ISBN: 978-606-8624-16-7

ACCOUNTING PRINCIPLES, PILLARS OF A TRUE AND FAIR VIEW / PRINCIPIILE CONTABILE, PILONI AI UNEI IMAGINI FIDELE

Gabriela Ignat

Assist. Prof., PhD and Andreea Alexandra Timofte, PhD Student, ”Ion Ionescu de la Brad” University of Iași

Abstract: In the age of globalization there is an emphasis on applying accounting principles in designing a real image.
The true and fair view of the financial position and performance of a company can be built only on the basis of respecting the rules, well based principles and procedures of accounting, determined by the economic reality.
As a matter of fact, the true image represents the quality that the accounting information must have. Thereby, accounting has gone from being a mere chronicler of the life of a company to becoming a true mediator of the duel between demand and supply of accounting information.
Correct necessary information can be presented to information users as long as acctointing principles are being followed.
In this paper we propose both a theoretical and practical approach to the observance of accounting principles to determine the correct companies performance based on accounting information

Keywords: accounting principles, true and fair view, performance, accounting information, financial statements

Accounting principles represent all the rules that help accounting information producers to measure, classify and disclose the financial information.- that "the relevance of accounting principles is strongly questioned for some time past."

The term true and fair view is of British origin, and one of the few definitions belongs to Lee who stated back in 1982: "Today, the true image has become a term of art.

It requires the presentation of accounts prepared in accordance with generally accepted accounting principles, using figures as accurate as possible, making reasonable estimates and arranging them in such way to provide, despite all limits of accounting practices, an objective image, without errors, distortions, manipulations, or omissions.

MATERIAL AND METHODS

The present paper is the result of the thorough processing of information gathered after having taken into consideration a series of works acknowledged as relevant for the chosen topic, as well as the careful examination of the role of accounting principles in determining and presenting a real situations on a company's performance.

ISBN: 978-606-8624-16-7

The case study was conducted at an agri food company located in Iasi County. Accounting data available to users of accounting information have been processed for a period of three years.

RESULTS AND DISCUTIONS

By using diverse methods and procedures, accounting is the only science that has the capacity to provide financial information in an economic activity. The analysis of the studied company was made to follow the accounting principles by studying the evolution and dynamics of performance indicators (economic - financial indicators) over the period of three years (2013 – 2015).

In current circumstances, when market factors prevail in variables that explain the results of enterprises, turnover analysis is essential for assessing the company position in its sector, market, the skills of its launch and development activities in a profitable manner.

One definition given by the Order of Chartered Accountants in France it is estimated that "turnover is given by the value of undertaking business with third parties obtained through the activity of habitual exercise of professional activity".

Based on balance sheets data, during the three years of analysis turnover was calculated. Using this indicator we compared the share of the two components and, also, the share of turnover in total operating revenue.

As sales values and revenue from the sale of goods diminished during 2015, the turnover recorded a considerable decrease over the previous year, by 44%. This creates a severe instability in the economic activity of the company and its adaptability to given conditions show compliance within the current financial and economic crisis.

Evolution and dynamics of turnover are presented in Fig. 1, respectively Fig.2.

