resulting from the diversified and versatile interaction with the sum of the information from a certain environment.

The accounting information can be assimilated and analyzed through three aspects: semantic, syntactic and pragmatic. The semantic aspect of information refers to the importance it holds for the receiving element. The syntactic side highlights how the signs that make up information remove an element of uncertainty, determining the phenomenon, and the practical utility of information for the user synthesizes the pragmatic aspect. Thus, the economic information is characterized by the fact that it expresses explanations regarding economic resources, production, distribution, exchange and consumption of results, being formulated on the basis of a set of indicators that together form the "data repertoire" indispensable for coordinating an efficient economic process.

2. Demand and supply of accounting information - users and information needs

The most common and most representative type of relationship in the existence of an economic entity is represented by the one between its owners and its managers. This must be correlated and understood in the context of the governance mode of the society in question. If the relationship between the directors and the owners is a fundamental relationship in the

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governance of the company, it can be argued that, at international level, accounting must meet the needs of a diverse range of users, its offers having an increasingly social character.

Internal users are managers, who use accounting information that reflects the operations for the exploitation, investment, financing and management of the treasury, in order to substantiate and make decisions. In this respect, they use both the information set forth in the current accounts and in the annual financial statements. In the context of the internationalization of the Romanian accounting, the internal users have the responsibility of the accounting choices regarding the definition of the options regarding the optimal accounting policies, in order to reflect the economic reality. Appointed by the owners to manage the assets and activity of the economic entity, the managers use the data provided by the financial accounting, and correlate it with the information related to management accounting.

External users are the financiers of the economic entity, its commercial partners, social partners, public power, as well as other external users.

The financiers are the users who, potentially or effectively, provide the economic entity with the necessary resources for the smooth running of its activities. Differentiated on the criterion of the financing method can be found:

a. grant financers, if the companies are listed on the financial market;

b. bank financiers, if the companies procure external resources by resorting to bank loans;

c. public power, as an investor in autonomous regions and in enterprises of national interest;

d. other categories of financiers (financing through the completion and the development of location-financing contracts, also called financial leasing contracts).

Equally important to note is the fact that an economic entity with assured financial soundness achieves a balance between the recourse to external sources of financing and the generation of own sources (the way of self-financing, by amortizing the different components of fixed assets and by allocating a representative share of the profit for the creation of reserves). Therefore, the financiers are represented by investors, creditors (especially bankers), the state and government agencies, tenants, etc. As provided for in international accounting regulations, the external users of information, defined in the financing processes and operations, are the investors and the creditors.

2.1. The need for managers to base their decisions

In the case of small economic entities, the manager most often coincides with the owner. In the other typologies, however, the shareholders being numerous, they cannot be directly involved in the daily activity and delegate the authority to lead a group of managers. The information needs of managers are mainly covered by reports that are not published to other categories of users. These reports are usually prepared both on the basis of management accounting information and on financial accounting information. Their nature varies from one enterprise to another, depending on the type of activity.

The more complex and diversified the company's activity, the more managers need more detailed information. Furthermore, the larger the company, the more the manager is away from daily activity, which forces him to request additional information, based on which he can effectively control the activity of his subordinates.

Also, the specific activity of the entity influences the informational needs of the managers. Managers have immediate and complete access to accounting information. They should not wait and are not limited to the information published in the financial statements. Although they benefit from informational asymmetry in relation to the other categories of users, however, managers pay special attention to the way in which the published information is perceived by them. Such an interest is due to the fact that the published financial statements inform the third parties on the managerial capacity of the management team. In other words, managers use the information in the financial statements to communicate.

2.2. The globalization of the financial markets and the emerging needs of investors

In most cases, investors (shareholders) want to measure the return and risk of their investments, based on these they make the decision to maintain, increase or reduce their contributions. Thus, investors are interested in the ability of the company to make future profits. The notion of ability to make future profits refers to the extent to which the company will adopt a strategy whose purpose is to increase its wealth, obtain new funds and be able to subsequently convert the benefits into wealth. Investors usually reason according to the cash flows, which have a tangible representation, and less depending on the net profit which, depending on accounting conventions, does not always reflect the real economic enrichment of the company. Their reasoning also takes into account the fact that companies use part of their profits for self-financing. Although the shareholders appear to be the first victims of self-financing, in reality, through self-financing the net assets and the theoretical value of the stock increases, which can lead to an increase in the stock exchange rate or a free distribution of shares. Under these conditions, the shareholder recovers through capital the part that he lost in the form of dividends. Moreover, while the distributed benefits are subject, in most countries, to numerous cascading tax deductions, diminishing the amount that actually reaches the shareholders' disposal, stock market surpluses are taxed to a small extent.

