THE ACCURACY OF THE MESSAGE – A QUALITY OF FINANCIAL REPORTING IN THE ASSESSMENT OF THE ECONOMIC-FINANCIAL REALITY

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Abstract

Economic globalization, development and the continuous transformations which take place in the business sphere have induced the need for a single reference framework in order to regulate the accounting activity, regardless of the geographical location or social and cultural realities in the states where economic entities operate. There was a need for an international model that would ensure transparency, relevance and comparability of financial reporting and facilitate business financing through capital markets in all corners of the world. Thus, the International Financial Reporting Standards and notions such as the true, clear and complete picture were brought to the fore, in relation to which the accounting principles and rules were aligned. In this context, the present study performs an analysis on the qualitative parameters of information in the financial reports communicated by the economic entities.

Keywords: *financial-accounting information, annual financial statements, quality of financial reporting, accounting principles, true image.*

1. INTRODUCTION

The phenomenon of cross-border business development, in order to capitalize on new material, financial and labour resources and to ensure new markets, digitization and technological transformation of processes in the economy, environmental protection, social responsibility and ensuring sustainable economic growth, represent the valences of more and more contemporary entrepreneurial models. Technical-scientific progress and especially the emergence and development of artificial intelligence made innovation be no longer just an element of the product created by the company or of the technology through which a certain product was made, but a representation of the newly created product itself (Gafencu, 2023). We practically talk about some irreversible dynamic processes in the economies of the world’s states, to which the science and art of business management – accounting, had to adapt permanently, in order to meet the informational requirements of the actors involved in the business development.

The numerical growth of transnational companies, the development of capital markets, the emergence of new financial products and the expansion of business due to capitalization through stock exchanges, influenced the adaptation of accounting to the new realities, shaping and perfecting it continuously, this manifesting itself in time as an open system, responsive to changes in the political, economic, social and cultural environment (Ristea et al., 2010). We can speak of a real reform of accounting, whose benchmarks are the following: normalization, harmonization, convergence, compliance and internationalization. The need for uniformity in the preparation and presentation of financial accounting information has been felt more and more acutely, by setting specific limits and reducing procedural differences and alternatives, through an orderly combination, in a standardized structure, of valuable accounting practices in different countries. In this context, the idea of resorting to a common language of financial reporting, in order to expand comparability at the global level, became a reality, an important role in the adoption of a single language having the international standards of financial reporting.

The present study is aimed at capturing the impact of applying international reporting standards on the communication of financial-accounting information, with the reflection in the Romanian accounting system. For this purpose, the research was oriented on two levels. One level represented the qualitative analysis of the specialized literature, having as effect a synthesis of the materials relevant to the researched subject - databases, articles, studies and specialized books. The second level was aimed at researching the regulatory framework through which financial reporting standards were transposed into accounting regulations in our country.

2. THE FAITHFUL IMAGE – A PARAMETER OF THE MESSAGE CONTAINED IN THE INFORMATIONAL OFFER OF FINANCIAL AND ACCOUNTING REPORTS

Information is an inexhaustible resource and a real element of power for the one who owns it and uses it intelligently. It represents a good that directly influences the degree of prosperity of a nation (Cucui, 2006). In the context of today's information society, one of the major challenges for economic entities is related to the collection, processing, production and dissemination of information. In the opinion of specialists (Oskar Morgenstern, apud Tabără et.al., 2005), an important range of information disseminated in the economic environment is represented by the accounting information or its derivatives, there being opinions according to which "accounting represents a nation's most important source of information."

As a result of the accelerated pace of social and economic development, the demand for information in the financial-accounting sphere has significantly expanded and diversified, thus amplifying the importance of accounting at both macro and microeconomic level, alike. A high-performing management, able to manage both economic growth situations and, above all, crisis situations, involves substantiating decisions based on a system of authentic, pertinent and relevant information, provided in good time (Cucui, 2006). In this context, the objectives of accounting, its principles, norms and methods encountered a permanent adaptation to the socio-economic and political realities, characterized by an unprecedented dynamic of evolution, as a result of the influence of new technologies, especially IT&C (Colasse, 2011).

In order to be used successfully, in the sense of setting achievable and coherent objectives, depending on the resources available or those that can be procured, the economic environment in which the economic entity operates and the aspirations of the management, the financial-accounting information must represent a faithful reality and be optimally administered. At the same time, the strategy for presenting the entity's financial results must be carefully developed and implemented, which represents an essential element of the communication of financial accounting reports to the interested parties. The information disseminated through these reports, generated by financial accounting, ensures knowledge of the entity's financial position and performance, its viability in the market segment in which it operates, investment possibilities etc.