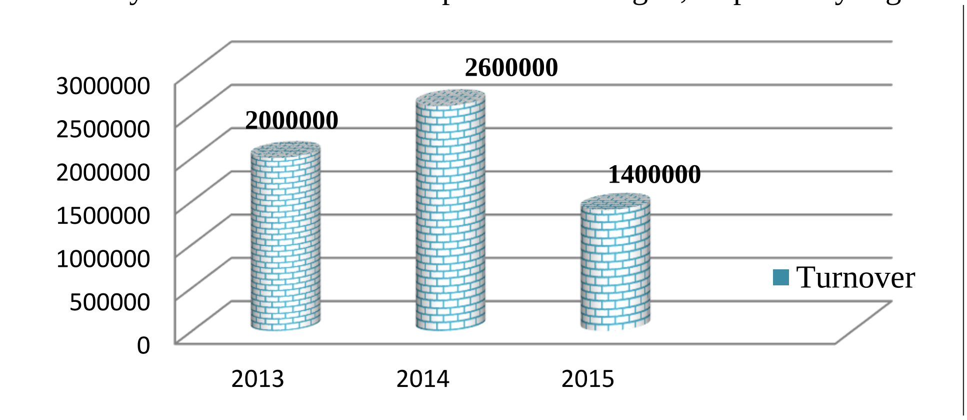

Fig. 1 – Turnover evolution

ISBN: 978-606-8624-16-7

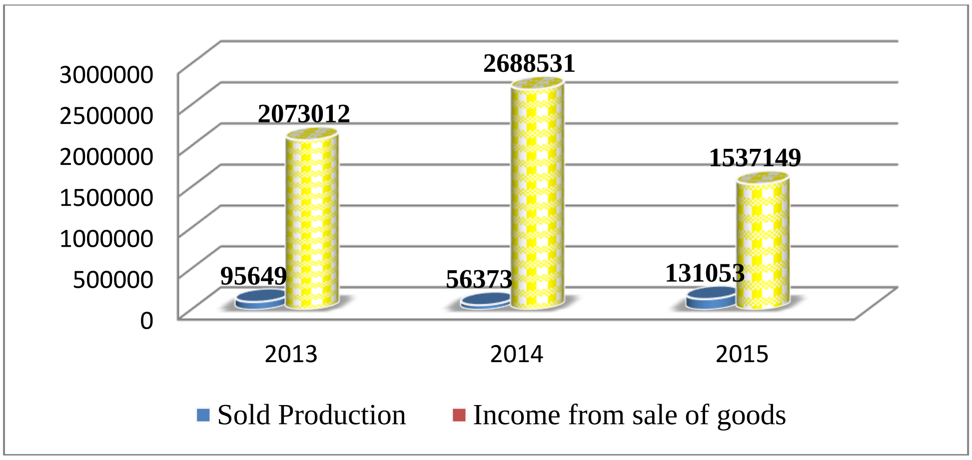

Fig. 2 – Turnover structure evolution

Within the company, they were calculated and analyzed a series of indicators through data collected from annual financial statements. Based on the Profit and Loss Account, trade margin and its ratio were analyzed in the period of study 2013 – 2015.

During the analysis, margin trading is grew in absolute value with 249,251 lei (25.29%) in 2014 compared to the first year of analysis, due to the increase in income from sale of goods at a rate faster than the growth rate of expenses related to goods. In the last year, the company's commercial activity recorded a significant drop in efficiency which was measured through the income from the sale of goods purchased for resale, which causes a decrease in commercial margin of 35.53%, compared to year 2013.

Based on volume, strictly commercial activity of the enterprise shows a trend of economic instability. Evolution and growth of the commercial margin and the rate thereof are shown in Fig. 3 and 4.