Shareholders, however, also want information on the dividend, as this is not just a simple cash transfer. This and its long-term growth rate circulate a rich information flow about the company's prospects. The increase in the number of "ethical" investors, eager to invest in environmentally friendly companies, has led to an increased demand for information on the environmental management of the company. Thus, the investors request information on the costs of environmental management (legal expenses, expenses for the decontamination of some areas, expenses with pollution control, investments in pollution control equipment, etc.), that would allow them to calculate the debt involved by this type of administration and make the decision to buy, sell or hold shares.

As for potential investors, they want to be able to calculate the rate of return they have the right to demand from the company in order to invest their funds, taking into account the risk attributed to their investment and the opportunities existing on the market. In order to answer the demand for measuring the wealth that is appropriate for the investors, the specialized literature recommends the use of stock market capitalization. The practice reacted quickly to this proposal, numerous financial analysis companies creating a classification of companies, according to the amount of wealth created for the shareholders.

The most commonly used method is the "market added value", which requires the restatement of certain balance sheet items, calculating the total value of shareholders' equity and comparing them with the stock market value of the company. A favorable difference is interpreted as an increase of the invested funds, while an unfavorable difference represents a loss of wealth.

3. The financial - accounting information as a power tool in the age of globalization

The general dictum of specialists in management, journalism, politics and economics has in recent years become the notion of globalization, being studied by economists and sociologists around the world. In this context, globalization refers to a wide range of economic, ideological, technological and cultural changes and interdependencies. Economic changes mainly refer to the internationalization of production, the rapid increase of capital mobility, the development of transnational corporations, as well as the deepening and intensification of economic interdependencies worldwide. The economic manifestations of globalization include the spatial reorganization of production, the development of financial markets, the distribution of fungible consumer goods in different countries and the mass population movements.

Regarding the manifestations of globalization, some areas, such as the financial market, for example, are more easily subject to globalization than others. After all, the movement of certain symbols – like money- by electronic means, is much simpler than the circulation of a quantity of products. In the acceptance of most of the specialists in the field, the financial market has four major components: the capital market, the money market, the insurance market and the mortgage market. In a functioning and competitive market economy, the role of the capital market is paramount. The proper functioning of the capital market is particularly important in developing economies in order to be able to make an efficient transfer of money resources from those who save to those who need capital and who are able to offer a higher return value. The capital market can significantly influence the quality of investment decisions.

The collection of the temporary capital available in the economy, the reallocation of the insufficient ones and even favoring some sectoral restructuring inefficiently capitalized at a given moment, are likely to outline the place currently occupied by the capital market in the economy of many countries, not only the most developed ones.

Financial globalization is characterized by the emergence of capital markets without borders, operating on the entire planet due to the instantaneous circulation of information, due to the elimination of the exchange control and due to the homogenization of the financial instruments offered to savings holders. Under these conditions, multinational, transnational, transregional or interregional industrial and financial companies can borrow or place money without limitations where they want and when they want, using all existing financial instruments.

The globalization of the capital markets also had the effect of a more and more homogeneous information, of the understanding and comparison of the financial-accounting information of the different corporations. Under these conditions, the contribution of accounting in the international capital markets is emphasized, especially on informing the participants in the stock exchange.

4. Correlating the quality of financial - accounting reports with the level of economic efficiency of investments in the capital market

Investors want to turn their cash availability into investments, and their investments into liquidity within a stable environment. The SSIFs want to make those investments for their clients that do not involve a major loss in terms of the value of their investments.

On the capital market, and within the SSIFs, the performance is related to the quality of the financial-accounting information, by its accuracy, of the accurate image of the reality of an operation or securities transactions.

The audit procedures of the financial-accounting information concern two directions: the utility of the financial-accounting information in the investment decision on the capital market and respectively the effect of the financial-accounting information in the investment decision on the capital market. Also, the performance on the capital market is directly related to the quality of the decisions made on the basis of the financial-accounting information.

Therefore, audit research in the field of capital markets is up-to-date and may be considered necessary where the attention is focused on the investors and the decisions made by them. The decision of the investors implies the correlation between the current consumption and the future benefits, hence the need for appropriate and relevant information.

Effective and potential investors are constantly analyzing the alternatives available, hoping to make those decisions that best meet their present and future interests. Numerous information on future monetary flows, attached to different securities, is presented in cash flow tables, while the summary accounting documents provide relevant information on the risk associated with an investment, determined by the degree of flexibility in the allocation of resources. The role of financial auditors can be determined in the recommendations of sale-purchase-preservation of securities and in estimating future income (as a basis for determining the price of securities).

