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FINANCIAL PERFORMANCE CHARACTERIZED BY MEANS OF APPLIED ACCOUNTING POLICIES

Vilena TIȘCENCO
Stefan cel Mare University of Suceava, 720229, Romania
vilenatiscenco1996@gmail.com
Veronica GROSU
Stefan cel Mare University of Suceava, 720229, Romania
veronica.grosu@usm.ro
Galina BĂDICU
Academy of Economic Studies of Moldova, Chisinau, Republic of Moldova
badicu.galina@ase.md

Abstract
In the current context, marked by the phenomena of globalization, business globalization and the development of information systems, the elaboration and substantiation of accounting policies must comply with the principles and requirements of accounting regulations, in order to obtain credible accounting information and quality financial statements. The evolution of accounting standards conditioned the implementation of new perspectives aimed at presenting the financial result of the activity of economic entities, complementary to the classic model, respectively through the prism of the comprehensive income. This fact has generated a series of debates regarding the usefulness and appropriateness of increasing the complexity of the entity's performance reporting framework. Scientific research is motivated by the importance of the quality of the financial-accounting information generated for the interested users, in order to correctly evaluate the financial performance and, implicitly, to increase the competitiveness.

Keywords: *accounting options; accounting policies; accounting standards; comprehensive income; financial performance; financial result; financial statements.*

JEL Classification: *M42.*

I. INTRODUCTION

The recognition and evaluation of balance sheet elements has always been a discussed topic, bearing in mind that the financial result reflected in the financial statements also depends on this aspect. Whether it is the valuation at input cost, book value or revalued value, the presentation of the constituent elements, in this case, of the profit and loss statement is an essential aspect in the knowledge and analysis of the financial performance situation. With a considerable source of textbooks, scientific articles and national and international normative acts, it has been proven that the very presentation of commercial transactions can be done in completely different ways, leading to varied financial results. Research demonstrates that the ultimate objective in choosing accounting policy options should be to fairly present the financial position and performance - defining elements for the evaluation of an entity. From this point of view, the major role of the quality of professional analysis in the selection, development, approval and application of accounting policies becomes evident.

As long as the accounting policies are, practically speaking, a necessity in the good evolution and development of any entity, even manifesting an obligation from a legal point of view, and the topicality of the given theme is a visibly essential one, in particular, through the lens of accounting standards.

It is known that the accounting policies, adopted within the entity, can influence the size of the financial result by changing the elements of the financial statements and, consequently, the size of the economic-financial indicators. One entity's choice of a method different from that of other entities leads to varying financial results. The specialized literature includes various approaches to the concept of accounting policies related, in particular, to their definition, elaboration and use. Most of the given approaches examine accounting policies from the point of view of achieving an accounting capable of providing a true picture of the financial position and performance.

Thus, the accounting policies represent an essential tool for accounting in legal drafting, respecting both the legislation in force and taking into account the interest of the entity, accounting operations and accounting information configuration within the financial statements of the reporting period. At the same time, the accounting policies constitute a control element at the disposal of the professional management in order to follow the fair treatment of the transactions, monitoring the financial position, the influence of the competitive forces and setting a continuous progress regarding the financial performance. By applying the accounting policies, the correct

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presentation of the results made available to users is aimed at, thus ensuring the coherence and stability necessary for the good functioning of the entities and, last but not least, the integrity of the patrimony.

II. FINANCIAL PERFORMANCE AS AN ESENTIAL PART OF ACCOUNTING

Along with the consolidation of more and more fixed positions on the market, the entity pursues continuous development by reaching new, higher and higher peaks. This is how the unconditional lexeme of "performance" appears, with Latin origins, but a meaning that comes from the English language, which presupposes "the way in which an organization achieves its proposed objectives" (Mironiuca et al., 2015). According to the Online Explanatory Dictionary, performance takes on meanings such as "special achievement in a certain field of activity" or represents "the best result given by a technical system, a device, an engine, etc. in terms of one of his characteristics". According to Bădicu (2012), a broader notion of performance would consist of a "state, in fact, characterized by decisional and legislative stability, monitoring and careful coordination of all economic phenomena".

