ECONOMIC RESULT UNDER THE INFLUENCE OF SPECIFIC ACCOUNTING PRINCIPLES

Gheorghe, Holt[1]

Abstract

Under the influence of changes in the economic, accounting has come to turn the road from a primary form to complex one, able to satisfy the diverse increasingly requirements of users of accounting information. In economic theory, the total result registered in the work carried out by operators is the net cash flows generated. Profits or losses should be treated as made in accordance with generally accepted principles when preparing financial statements. In his desire to become stronger, accounting proceeds at cost calculations, comparative analysis and synthetically and analytical forecasting calculations. Used as a measure of performance or as the baseline for a number of indicators such as return on investment or earnings per share, the result can be determined by comparing the two concepts directly related to it, in this case income and expenses. Recognition and measurement of revenue, expenditure and hence the outcome depend on the concepts of capital and maintaining its concepts used by companies in preparing financial statements.

Keywords: *economic result, performance, income, expenses, financial statements, accrual accounting*

JEL Classification: M40, M41, M48

1. Introduction

Used as a measure of performance or as the baseline for a number of indicators such as return on investment or earnings per share, the result can be determined by comparing the two concepts directly related to it, in this case income and expenses. Recognition and measurement of revenue, expenditure and hence the outcome depend on the concepts of capital and maintaining its concepts used by companies in preparing financial statements.

Recognized as increases in economic benefits recorded during the accounting period in the form of inflows or increases in assets or decreases in liabilities, resulting in increases in equity other than those resulting from contributions of shareholders, income is probably one of the most common examples to illustrate the double accounting. Given the impact on earnings revenues were developed a series of accounting principles represents real arguments of the process of recognition, measurement, classification and allocation at a period, the transactions undertaken by a company.

In the economic outlook, the result must be recorded progressively throughout the production cycle, as they advance products and work in progress. In the legal concept, the result must be booked within a point of the cycle, such as the sale, the collection, the expiry of the guarantee given to the beneficiaries. Revenue recognition in the income statement involves simultaneous recording of either the growth of the asset or debt reduction.

In economic theory, the total result recorded over the life of a society is the net cash flow generated. Unfortunately, the necessity of decoupling financial and accounting activity exercises, the realization of the financial statements, generate artificial period for the company performance analysis. The effect of this process is that every time reporting, financial statements appear in a number of incomplete transactions. The competition is between accrual accounting, according to how the effects of transactions and other events are recognized when the transactions and events occur and not as cash or its equivalent is received or paid. Thus, by virtue of accrual accounting, costs are allocated to income in accordance with the principle of linking expenditure to income. When the timing of the expenditure contributes to income generation it is difficult, it is necessary to use a logical

[1] Professor Ph.D. „Constantin Brancusi” University of Targu Jiu, alinaholt03@gmail.com

and systematic method of distribution. If this is not possible, the costs in their entirety, are fully included in the expense category.

2. Economic result - between theory and practice. Specific accounting principles

For a long time, the economic result was and continues to be considered, even today, the main indicator to measure firm performance.

The result can be a subjective indicator, it depending on the interests of managers and other users of financial accounting information, on the economic and political system in which the entity its part, and on the the organization and management type. In some cases, the entity's management may seek to maximize earnings in order to obtain a bank loan or attract investors. Conversely, it can follow to minimize the result for paying low taxes as possible to the state budget. Economic result is considered the main indicator to measure a company's financial performance. By the method of its calculation, the economic result is past oriented, serving as a measure of the progress of an enterprise during a passed time period. However, the economic result could have other uses: guide of dividends and acquiring entity; means of predicting future results in order to make decisions to invest or divest; means of evaluating management's ability to lead the company; means for estimating the value of decisions made by other groups linked to the undertaking concerned; management tool in a number of areas within or outside the enterprise (pricing policy, wage negotiations, credibility with the credit bureau, regulation of prices under monopoly conditions).

In the context of normalization, in which there are several options to reflect the same transaction, there is no objective result. The choice of a standard or an option involving the abandonment of other rules or options consequences on the financial statements and accounting result. The result can vary between certain terminals without having, within this area, a level of result that can be considered more representative than another.

Through the simple difference between revenue and expenditure, the result becomes partially a elected date. Creative accounting allows enterprises obvious outcome modulation in a sensitive manner. When this company belongs to a group, the possibilities of using creative accounting appear even wider. Economic result no longer appears as a pertinent variable in informing financial markets on the value of the company and its activities. The overall result is the pertinent indicator that inform about the company's performance, because it takes into account not only the results of past and present, but also the possibility of obtaining a favorable outcome in the future.

The above statements are found in almost all texts dealing with creative accounting, but it is overlook a fundamental issue: one of the basic principles of accounting is business continuity. The company's performance is no longer evaluated only on the basis of past and present. The future has a role in assessing the ability of the company to be efficient and we can not talk about the future if there is not a concern assumption about the business continuity. The result is one: past, present and future. The second basic concept of accounting, respectivly accounting cutoff, is the reason of this result division, from the need for regular reporting. Thus, if a method leads to a result, more or less far, there is a flipside: in future, the result will be the opposite. Overall, the company's performance is the same.

