THE COMPETENCES AND THE IMPACT OF EVALUATION CATEGORIES ON THE FIDELITY OF ACCOUNTING INFORMATION

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Summary *: Due to the fact that accounting evaluation has severe rules and principles, the economic evaluation has the role to assure the reflection of informational valences of an economic entity in order to mark out its capacity to produce future incomes. Even if the role and the characteristics of accounting evaluation are incontestable, we have to mention this process' consequences on the fidelity of accounting information, considering that a rigorous analysis cannot be realized without detecting the informational liaisons between the balance-sheet and evaluation.*

Key words *: fidelity, accounting information, accounting evaluation, international practice.*

The analysis of evaluating process' implications on accounting information cannot be realized without a perfect perception of the heterogeneous and diverse character of this process, of evaluation types, grouped and based on very relevant and specific criteria.

From the object point we view, we can distinguish assets evaluation, assets groups evaluation, economic assets evaluation (work-rooms, departments, factories, warehouses, shops), companies evaluation.

From the purpose point of view, we can distinguish: *accounting evaluation*, realized with the occasion of booking the economic operations, of the stock-taking and the elaboration of balance-sheet; *administrative evaluation*, in fiscal purpose, for determining ratable value, and also those asked by law regarding the patrimony's re-evaluation in case of public companies; *economic evaluation*, with the purpose of reference to market conditions.

We also have to remind the role of the method user for evaluation – in this case we can distinguish patrimonial evaluation, result based evaluation (performance, profitableness, turnover), evaluation based on actual net cash-flow, stock evaluation, combined evaluation (patrimony and profitableness).

Because the evaluations are meant to satisfy a certain purpose, we join to specialist's opinion that affirm the existence of two main types: accounting evaluation and economic evaluation.

The accounting evaluation is used in different methods, in measuring patrimonial phenomenon and operations and also with the occasion of inventory and balance-sheet elaboration. The balance-sheet gives "a true image of the patrimony, of financial situation and company's results only if the patrimony's evaluation rules are followed"[277].

There are four general rules of patrimonial elements' evaluation :

- evaluation at the moment of entry into the patrimony or input value (book value), depending on the asset's acquirement way: purchase price including customs duties, transportation, assembling and putting into service costs; production cost for the company's products; utility value, depending on the market price, for similar products and on product's condition, if it's received free of charge or donated; contribution value for the goods representing a contribution to social capital;
- evaluation at the moment of inventory – is made at the actual value or utility value of each element, named inventory value;
- evaluation at the end of the accounting period, patrimonial elements being evaluated and reflected in the balance-sheet at the input value or correlated with inventory's results;

evaluation at the moment of output from the patrimony, through sale, destruction or products' consumption, using specific methods for stocks – FIFO method (first input – first output); LIFO method

[277] C. Staicu, M. Mihai, T. Ciurezu, Bilantul contabilsi raportarea de semestru, Editura Universitaria, Craiova, 2000, pag.43

(last input-first output); CMP method (weighted average cost, calculated after every input or monthly by proportion between the total value of initial stock and of the inputs and entered quantity); registration or standard price method, but with the distinction of the differences accountable to acquisition prices or production costs. The utilization of any evaluation method must respect the principle of permanence, being justified the maintaining of the same method during some consecutive accounting periods.

Coming back to a previous problem, we mention that **the accounting evaluation has a major weakness**, in the sense that in all four evaluation moments it is used the historical cost, only partly corrected at the annual inventory and balance-sheet closing, with the reversible and irreversible depreciation of asset elements.

Another weakness of this evaluation form appears when in this calculus of financial and efficiency indicators it is taken the whole advanced capital, immobilized and circulating assets, even if a part of them doesn't participate in obtaining company's results (unutilized physical capital, damaged stock, voided orders, non-vendible products etc.).

Unlike the accounting evaluation, the *economic evaluation* relates the evaluated object to market conditions. "*The rational market value is the price, conveyed in money or equivalent, which a buyer and a seller could accept if the property would be sold on open market in a rational period, in the case that the seller and the buyer had valid information and either one of them isn't forced by the necessity to act*"[278].

The company's value in this hypothesis is the correct one, determined by a neutral evaluator. Many times, the economic evaluation for selling-buying is determined by some motivation, the market value or the effective price of transaction deviating from this value.

Trying a critical and comparative approach, we can day that, compared with the accounting evaluation which has strict rules and principles, the booking reflecting the patrimony in a given moment, the economic evaluation has the role to adjust the patrimony in order to produce future earnings.

We agree to the specialist's opinion that "*the economic evaluation consists in a complex of techniques, proceedings and methods to value the products, the assets, the company at the market level, ensuring the comparability with this*"[279].

The functional liaisons between liquidity/exigibility, the grouping of reference elements based on exploitation cycle functions, allow three versions of financial balance-sheet: liquidity balance-sheet; functional balance-sheet; capital-resources-liquidity balance-sheet (also called "pool des fonds" in the sense of mobilizing the resources for capital preservation and obtaining optimal treasury flows).

The classification criteria are presented in table 1 and the types of balance-sheet on liquidity criteria, in table 2.