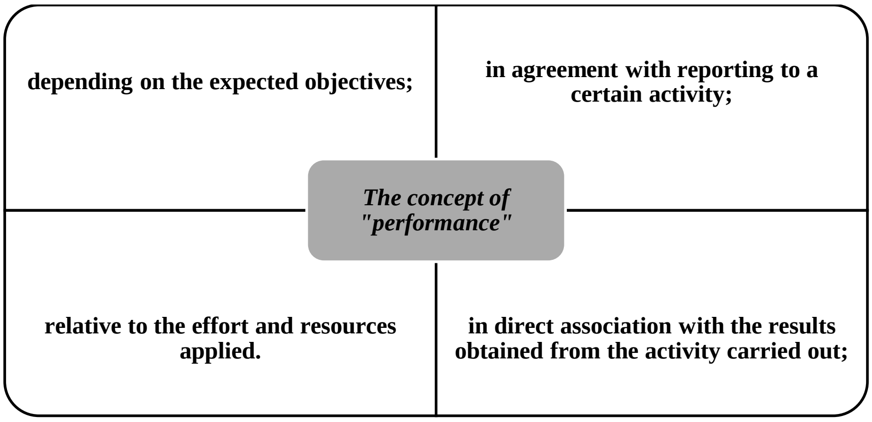

Figure 1 - The essential characteristics of the concept of "performance"
Source: developed by the author based on Bedrup (1995)

In the specialized literature, the concept of performance is sectorized, with several considerations in mind, so that we can capture the following areas of it:

1. *General performance* includes the set of financial and non-financial successes achieved for the partners, along with the guarantee of obtaining long-term benefits.

2. *Social performance* implicitly focuses on actions to promote social interests by the entity, precursors to elements of a strict economic or legislative order (Ştahovschi & Mircea-Dafinescu, 2013).

3. *Organizational performance* involves the use of economic indicators such as: organizational growth, turnover or market share; and intangible factors such as the image or satisfaction of employees, all of which serve as support in setting and achieving social objectives (Mihaila & Tamaşciuc, 2019).

4. ***Financial performance*** refers to the instrument for measuring and presenting accounting information through financial reports (Graur & Harea, 2016).

In the context of IFRS application, traditional financial indicators reflect the historical performance of entities, having limited relevance in predicting their future evolution. For example, net profit provides information on the entity's ability to control expenses and obtain income in excess of expenses. The user's orientation and his focus on the utility of the decision, based on the idea that profit is the measure of the increase of the owner's wealth (global profit), as well as the measure of the performance of a business and its management (net profit), constitutes a contemporary approach to IFRS provisions.

The investigation of the national accounting provisions allowed the finding of the mechanism of the formation of the financial results, presented in the Profit and Loss Statement. Thus, we find that the financial results of the entity have a complex structure, characterizing two types of activities: operational activity and other activities, including operations with fixed assets, financial and exceptional events. Each activity involves specific expenses and income, and for each the result of the activity is highlighted, as the difference between the related income and expenses. By adding up the results by type of activity, the accounting result before taxation is determined. Decreasing with income tax expenses, the net result of the management period is calculated (Socoliuc & Grosu, 2015).

The faithful presentation of accounting information in terms of internationally standardized reports would also involve a clear, concise, and intelligible presentation of the information. At the same time, there is information

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that cannot be "consumed" in its raw state, they also present a certain complexity that is difficult to assimilate, for the given situation being indicated the transformation into something easier to perceive. Excluding them, however, would result in some incomplete, therefore potentially misleading, reporting.

Performance measurement represented and still represents a reason for studying performance, which arouses the interest of many researchers, the investigations proving numerous in this field. In our opinion, the most complete understanding of the concept of performance is provided by IAS 1 "Presentation of financial statements", namely, of global performance. The explanation for the existence of various understandings of performance is as follows: information users define the concept of performance differently according to their own interests. Thus, managers are interested in the overall performance of the entity, current and potential investors perceive performance through the lens of the return on their investments, creditors show interest in the solvency of the entity, customers are mainly concerned with the stability of the company, and employees are interested in the stability and profitability of the entity.

