

## **Annual Financial Statements – The Most Important Documents for Economic Entities in Romania**

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### **Abstract**

*The annual accounts have the role of providing information to the stakeholders. The essential requirement of financial statements refers to the reflection of a true and fair view of the patrimony existing at a given time, and of the movements of its elements, for a given management period, respectively in a financial year as well as the results obtained during this management period. In this paper, we set out to present the annual financial statements, which are the most important documents for each and every company. The objectives pursued in the research focus on the functions, importance and role of annual accounts. The annual accounts/annual financial statements represent the main channel of communication between the producers of accounting information and stakeholders.*

**Key words:** annual accounts, stakeholders, synthesis documents, enterprises, financial-accounting information.

**J.E.L. classification:** M40, M41

### **1. Introduction**

The annual accounts are very important because they inform both managers and stakeholders about the economic and financial situation of the company. These synthesis documents represent the basic information source for making any financial diagnosis.

For each company, the annual accounts have the role of providing true information both about the patrimony and about the results obtained in the same management period.

Based on this information, the managers substantiate their decisions, they will take the best measures both organization, management, and improvement and development, contributing to the maintenance and success of the enterprise on the competitive market. For stakeholders, this information has a special impact, knowing at any time the current situation of the enterprise.

### **2. Literature Review**

The annual accounts represent the main communication channel between accounting information producers and stakeholders and, at the same time, being „ created by economic practice, the documents of synthesis and accounting reporting represent the prelude to a reaction of users, being the quantitative and qualitative expression of equilibrium value relations in patrimony management” (Dănescu, 2000, p. 56).

The annual accounts provide information about the economic and financial situation of an enterprise, used by managers to carry out the activity in the best conditions. Their role is to provide information to the stakeholders they represent „the most important synthesis document, which ensures the centralization and generalization of data of economic agents and public institutions in a systematic and unitary form, which it allows an overview, a detailed analysis and a control of the activity carried out and the results obtained at the end of each management period” (Avram et al., 2017, p. 115).

The annual accounts include:

- ✚ The balance sheet describes the financial situation of an enterprise, through its components: assets, liabilities and equity. The asset is a resource controlled by the enterprise, generated by past events, from which it is expected that future economic benefits will be obtained. Debt represents “current obligations of the entity, arising from past events, the settlement of which is expected to result in an outflow of resources that incorporate future economic benefits” (Munteanu et al., 2020, p. 100). Equity represents in fact the right of owners to the assets of an economic entity, after deducting all debts.
- ✚ The income statement consists of expenditures, respectively losses and revenues, respectively incomes. Revenues is the surplus of economic benefits realized during a year, materialized in surplus of assets or deficit of debts, which determine surpluses of equity other than the contributions brought by the owners. Expenditures are reductions in economic benefits resulting during a financial year, materialized in deficit of assets or surplus debt, which generate decreases in equity other than allocations to owners.
- ✚ The change in equity statement represents the document through which can be researched both the equity's power of preservation, and the enterprise's benefit.
- ✚ The treasury chart shows the cash fluctuation as well as its equivalents. Cash inflows and outflows are important elements in measuring the performance of enterprise.
- ✚ The explanatory notes are mandatory for economic entities, except for micro-enterprises that draw up abbreviated financial statements.

Internal and external users or, in other words, stakeholders, know the performance of the entity by studying the statements designated by the generic name of accounting statements, but because the information they provide is financial, the commonly used name is financial statements.

### 3. Research methodology

The research method used is based on analysis, observation, and study and, of course, the interpretation of information obtained from materials and specialized books on annual financial statements.

### 4. Findings

#### 4.1. The role of annual accounts

Annual accounts have a particularly important role, both for managers where information is synthesized and for stakeholders. The financial-accounting statements are part of the category of official accounting documents that can be admitted as evidence in court and used for the exercise of control and analysis of entity's assets and activity. We consider the financial-accounting statements represent the basic information source for making any financial diagnosis.