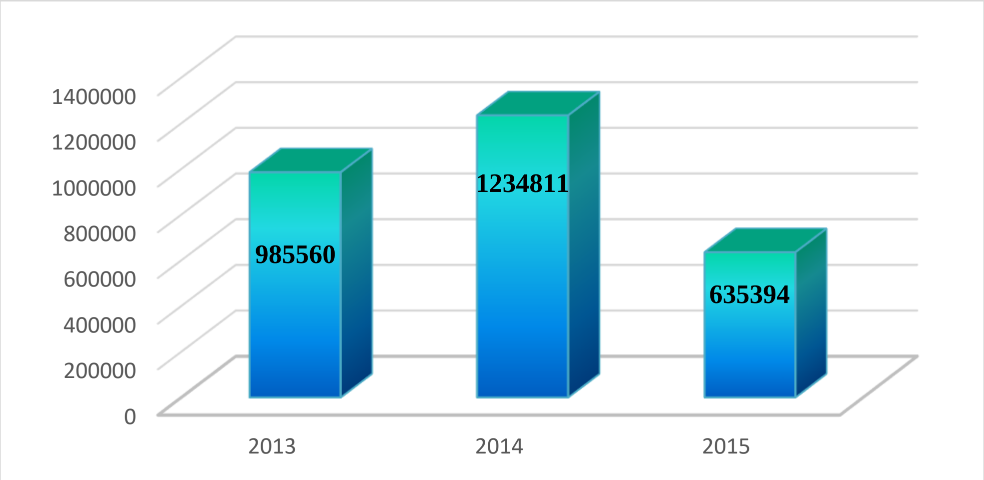

Fig. 3 – Trade margin evolution

ISBN: 978-606-8624-16-7

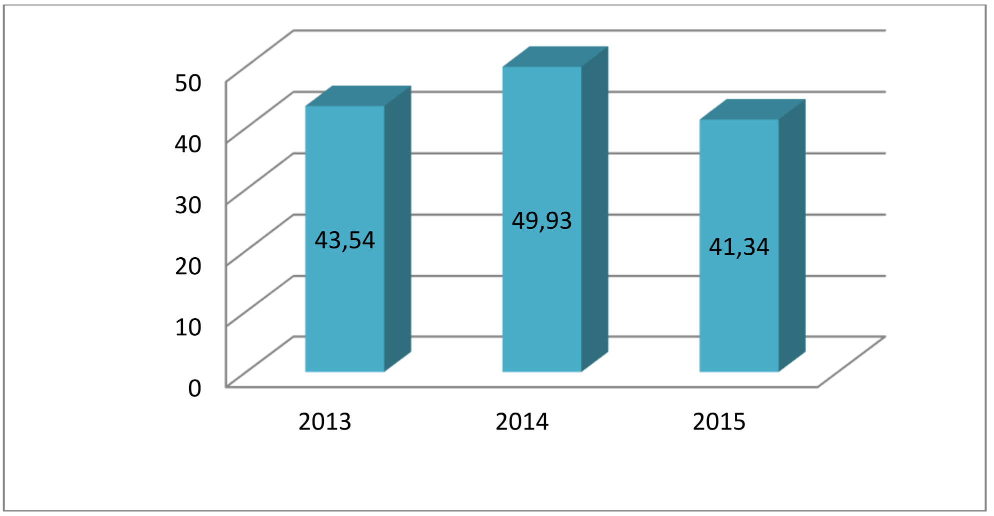

Fig. 4 – Trade margin ratio evolution

Based on the analyzed data, the net situation of the company shows a decrease over time due to the massive volume of total debt recorded, compared to the total assets available (Fig. 5).

Thus, situations in year 2015, there was a decrease in net situation of 93.46%, compared to year 2014. These are alarming consequences possibly caused by the financial and economic crisis faced by almost all companies in Romania.

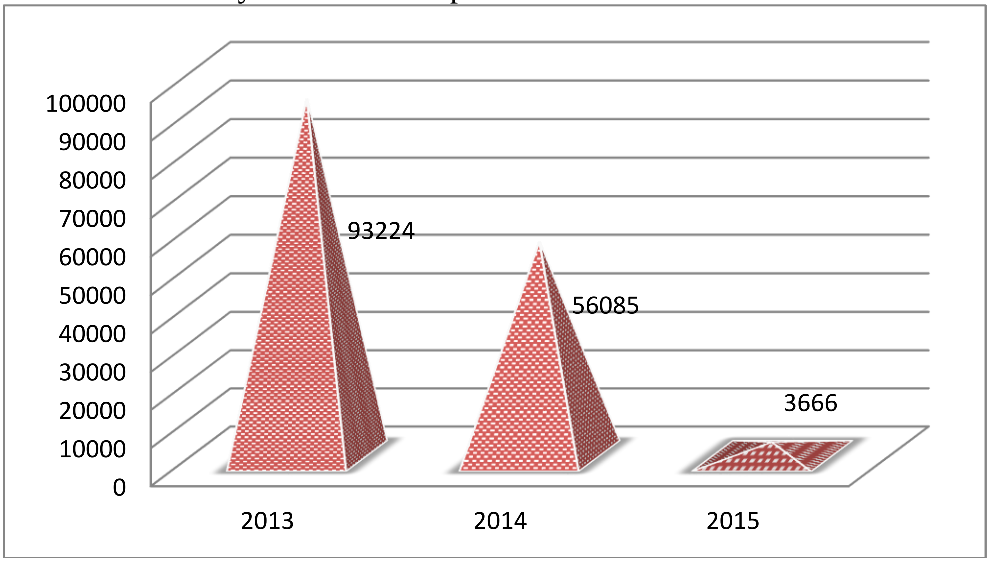

Fig. 5 – Net situation evolution

Based on data collected from the financial statements on the working capital during the analysis shows the following:

The variation of working capital 2014/2013 = – 42235 – (– 155003) = 112768

The variation of working capital 2015/2014 = –516122 – (– 42235) = – 473887

During the reported period, a serious financial imbalance was recorded, mainly due to growth of assets.

This means that permanent sources fail to fund permanent allocations. In conclusion, the company fails to meet the needs of permanent account permanent resources.