The usefulness of financial and accounting information derives mainly from its role regarding: a) measurement of the entity's economic activity, in monetary or dimensionless value; b) ensuring comparability over time of the economic entity's activity; c) informational synthesis of the entity's activity and usual results, in order to ensure the analysis of the company's activity, in the context of the economic environment in which it operates; d) identifying differences from the applicable rule, legal or imposed for economic reasons, signalling any possible fraud.

Economic globalization generated the need for uniformity and harmonization regarding the financial and accounting information and it necessarily imposed the natural process of its standardization regarding the objectives, principles, methods, rules and procedures regarding the elaboration and use of accounting information.

Semantically, norming represents "the action of normalizing and its result" and normalization means "obeying a norm, making it conform to a norm, but also drawing up norms, standardizing". In this context, literature (Felega & Ionaşcu, 1998) defined accounting rules as "precise rules for evaluation, recording, classification and presentation of accounting information." Accounting normalization was identified with "the process by which the presentation of summary documents, accounting methods and terminology is harmonized" (Feleagă, 1999), respectively, with "the process of deliberate application of accounting rules for the correct solution of problems regarding the production and use of accounting information" (Horomnea, 2013).

The bringing together and ranking of substantial legal norms in a homogeneous normative set lays the foundations of what we could call the internal accounting law. It includes all laws, ordinances and Government decisions, orders, instructions and other normative acts related to the organization and management of accounting, preparation of financial statements and summary and reporting documents. In this context, we note that the main source of law for the Romanian accounting is Accounting Law, no. 82/1991, which defines accounting as the main instrument of knowledge, management and control of the patrimony and the results obtained.

The Romanian legislator established that the fundamental objective of accounting is *the true image*. "The annual financial statements, prepared according to the applicable accounting regulations, must provide an image of the financial position, financial performance and other information, under the law, related to the activity carried out" (Article 9 of the Accounting Law). The achievement of this objective can be considered as "a performance criterion of accounting, of accuracy of the message contained in the information offer of accounting science" (Tabără et al., 2001). The provisions of the law are in accordance with the accounting regulations harmonized with European directives and international accounting standards on financial statements communicated by economic entities. The fundamental objective is to provide to a wide range of users, interested in making decisions in relation to the entity, information about the financial position and its performance, as well as other useful information. The responsibility for preparing and presenting financial statements lies with the entity's management.

The user of accounting information is a complex notion, used by accounting literature to define "the individual or group of individuals, gathered within legal entities, who have common economic and/or social interests and who protect, consecrate and multiply their manifested interests by using the accounting information released by the economic entity" (Matiş et al., 2015). The Romanian legislation specifies that the information revealing financial position and performance, cash flows, is presented both for the internal requirements of the entities and in relations with investors, financial and commercial creditors, customers, public authorities and other users.

Putting into practice the concept of a true picture of financial position and performance, as well as other information on the activity carried out by the economic entity, is not an easy task for the accounting specialist. While some practitioners were reluctant to change, theorists reacted positively. In the context, the specialized literature emphasized that the faithful image should be seen as the sum of the requirements of regularity and sincerity of the financial-accounting information, aspects evoked together, as a double obligation, one meeting the normative requirements, and the other fulfilling the communication objective itself (Tabără et al., 2001). The accuracy of communication of financial and accounting information, in the sense of a true image, refers to the capacity and obligation of the economic entity, through accounting synthesis documents (balance sheet, profit and loss account, explanatory notes), to provide real and correct information about the patrimony, financial situation and the result obtained.

The specialized literature (Ristea, 1994) observes that the truth that must characterize the financial-accounting information is simultaneously:

a. "truth-reflection" - the supporting documents, through which the information is entered into the accounting, must contain only real and correct data, which reflect reality, and the person who operates them must be in good faith, a requirement legitimized by the verification of the documents from the perspective of the reality of the co-signed data;
b. "truth-construction" - accounting information is "constructed", based on a "recipe" (given by the accounting principles and norms/

standards), from the "raw material" represented by the input data, which are processed and transformed into "the finished product" - the real and correct information about the entity;

c. "truth-direct observation of reality" - the image is provided regulated, through the balance sheet, profit and loss account and explanatory notes, which constitute the "photographs" that capture the true image;

d. "truth-processing" of input information provided by observation.

As a corollary of the above, figure 1 gives a formalization of the *equation of the faithful image*.