As a result, the auditor who has thus evaluated the financial-accounting information and the investment decision through the financial analysis used as an audit method, may motivate the use in the audit of the SSIFs, namely the audit of the performance in the financial investment decision and even create a debate group in audit. This group, represented by capital market specialists, accounting experts and financial analysts, should express, based on the audit, the point of view, by collecting qualitative audit evidence and applying the audit standards, so that the information provided is useful and indispensable to all investors.

5. The financial analysis - diagnostic procedure in the adoption of the investment decision

The objectives and financial goals of the company can be approached from different points of view. A first approach aims at maximizing profit by rationalizing financial decisions, which materialize in increasing the wealth of the company with favorable consequences on the stock market value and the wealth of shareholders.

From another point of view, the managerial one, these objectives and goals mainly aim to achieve economic growth, financial balance and financial liquidity. The analysis, as a self-contained scientific system, using the information provided by the synthesis accounting documents and based on their own methodology, links and interprets all this information, in the sense of the economic and financial objectives that the company proposes to undertake.

The valences of the Romanian accounting system offer the possibility of performing the financial analysis, which represents the activity of diagnosing the financial performance of the company. It can be considered as a managerial tool meant to contribute to maintaining and developing the company in an increasingly dense competitive environment, as well as to understanding the past and the present, in order to substantiate future strategic objectives.

Information on the performance of an enterprise, including its profitability, is necessary for the correct assessment and evaluation of any changes in the economic resources it could control in the future. Of particular importance is the variation of the performance in the foreseeable future, determining for this purpose the aspects related to the generation of cash flows according to the existing resources. Regarding the orientation of the entity towards new financial resources, the performance analysis will have to provide conclusions about the impact that the use of additional resources would have.

Equally, the financial analysis aims to highlight the means of achieving financial balance in the medium and long term and the stages of money accumulation, of profitability of the activity of the economic entity.

In the case of the analysis of the financial - patrimonial situation, a special role is played by establishing the ways to maintain financial independence and to achieve flexibility in this area. The purpose of the financial analysis is the elaboration of the financial diagnosis of the company in order to highlight the strengths and weaknesses, the state of health or financial weakness of the company, as well as the potential of financial management. At the same time, diagnostic analysis is a component of the overall analysis of the enterprise, also called strategic analysis. The static analysis of the financial balance based on the annual financial statements is a traditional component of the financial analysis.

Regardless of the objectives set by an economic entity, their fulfillment is conditioned by the satisfaction of major financial restrictions, such as the achievement of the financial balance, which generally expresses the company's ability to harmonize resources and their related uses, which allows it to permanently ensure solvency, and increase profitability, respectively the ability of the company to obtain a monetary surplus, which allows it to fulfill its commitments and ensure its development.

6. Conclusions

In an attempt to reflect the way in which investors assimilate financial information, companies have tried - due to the pressures of the economic environment and the need to provide more accurate information - to eliminate the gaps by making the presentation of the annual financial statements more efficient, fact that led to the use of financial accounting information for forecasting the profitability of companies, this aspect having an important impact on investors, who analyze the accounting information as soon as it is received. From here the most well-known research activity expanded, which makes the connection between the change of the price of securities and the accounting information, which led to the elaboration of sets of predictive theories, which caused a true revolution in the financial accounting theories. But the relativity of the predictive theories is difficult to measure because its value depends on the ratio between the correct and the wrong forecasts, which has led to the elimination of imperfect theories or those which have not been able to prove their validity in time.

Accounting theoreticians have long recognized that the accounting information system is an integral part of the control system of an organization and that accounting information provide and facilitate critical decisions that influence the formulation of useful information to achieve control. The financial accounting information is intended for external users, such as investors, employees, creditors, the government or the general public and is designated by the summary financial statements or, shortly, financial statements. Every year, the administrators of the companies must prepare a set of financial statements in a standardized form, consisting of: balance sheet, profit and loss account, the statement of changes in equity, the statement of cash flows and accounting policies, and explanatory notes to them.

At the same time, management accounting information is intended for internal users, respectively the management of the economic entity. This information is non-standardized, often non-monetary, and includes information on the unit cost of the products, the behavior of costs relative to the volume of activity or profitability per product. The reports are submitted to the management at short intervals - monthly, weekly or daily - and are limited to subdivisions of the economic entity, called responsibility or profit centers.

In order for users to benefit from an eloquent accounting financial diagnosis, the relevance and credibility of the financial accounting reports must be brought to the highest degree of fidelity without containing elements of subjectivism and creativity in order to provide an objective, complete and neutral image, that reflects the substance of the economic events produced.

At the same time, the intelligibility with which the actors of the capital market understand the accounting financial information and use it when comparing the companies in the market, must have a level of comprehensiveness in the most appropriate way possible.

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