ISBN: 978-606-8624-16-7

Following the completion of necessary working capital (NWC) analysis and its variation, it highlights the following:

NWC Variation 2014/2013 = – 42236 – (– 156685) = – 114449

NWC Variation 2015/2013 = – 516 122 – (– 42 236) = – 473886

Throughout the period of analysis, the necessary working capital was negative, and for 2015 there is an acceleration of volume reduction. There is an additional temporary resources, this condition being accepted only if it is due to the acceleration of the rotation speed of current assets and liabilities with maturities of hiring more relaxed.

The company also has faulty supply inventories.

Over the review period, there were positive net cash value, except for year 2015, where it is equal to 1. This was due to the larger amounts of working capital compared to the necessary working capital. It is notably that, although positive, net cash values are extremely low compared to the complexity of the economic activity of the company.

This finds its explanation in the negative values of working capital:

- The balance between resources and permanent allocations had a negative impact, just as:

- The cyclical balance between resources and allocations had a negative impact on the overall balance.

During the analysis, the company recorded a positive profitability of resource consumption for the reference year 2013 of 4.82%. This means that at a total spending of 1000 lei, 48.2 lei gross profit were obtained, which is quite low. In subsequent years, consumed resources profitability has negative values, which argues a malfunction of the entire economic activity of the company, it incurred losses and not profit, as ideal.

After analyzing the company’s profitability of revenues, it is observed on the indicator illustrated in 2013, the fact that from total income of 10,000 lei, were obtained 46 lei gross profit, a level quite low. Registering losses in other years, the profitability of the company's revenue, decreased, registering negative values.

Based on data provided by the balance sheets of the comercial company, the current liquidity was calculated in the three years of analysis and its development was highlighted.

During this period it is noted that the indicator was not considered within normal limits (minimum 1 – maximum 2).

In the last year, the amount of liquidity has decreased compared to previous years due to increasing at a faster pace of current assets than current liabilities. The situation shows that the company was not able to fully cover the current liabilities with current assets.

Thus, the company is not well protected against short-term ability to pay.

For the reported period, the indicator value does not fall within the normal range (more than 0.65 and less than 1.00), this being due to the increased level of short-term debt compared to the volume of current assets – stocks. Overall, the company is not insured against insolvency in the short term.

In recent years analysis, *profitability of consumed resources* has negative values, which argues a malfunction of the entire economic activity of the company, it incurred losses and not profit, as expected.

Liquidity value during the three years of analysis is not registered within normal limits. In the last year it has decreased compared to previous years due to rate of current assets increasing faster than current liabilities. The situation shows that the company was not able to fully cover the current liabilities on current assets.

Thus, the company is not well protected against short-term ability to pay.

ISBN: 978-606-8624-16-7

The analysis of *quick liquidity* highlights that the indicator value is not within normal limits, due to the increased level of short-term debt compared to the volume of current assets – stocks. Overall, the company is not insured against short term insolvency.

The results of the financial – economic analysis can be used to develop the financial – economic diagnosis of the enterprise, a necessary step in assessing it in a determined period of time, presenting a true and fair view.

CONCLUSIONS

In analyzing the company, a series of principles were taken into account:

Consistency of methods principles – in the company the continuity of the same rules and standards regarding evaluation, accounting recording and presentation of property items and results, ensuring comparability of the financial information was registered.

Prudence principle – the company took into account only the profits recognized by the closing date of the financial year, regarding all foreseeable obligations and potential losses that arose during the closed financial year.

Independence of exercise principle – the analysis took into account all revenues and expenses of the financial year for which the report was made, without considering the date of cashing or payment.

Separate evaluation of assets and liabilities principle – in order to determine the overall value of a balance sheet position, the value of each individual item of asset or liability was separately determined.

Non-balancing principle – the values of the assets were not balanced with the values of the liability items nor revenues with expenses, except for the compensations between assets and liabilities allowed by the International Accounting Standards.

Economics over juridical principle – disclosures in the financial statements reflect also the economic reality of events and transactions, not only their legal form.

Significance threshold principle – elements that have a significant value were presented separately in the financial statements.

Use of estimates principle – for those items whose value is uncertain and must be included in the financial sheets, in accounting were made the best estimates.

To this purpose patrimony items values have been revised.

Where appropriate, the effect of these changes was included in the same balance sheet position.