Performance measurement is a process subordinate to *performance management* (the latter embracing processes such as planning, improvement and review) and works according to the following model (see **Figure 2**):

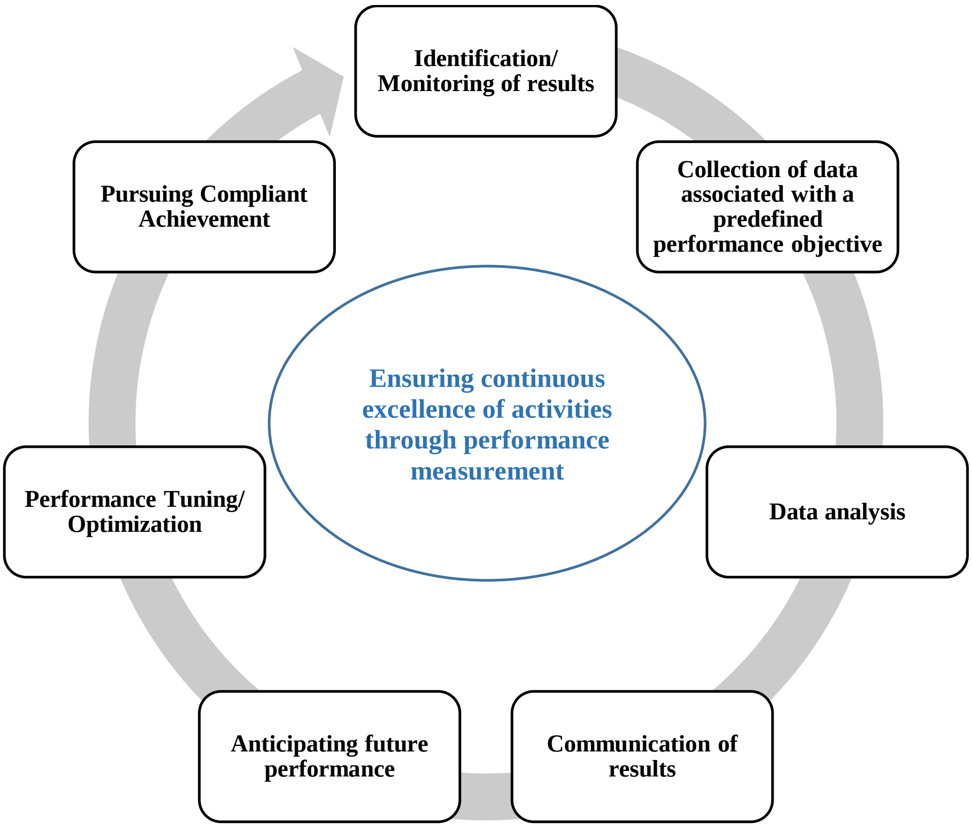

Figure 2 - Performance measurement model
Source: developed by the author based on Tișcenco et al. (2020)

Measuring the performance of economic entities is not easy at all, for at least two reasons. In our view, performance is influenced primarily by extremely important external factors, such as consumers of goods and services and business partners, over which the entity cannot control. Second, performance exerts a mediating role between external factors and various internal organizational processes. An entity will be much more exposed to risks if it does not identify and adequately monitor the indicators that reflect its performance, such as: attracting new consumers and the income generated by them, increasing income, including from new products and services, market share, loyalty and satisfaction consumers etc.

The assessment of the entity's financial performance is represented directly by *income* and *expenses*. This approach to the result uses two elements specific to accrual accounting and involves measuring the result based on the relationship: income-expenses. This method of determining the result is typical of all accounting systems in which the double-entry principle operates. Starting from the fact that the entity gained something as a result of the influence of factors beyond its control, we cannot conclude that it worked more effectively. In order to make a profit, in all cases, revenues must be greater than expenses.

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In the view of the American economists, Paton and Littleton, determining the result consists in calculating the residual value, a balance, as the difference between income and expenses (efforts)". The difference reflects managerial effectiveness and is significant for risk-taking capital inflows (Casta & Mikol, 1999). In our opinion, the remuneration for the assumed risk can only constitute its consequences, expressed by the efficiency or inefficiency with which the economic activity of the entity was carried out.