The importance of annual accounts, as synthesis accounting documents, is highlighted by the following aspects:

- ✚ “It constitutes a means of knowledge, control and analysis of the activity of enterprises for the boards of directors, shareholders, fiscal bodies, etc.;
- ✚ the information they contain refers to both the current and the previous year, ensuring the analysis of their evolution from one management interval to another;
- ✚ the information they provide represent the basis for numerous decisions on current and, in particular, forward-looking activity of an entity;
- ✚ it is a mobilizing factor for the improvement and organization of the accounting records' content, which must ensure the necessary data, exactly and in time, in order to elaborate them properly and on time”(Staicu et al., 2002).

Financial statements play their part in providing true information when they meet certain requirements.

The essential requirement of financial statements refers to the reflection of a true and fair view of the assets existing at a given time, and of the movements of its components, in a certain management period, respectively in a financial year, and of the results obtained in the same

management period. The presentation of information is made according to a unitary system, according to methodological norms that ensure the correct and comparative analysis of the company's activity and centralize the necessary information. The simple and fair character allows the easy understanding and appreciation of the information. Also, the financial statements must be complete, i.e. contain all the required forms, and they must be completed with all the indicators they contain. Another requirement the financial statements must meet is the observance of the methodology for determining the indicators and the correlation between them. The annual accounts must be prepared and presented at the date set, ensuring the management, monitoring and analysis of the entire activity carried out by the entity efficiently, operatively and centralizing the information on time.

The financial statements contain useful information, both for the producers of accounting information and for their users, and we consider that they have a triple role, respectively:

- + explanatory - allow the explanation of different aspects of business practice and accounting practice;
- + regulatory - ensures the evaluation of the business;
- + forecasting - facilitates the identification of solutions for new problems in the field.

The annual financial statements are elaborated under the responsibility of the enterprise's management, having a general character and satisfying the needs of several user groups, which derives from the functions assigned to these annual synthesis and reporting accounting documents.

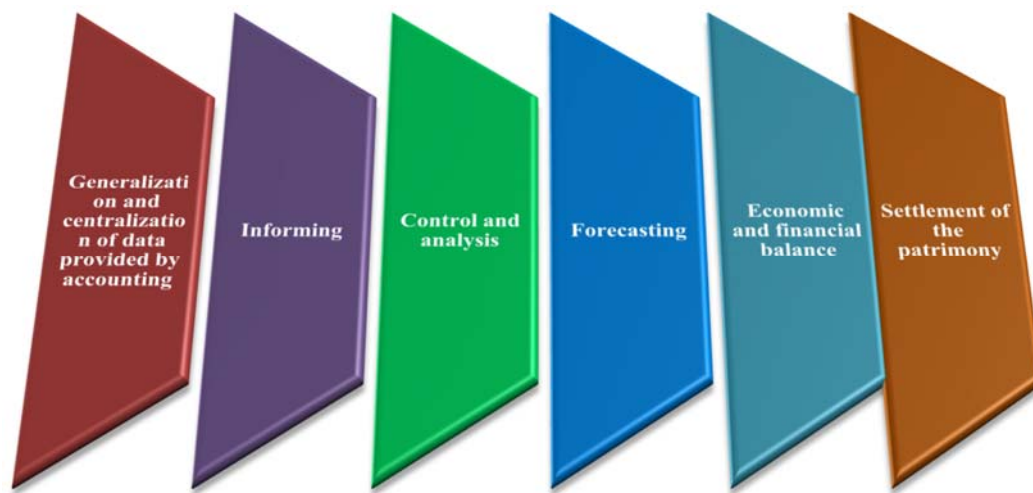
#### 4.2. Functions of synthesis documents

According to Ristea (1989, pp. 14-15), the functions are the following:

- + reflection and generalization;
- + control and analysis;
- + instrument of economic-financial balance;
- + settlement of the patrimony.

The functions of synthesis documents are explained by the specialists in the field from the perspective of the place they occupy in the process of knowledge and information presented in Figure no. 1.

Figure no. 1. List of functions



Source: own projection

1. The function of generalization and centralization of accounting data is one of the final stages of their processing. Information must follow an upward path, from simple to complex, from particular to general, materializing in a system of economic and financial indicators that are necessary for reflecting the common features of the patrimonial elements, advanced and consumed in the economic-financial circuit.

2. The information function foreshadows the place and role of synthesis documents in the information system, providing technical details that meet the internal information needs of business management, but also the external information requirements through the system of economic and financial indicators made available. In terms of this function, accounting products must be in line with reality, accurate, correlated, and comparable, but, of course, mandatory and legal.