BIBLIOGRAPHY

1. S. Brezuleanu, Carmen Olguța Brezuleanu, C. Iatco, 2013 - *Undamentation of human resources in agricultural exploitations on the basis of labor productivity indicators*, ENVIRONMENTAL ENGINEERING AND MANAGEMENT JOURNAL, no. 4, pag. 763-767, print ISSN: 1582-9596,
2. Buliga Z., Gabriela Ignat, 2008 – *Some aspects concerning the acknowledgement methods of the incomes and expenses according to the accountancy international standard*, Lucrări Ştiinţifice**,** USAMV Iași, vol 51, seria Horticultura, Ed. Ion Ionescu de la Brad. ISSN 1454-7376
3. Doina Cojoc, Gabriela Ignat, 2004 – *Some aspects concerning the accountant principles*, Lucrări Ştiinţifice USAMV., seria Agronomie, vol. 47, ISSN 1454-7414

ISBN: 978-606-8624-16-7

4. Carmen Luiza Costuleanu, Diana Dumitrescu, Gabriela Ignat, Nicolae Bobitan, 2014 – *Instruments for the quantification of economic performances of the enterprise*, Lucrări Științifice, USAMV, vol 57, seria Agronomie
5. Deaconu A., 2009 – *Adoptarea IAS/IFRS în Europa*, Revista Contabilitatea, Expertiza şi Auditul Afacerilor, Ed. CECCAR
6. Donosa Dan, 2009 – Statistică, Ed. Ion Ionescu de la Brad Iași ISBN 978-973-147-043-6.
7. Feleagă, N. Feleagă, L. 2005 – *Contabilitate Financiară, o abordare europeană şi internatională*, volumul I, Editura Infomega
8. Hennie van Greuring, 2009 – *Standarde Intenaţionale de Raportare Financiară, ediţia a V-a*, Ed. Irecson
9. Mariana Gurău, 2015 – *Politici, obțiuni și proceduri contabile*, Ed. Pro Universitaria
10. Gabriela Ignat, Iatco Ctin., 2008 – *Some aspects concerning the clue of company's performanc*e. Lucrări Științifice Management Agricol, USAMV Timisoara, vol 3, Seria I, Editura Agroprint
11. Gabriela Ignat, Cojoc Doina, 2008. *Bilanțul contabil și reușita economică*, Editura Pim, Iași.
12. Gabriela Ignat, Carmen Olguţa Brezuleanu, Carmen Costuleanu, Prigoreanu I., 2012 – *Study of financial accounting based of financial indicators at SC Cretu Company SRL, Hirlau*,. Lucrări ştiinţifice USAMV Iaşi, vol. 55 nr. 2, seria Agronomie
13. Gabriela Ignat, 2013 – *Accounting policies VS. Financial performance applicable to agro food companies* – 140th EAAE Seminar *Theories and Empirical Applications on Policy and Governance of Agri-food Value Chains* Perugia (Italy), December 12th – 13th, 2013 AgEcon- Research in agricultural & applied economics
14. Gabriela Ignat, 2013 – *Ethique des affaires versus l'image fidele en compabilite* - Revista Actualites dans l'enseignement des langues dans un context pluridisciplinaire. Actes du colloque international. Universite dEtat Alecu Russo de Balti, 29 Mars 2013. Editura Presa Universitară Bălțeană. Bălti, Republica Moldova, ISBN 978-9975-50-110-1
15. Gabriela Ignat, 2014 – *Spirala contabilităţii – Contabilitate generală*, Ed."Ion Ionescu de la Brad", ISBN 978-973-147-160-0
16. Gabriela Ignat, 2016 – *Contabilitate și analiză economico – financiară*, Ed."Ion Ionescu de la Brad", ISBN 978-973-147-228-7
17. Iulia Jianu, 2007 – *Evaluarea, prezentarea şi analiza performanţei întreprinderii*, Ed. CECCAR, Bucureşti,
18. Ungureanu G., Gabriela Ignat, 2016 – *Managementul performanței,* Editura TEHNICA INFO Chișinău, Republica Moldova, ISBN: 978-9975-57-160-9
19. *** OMFP 3055/2009
20. *** OMFP 1802/2014
21. *** http://www.free-management-ebooks.com/dldebk-pdf/fme-accounting-principles.pdf
22. *** IASB (International Accounting Standards Board), Standarde Internaţionale de Raportare Financiară (traducere), Bucureşti: Editura CECCAR, 2009.