Imagine Faithful = Normalization + Pertinence + Regularity + Sincerity + Credibility

Fig. 1. The equation of the faithful image
(Ristea, 1994)

The magnitude of business globalization gave rise to the idea of establishing generally valid accounting standards at the state level, an approach known as accounting convergence, which involves the orientation of the financial-accounting activity towards ensuring the processing and presentation of financial-accounting information in a unitary manner, based on a set of principles, interrelated accounting rules and methods, which regulate the registration and assessment in accounting, respectively the elaboration and communication of financial-accounting information in the annual financial statements. The main objectives of international standardization bodies relate to: a) formulating and publishing rules for the preparation and communication of annual financial statements, including: balance sheet, profit and loss account, statement of changes in equity, statement of cash flows, accounting policies and explanatory notes to them; b) promoting acceptance and enforcement of rules in national accounting systems; c) adapting and harmonizing the regulations, rules and procedures applicable to the disclosure of financial statements.

The process of harmonizing accounting has made considerable progress in countries on all continents, with the adoption of International Financial Reporting Standards (IAS/IFRS) or Generally Accepted Accounting Principles (US GAAP). The literature (Hlaciuc et al., 2010) underlines that "the adoption of IAS/IFRS standards for European companies was a necessary and important step in the natural process of integrating EU Member States' financial markets."

Concretely, starting from 2005, at the EU level, through Regulation no. 1606/2002 of the European Parliament and the Council, the adoption of international accounting standards as a common accounting reference for the preparation of consolidated financial statements of European companies (especially listed entities, to protect the stock market), in order to obtain relevant, credible and comparable accounting information and to guarantee a high level of transparency.

Compliance of the professional accountant's activity with the accounting rules/standards constitutes, theoretically, an element of safety regarding the concept of faithful image. However, in practice, some entities resort to creative accounting policies to "beautify," depending on the image interests of the management, the information contained in the financial statements made public, or to "fiscally optimize," more or less aggressively, their financial situation. To the extent that these policies do not violate the accounting legislation (but only capitalize on the "loopholes" of the regulatory framework), they are not necessarily fraudulent, thus delimiting the notion of "creative accounting" from the notion of "intentional accounting" (Strapuc & Hlaciuc, 2018).

3. THE QUALITATIVE PARAMETERS OF THE INFORMATION COMMUNICATED THROUGH THE FINANCIAL STATEMENTS

The competitive market economy determines entities to communicate financial reports as competitive as possible compared to other competitors, in an attempt to respond as fully as possible to the interest of the users to know the position and business performance of the reporting entity. The information provided should facilitate users to carry out their own financial analyses, according to the interests pursued in relation to the economic entity (*e. g.* estimation of financial risks, indebtedness or repayment capacity of loans, profitability calculation etc.). In this context, we consider that the financial information provided must allow at least the determination of profitability, liquidity and the solvency indicators of the reporting entity.

In order for the financial information provided by the financial statements to be useful for the user's decision-making, it must meet a series of qualitative characteristics, grouped by the specialized literature (Todea & Călean, 2011) into "first-rank or fundamental qualities" (they concern the financial-accounting information itself), which include *relevance* and *accurate (faithful) representation* and "second-rank or amplifier qualities" (concern the effects of financial accounting information for the user), which include *understandability, comparability, verifiability* and *timeliness*.

This classification of the qualitative characteristics of financial and accounting information is present in the International Financial Reporting Standards (IFRS), adopted by European countries and, analogously, in the American norms (US GAAP), which classify them into primary and secondary, the differences being found in their structure and in the way they are emphasized. The distinction between useful and non-useful information is particularly important, the accounting profession having to ensure the selection of appropriate financial-accounting information, which allows interested parties to analyse the entity's financial position and financial performance.

Current accounting systems, according to the general conceptual frameworks (established by the IASB and FASB), consider the quality of accounting information as a fundamental requirement, the main characteristics of which are summarized in Figure no.2. These were taken over in the Romanian domestic law norms through the "Accounting regulations on individual annual financial statements and consolidated annual financial statements," approved by Order of the Minister of Public Finance no. 1802/2014.

The provisions of the Conceptual Framework for Financial Reporting consider that the financial-accounting information capable of influencing users' decisions is relevant, considering that the information which has this capacity is the information with predictive value (the user can predict future results), the one with a confirmatory value (confirms a previous assessment) or both. Relevance is related to the notion of threshold of significance. The information is considered significant when the error it would carry or the omission of its presentation in the financial-accounting report is likely to influence the user's decision. The accurate representation reveals the requirement that the financial information highlights the economic phenomena as completely as possible, presenting all the necessary information so that the user understands the phenomenon described.