3. The control and analysis function is manifested both in the process of researching and explaining the following:

- ✚ fulfillment of the planned objectives regarding the employment and use of the patrimonial delimited capitals;
- ✚ determination of deviations from the provided economic-financial indicators;
- ✚ establishing the measures and decisions of the activity.

4. The forecasting function implies a processing and a capitalization of the indicators presented in the annual financial statements, as a foundation for planning future decisions. The substantiation of efficient tactical and strategic decisions is based on the analysis of economic and financial indicators made in the past and present. The post-factual representation of the activity is the necessary premise for establishing predictions regarding the evolution of economic phenomena.

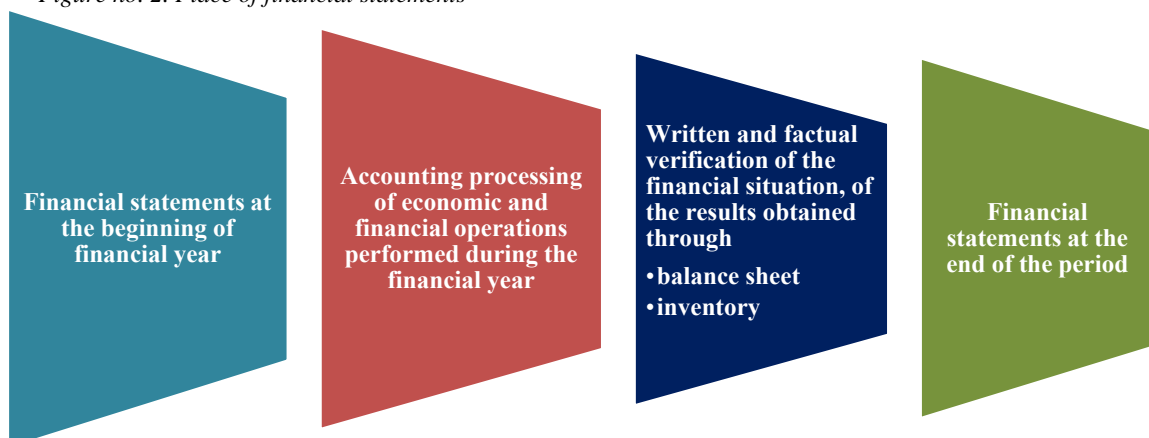
The specialized literature specifies the methods used to establish business trends, based on retrospective information from financial statements. Through the forecasting function, annual forecast financial statements are obtained, which, by means of their content, provide the information necessary to draw up the financial statement, related to a future management interval.

5. The function of instrument of economic-financial balance "is manifested in the knowledge, orientation and mastery of the balance sheet relations between assets and liabilities, between expenses and revenues" (Staicu et al., 2000). The economic-financial balance must be monitored and regulated, both dimensionally and structurally, and reflect the state of affairs of the economic entity.

6. The settlement of patrimony function is performed at the closure of the financial year. In this regard, we consider that, for reasons of simplification and facilitation of the understanding, the annual financial statements are used as a tool to justify the recovery of expenses from revenues or funding allocated for this purpose, as well as to establish the material responsibilities and interests in ensuring the relationship of conservation and growth of patrimony.

Returning to the importance it represents, both in accounting practice and in theory, through the functions they perform, we consider that the accounting documents of synthesis and reporting called financial statements find their place in the accounting cycle presented in Figure no. 2.

Figure no. 2. Place of financial statements



*Source:* own projection

The functions of these synthesis documents are mutually interdependent. Without the manifestation of the functions of generalization, centralization, information and control and analysis, it would not be possible to achieve the function of economic forecasting.

## 5. Conclusions

The continuous ranking, undergoing a permanent change determined by the economic and social reality, of the users' needs had as effect an evolution of the accounting synthesis and reporting documents accordingly, the latter being needed to generate an information system necessary to satisfy the requirements imposed by stakeholders.

The annual accounts have a special impact on the enterprises because they provide information about their economic-financial situation, offering the possibility to the managers and stakeholders to decide as well and safely as possible on the progress of the enterprises.

In conclusion, the annual accounts represent the main channel of communication between the producers of accounting information and stakeholders.

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