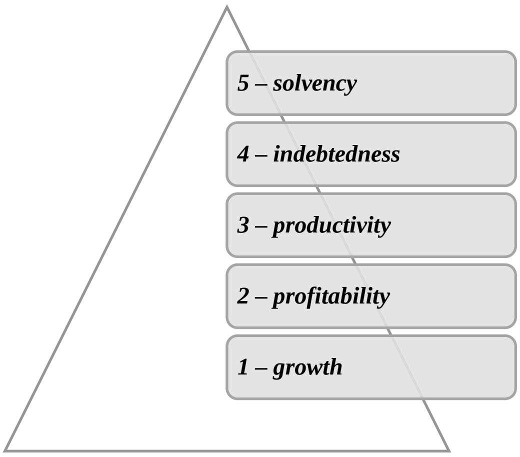

Figure 3 - The amplification of the economic-financial performance
Source: developed by the author based on Petrescu (2008)

In the same vein, the French economist Dubois evaluates the economic-financial performance by using five ***amplifications***:
1- increase: % in added value achieved in a period;
2- profitability: gross operating surplus / turnover;
3- productivity: added value / fixed assets at gross value;
4- indebtedness: financial debts / self-financing capacity;
5- solvency: financial liabilities / net accounting value of fixed assets.

The existence of an imposing list of those norms applied in the field of accounting determines a high degree of precision and completeness of the financial statements, serving, at the same time, as a guide in monitoring all the determining factors and in the implementation of decisions that would guarantee the economic success of the financial performance of to any entity that carries out its activity both on the territory of the country and outside it (Atkinson et al., 2021).

III. COMPREHENSIVE INCOME AS A NEW VIEW OF FINANCIAL PERFORMANCE

As I mentioned before, the Profit and Loss Statement remains the main source of establishing the level of financial performance achieved by the entity in a period. It allows us to determine the profitability indicators of each of the two activities - *operational*, as well as the results generated from other activities. In addition to these, the gross result can also be determined as the difference between the revenue obtained by the entities from the supply of goods, services and the cost of sales, but also the gross margin from sales through a formula of the structure of gross profit in relation to sales revenue (Mihaila & Busuioc, 2019).

At the same time, in the context of the implementation of IFRS and in the view of the Council for International Accounting Standards, the performance of entities does not seem to be fully reflected in the Profit and Loss Account. As a consequence, it is necessary to draw up either the "Statement of gains and losses", which presents the performance in a global format, or the "Statement of changes in equity", which also presents the neglected part, but especially essential for investors, namely - the changes in the form of equity transactions (Бурсулая, 2020). And here is an opportune moment to introduce a new parameter for presenting the "all inclusive" financial performance or a "clean surplus income", respectively, the ***comprehensive income*** (Pham & Phi, 2020), which was born in the Anglo-Saxon space, the economies of which had as a central figure the investor and with him, and the correct and complete financial statements (Conso,1985).

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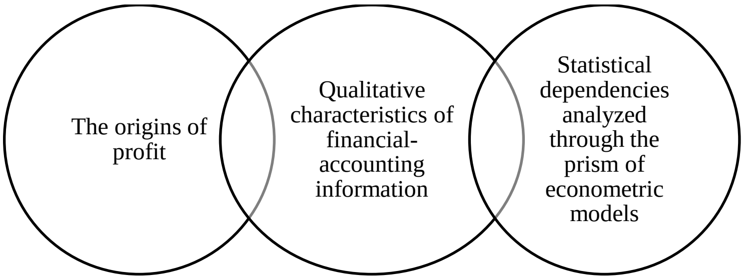

Figure 4 - Key aspects of the overall result
Source: developed by the author based on Petrescu S. (2008)

The comprehensive income was studied and analyzed in its scope through the lens of several aspects:

1. The **origins of profit**, according to Mateș and Socoliuc (2010) economic entities obtaining it from 2 (two) sources:

- Transforming the factors of production into goods, whose sale value exceeds the cost of the resources used and
- Increasing the price of the factors of production owned by the economic entity. Precisely because of this fact, it is required to be delimited the performance that results from the operational activity from the performance that is generated by the simple passage of time.