Different methods which lead to different results does not affect the company's performance, but the qualitative aspect of the comparability of accounting information. Comparability of accounting information could be obtained using a single method for solving the same problem. The reason that accounting result lost and still tends to lose "ground" in measuring the financial performance of the company is the emergence of comprehensive income. I consider the transition from the accounting result to the overall result a switch from the assessment to historical costs to the fair value measurement, and from abandoning the concept of past and current period result to the concept of performance that shows the future perspective of the company.

IASB requests the development of a statement of comprehensive income, with the choice of presenting a situation that reflects all changes in equity. I believe that the effect of both situations is so different that the IASB should not require firms to make a choice. Statement of comprehensive income, the IASB called "gains and losses,, situation is a situation that reflects the overall performance of the enterprise, while the situation of changes in equity, as the title suggests, is a simple presentation of changes in equity, rather bushy in my opinion, to present relevant information.

The result presented in the profit and loss statement, reflect the income and expenses of the period and the one predictable to appear in the near future, as well as gains and losses on financial instruments carried at fair value, or in the distant future, such as provisions for decommissioning the balance.

The specialized literature analyze the result by a double approach:

- enterprise performance approach, going out from the transactions which was achieved during the period, translated by the difference between its income and expenditure;
- patrimonial enrichment approach measured by the difference between its net assets at the beginning and at the end of the considered period.

This double approach aims to answer two types of different needs of users, respectivly to measure the performance of activities, current operating concept, and to measure the enrichment, in a patrimonial conception of the enterprise, all inclusive concept.

In conclusion, the result of the year plus the gains and losses recognized directly in equity reflects the performance of the current period and future period, because many of the items included in profit or loss statement (for example, changes in value of financial instruments at fair value) and own capital (eg, changes in value of financial instruments available for sale) reflects the performance that will occur in the near future. However, performance is affected by the effect of changes in accounting policies and by the correction of fundamental errors related to prior periods as a result of going concern principle.

The production of accounting information and, in particular, the achievement of quality characteristics, have the essential premise the establishment and enforcement of appropriate rules and principles. The definition, acceptance by producers and users and their application gives the objectivity for the accounting system.

Accounting principles or conventions literature is very abundant and, therefore, it must be a oversimplification. Also, being the results from practice, the accounting principles changes with the practice and accounting theory. Some new principles are created, others tend to wear out and some of them are even contradictory. Such dynamics reflect that economic reality has multiple issues and that the accounting principles must be applied in relation to the objectives and with the field of action of accounting.

Regarding accounting principles, these are conceptual elements that guide standardizes to develop accounting standards, and there are elements to support the financial information maker for the correct counting of transactions and other events and for a true representation of the financial situation. At the same time, they are very general rules that can be implemented in many ways that give rise to multiple accounting rules. The accounting principles are essentially delineated as a reference system for the construction of accounting information on the situation of assets, financial situation and results.

Generally accepted accounting principles are subordinate to the fundamental objective of accounting, ie, it must present a relevant and reliable situation over the assets and liabilities, financial position and economic result.

Under accounting regulations in Romania are formulated and adopted the following accounting principles: the going concern principle, cut off accounting principle, historical cost principle, prudence principle, substance over form principle and the principle of consistent methods.

Because it is important that everyone who receives accounting reports could interpret them, it was developed a set of rules that form the framework of financial accounting, called generally accepted accounting principles (GAAP - Generally Accounting Principles). Although the term has many meanings in literature, it could be defined as including conventions, rules and procedures necessary to define accepted accounting practice at a given moment.

To achieve its objectives, financial statements are prepared on an accrual basis. Thus, the effects of transactions and other events are recognized when the transactions and events occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the related periods. Financial statements prepared on the basis of this principle not only offers users information about past transactions involving payments and collections, but also of future payment obligations and the resources and future earnings. Thus, they provide the most useful type of information about past transactions and other events that are required of users in making economic decisions.

3.Conclusions

In assessing the financial performance of businesses, the accountant result became a rigid indicator because it only includes items recorded in the profit and loss statement without considering the latent gains and losses recorded directly in equity. It is why, internationally, it has appeared the economic result concept, designed to measure the overall performance of the company.

Economic result is a broad measure of the effects of transactions and other events of an entity, meaning all changes in net assets, excepting those resulting as contributions or distributions to owners.

In other words, the economic result is considered the main indicator to measure a company's financial performance. It can provide a wealth of information required for a wide range of users and becomes a guide to the dividend policy and the storage policy for the enterprise, providing forecasting future results in order to manipulate investment decisions, and can be, at the same time, a standard reference for evaluating the managerial capacity.

Bibliography

1. Pătraşcu L., Situațiile financiare. Suport informațional în decizia managerială, Ed. Tehnopress, Iaşi, 2008
2. Jianu Iulia, Evaluarea, prezentarea şi analiza performanței întreprinderii. O abordare prin prisma Standardelor Internaționale de Raportare Financiară, Ed. CECCAR, Bucureşti, 2007
3. Coman F., Contabilitatea financiară şi fiscalitate, Ed. Economică, Bucureşti, 2009
4. Feleagă L., Feleagă N., Contabilitate financiară. O abordare europeană şi internațională, Ed. Economică, Bucureşti, 2007
5. IASB (2015) Standarde Internaționale de Raportare Finaniară (IFRS), Norme oficiale emise la 1 ianuarie 2015, traducere, Ed. CECCAR, Bucureşti, 2015