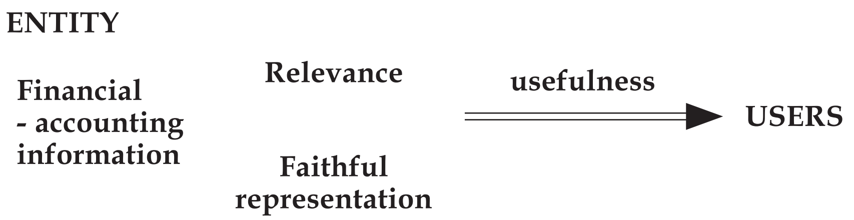

Fig. 2. Characteristics of the financial information
(Processing according to the Conceptual Framework for Financial Reporting)

The information must be presented neutrally, without favouring any particular category of users and without mistakes or omissions in describing phenomena. *Comparability* offers users the possibility to compare the financial statements of similar entities in the competitive market, respectively, with regard to the evolution of the same entity from one financial year to another, while maintaining the same accounting policies. *Verifiability* requires consensus between different measurements, allowing independent observers to reach a consensus that a given description is an accurate representation. *Timeliness* ensures that information is available to users at the appropriate time to make timely decisions. *Understandability* requires that financial statements contain information that is complete, clear, concise and understandable to users presumed to have the minimum knowledge necessary to understand how economic activities are carried out, and, obviously, accounting concepts.

It is widely recognized that IFRS represents a set of high-quality standards. The perception of the information provided by economic entities differs from country to country, being influenced by the specifics of the national legislative framework, accounting culture and practices developed over time regarding investor protection. Thus, in countries with good investor protection, international standards do not "dominate" local the standards regarding the quality of the information presented. In contrast, in countries with weaker investor protection (including Romania), standards are associated with a higher quality of the financial information provided. At the same time, IFRS brought significant changes regarding the specialized language and paradigms of the accounting profession. For example, the accounting result, considered for a long time the main indicator for measuring the financial performance of a company, was replaced, according to IFRS, with the global result indicator (Jianu & Jianu, 2008). Financial accounting information is modelled econometrically for estimates and forecasts for the future.

As a corollary of the above, we concur with the view that the information disclosed through the financial statements must be presented in such a way as to be understood by all categories of users, but also complete in order to provide a full, clear, true and fair view of an entity's assets (Hlaciuc et al., 2008).

There are, however, certain objective and subjective limits to the quality of information presented in the financial statements, such as the fact that this information refers to past events, which cannot provide a perfect guarantee of the decision anticipating the future. Some information is subjective, derived from estimates of some sizes. Other information could be manipulated or hidden by the management of the economic entity, in a spectrum evolving from creative accounting to fraudulent financial engineering, as happened in the notorious financial scandals: Enron (2001), Worldcom (2002) in the USA, Wirecard (2020) in Germany etc.

Therefore, beyond presenting as closely as possible the financial position and performance of an entity, the quality of the financial and accounting information also subsumes the imperative that this information should not be influenced by fraud or errors. In order to achieve this goal, audit missions on financial statements play a special role. Auditing annual financial statements involves the professional examination of information and the expression of a fair and independent opinion by an auditor on improving its use by reference to a standard or quality criterion.

This ensures an increase in the reliability of and confidence in the information provided by expressing the expert opinions of an auditor on how to prepare financial statements, without, however, being able to express an absolute guarantee on the quality of financial reports, there being elements that may exceed the limits of the audit engagement. The auditor is required to obtain reasonable assurance that the disclosed financial statements are free from material errors as a result of fraud or mistake (Robu, 2014).

4. CONCLUSIONS

The strategy of presenting the financial and accounting results represents an essential component of the financial-accounting communication of an economic entity. Mainly, the financial accounting information is communicated either as a result of an obligation to do so or as a voluntary offer of information. The obligation arises, as a rule, from the provisions of the applicable legislation and accounting rules, the content and form of presentation of financial information being addressed especially to specialists and being less friendly and more difficult to interpret by the general public. The voluntary offer of financial information is at the discretion of the entity's management and highlights forecast or other sizes, important transformations, extensions or restrictions of the entity's activity.

The quantity and quality of information reported in financial statements is influenced by the benefits of their preparation and disclosure. Therefore, the increasing importance of financial reporting is closely linked to increasing the informational quality of mandatory financial communications, in order to protect users, but also voluntary ones, which are meant to outline the responsible and social behaviour of the management of the economic entity.

In order to represent an efficient and useful financial communication, the financial statements must disclose the economic and financial indicators of the entity taking into account the internal and external factors that influence them. Entity managers are responsible to comply with the accounting principles imposed by the national or international normalizing bodies. In order to ensure this compliance, the financial statements prepared may be examined by some independent auditors who express an opinion in this respect, with a beneficial influence on the quality and accuracy of the information disclosed.

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Endnotes

[1]**Many of the standards that are part of IFRS are formerly known as International Accounting Standards (IAS)**