In the same vein, the Institute of Chartered Financial Analysts (Chartered Financial Analysts Institute), in 2007, argued that all events and transactions that influence the value of a company's net assets and, implicitly, the variation in the value of the capital must be found in the reported financial statements. The conceptual framework of the IASB (International Accounting Standards Board) - FASB (Financial Accounting Standards Board) focuses on the implementation of standards based on the recognition of assets and liabilities at their "fair value", constituting a relevant tool for forecasting future flows of cash, in this sense, also increasing the ability to analyze and compare accounting information mainly related to capital variations and future cash flows, thus expanding the concept of financial result.

2. The **qualitative characteristics of the financial-accounting information**, namely the relevance and credibility of the data presented in the form of financial reports. Relevance is located at the border of accounting information with the reaction of the financial market, thus describing the ability of accounting figures to collect information to influence the share price, respectively, the value of the economic company (Francis & Schipper, 1999; Barth et. al., 2001; Azzali et. al., 2011). If the relevance aims at the predictive nature and, as El-Sayed Ebaid claimed in 2012, is only a product of the effort to explain the field, not being exactly in the scope of the international accounting regulations, then credibility could be evaluated only by the level of correspondence of the financial statements with accounting rules (Grigoroi, 2013).

In the given context, the financial audit is of essential interest, which, according to Toma (2009), offers an additional guarantee to external users, certifying the veracity of the accounting information presented. Chersan (2012) then completes with the idea of the need to present reliable data to third parties, without possible errors or favoritism generated by too optimistic opinions of managers, accountants or other persons with responsibility within the entity.

3. Statistical dependencies analyzed through the prism of established econometric models developed by Easton and Harris (1991) and Ohlson (1995) who once again emphasized the relevance of the value of accounting data and the intensity of the dependency relationship between the indicators that compose and describe financial performance. Alali and Foote (2012), Filip and Raffournier (2010), Karampinis and Hevas (2009), Barth et al. (2008) study this aspect, taking as a model the return on the market of shares as a relative indicator of measurement, and as an absolute indicator – the price of the share or the stock market capitalization. The operating result, the net result or the comprehensive income most often serve as influencing factors of the model. Dichotomous variables are also not neglected, such as: the typology of the accounting system, the adoption of IFRS rules, the structure of the shareholding, the size of the company and other variables of this kind that come to complete the concept of statistical dependence present also in the case of financial performance (Knežević et al., 2012).

Following the hypotheses presented by Ciobanu et. al. (2020) comes to the conclusion that "the result is a subjective indicator, depending on the interested parties, the economic and political system of which it is a part, as well as the management and organization of the enterprise".

The IASB and the FASB developed, in 2003, a joint project whose objective was to create standards for reporting financial performance, called *"Performance reporting: reporting the overall result"*, which introduced an extended concept of result, respectively the overall result (Ramond et al., 2007). This draft convergence of the

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American and international conceptual framework suggested, among other new elements, a way of reporting performance that is based in part on market values, facilitating the analysis and comparison of published information for users of financial statements, especially investors (Janin et al., 2012).

In order to aggregate financial statement information based on common characteristics, IAS 1 has been revised, suggesting a new performance reporting model that focuses on separating changes in shareholders' equity in transactions with owners from changes in derivative equity from transactions with parties other than the owners, to disclose the overall result as an expression of the overall financial performance and as a logical consequence of the application of the concept of "fair value" (Remenaric et al., 2018).

IV. Conclusion

We argue that performance is a specific feature regarding the evaluation of the activities, services and results obtained by the entity, according to its objectives and provides information (a range of indicators) about the efficiency and effectiveness with which the whole activity was carried out. For each task, at least one indicator must be set.

In our opinion, financial performance completes the idea of the result as the difference between income and expenses for each type of activity separately, including all the changes that occurred on each balance sheet element, in the idea of generating additional income or expenses, such as: depreciation tangible assets, the revaluation of tangible assets, the creation of deferred tax from the revaluation and others. Thus, our vision would move towards reflecting a complete picture through the prism of the comprehensive income.

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