	Depending on the belonging to the operating cycle (assets and liabilities)	**Depending on liquidity (assets) or exigibility (liabilities)**	**Depending on intrinsic nature (assets) or origin (liabilities)**
ASSETS	Immobilized	More than 1 year	Operation (activity' s necessary)
ASSETS	Cyclical	Less than 1 year	Financial
LIABILITIES	Permanent capital	More than 1 year	Own capitals
LIABILITIES	Cyclical debts	Less than 1 year	External capitals
	FUNCTIONAL BALANCE-SHEET	**LIQUIDITY BALANCE-SHEET**	**CAPITAL / RESOURCES / LIQUIDITY**

[278] M. Gradinara, D. Bucataru, C. Mihai, Evaluarea intreprinderilor in economia de pita, Editura Junimea, iasi, 1997, pag.34

[279] N. Sichigea, M. Dracea, D. Berceanu, T. Ciurezu, Gestiunea financiara a intreprinderii, Editura Universitaria, Craiova, 2000, pag.210

Table 1 The classification criteria for the three versions of financial balance-sheet

Balance-sheet on liquidity criteria	
RETREATED NET ASSET "LIQUIDITY"	**RETREATED LIABILITIES "LIQUIDITY"**
Immobilized net assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses	Own capitals
Trade fund, patents, licenses	Loans and leasing
Own tangible assets	Supplier debts
Rent tangible assets	Fiscal debts
Financial assets	Other debts
Client debts	
Current assets (less than 1 year, current exploitation)	Current debts (less than 1 year, current exploitation)
Merchandise inventories	Supplier debts
Working material inventories	Fiscal and social debts
Intermediate and final products	Other debts
CLIENT DEBTS	Current debts outside the exploitation
Other debts	Loan and leasing
Current assets outside the exploitation	Fiscal and social debts
Financial assets less than 1 year	Other debts
Other debts	
Active treasury – available funds	Negative treasury – current account cropping, protested debts, failure debts
TOTAL RETREATED NET ASSET	**TOTAL RETREATED LIABILITIES**

Table 2 Balance-sheet on liquidity criteria

This balance-sheet is considered less satisfying for financial analysts. The reclassification criteria based on annual cycle becomes arbitrary towards the operational character of the value concept with sensitive engagements to small fluctuations of the period. A reclassification of informational "utility" is detested by the jurisprudence.

Regarding the functional balance-sheet, there are two presentation forms : one in which it is utilized a retreated gross asset (table 3) and another in which it is utilized the retreated net asset (table 4).

Regardless of the chosen form, we consider that this kind of balance-sheet is closer to accounting logic of classifying patrimonial elements and the evaluation is better "underlined", his role in alignment of the accounting information to the actual level market being perfectly accentuated.

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = GROSS ASSETS)	
"FUNCTIONAL" RETREATED GROSS ASSETS	**"FUNCTIONAL" RETREATED LIABILITIES**
Tangible assets (more than 1 year) gross	Stable resources (more than 1 year)
Immobilized and distributing expenses gross	Own capitals
Trade fund, patents, licenses gross	Amortization and depreciation provisions
Own tangible assets gross	Loan and leasing
Rent tangible assets gross	Cyclical exploitation debts
Financial assets gross	Supplier debts
Exploitation current assets gross	Fiscal debts
Merchandise inventories gross	Other debts
Working material inventories gross	Cyclical debts exceeding exploitation
Intermediate and final products gross	Fiscal and social debts
Client debts gross	Other debts
Other debts gross	Negative treasury
Active treasury net	
SUM TOTAL	SUM TOTAL

Table 3 Functional balance-sheet (utilizations = gross assets)

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = NET ASSETS)	
"FUNCTIONAL" RETREATED NET ASSETS	**"FUNCTIONAL" RETREATED LIABILITIES**
Tangible assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses net	Own capitals
Trade fund, patents, licenses net	Amortization and depreciation provisions
Own tangible assets net	Loan and leasing
Rent tangible assets net	Cyclical exploitation debts
Financial assets net	Supplier debts
Exploitation current assets net	Fiscal debts
Merchandise inventories net	Other debts
Working material inventories net	Cyclical debts exceeding exploitation
Intermediate and final products net	Fiscal and social debts
Client debts net	Other debts
Other debts net	Negative treasury
Active treasury net	

SUM TOTAL	SUM TOTAL

Table 4 Functional balance-sheet (utilizations = net assets)

In our opinion, the first version is preferable. Depreciation and provisions are resources in liabilities and the assets are calculated as gross values. This fact permits the calculus of financial concepts – the need for working capital, financing table, self financing capacity through stable resources.

In the model of capital-resources-liquidity balance-sheet, assets are understood as an investment portfolio with a "composite" structure: immobilizations, working capital need, financial assets and liabilities are analyzed as a resource portfolio with internal and external origin, the debts being structured depending on the due date, as it is shown in table 5.

	ASSETS	**LIABILITIES**	
Risks and economic profitableness	Exploitation assets Immobilizations	Own capitals	Financial profitableness
	Working capital need Treasury		
Invested treasury Financial risk	Financial assets immobilizations	Stable financial debts	Financial risk

Table 5 The model of capital-resources-liquidity balance-sheet

The evaluation of balance-sheet is determined in terms of risks. This approach is separate from the judicial vision on the balance-sheet and allows a better appreciation of company's evolution in a long period of time, in terms of strategy – investment/financing.

The functional balance-sheet appreciates the evolution of the financial equilibrium, for risks on short term. The "capital-resources-liquidity" balance-sheet appreciates the evolution, strategy and risks on long term.

The manifestation of property real right involves assumes responsibility for two kinds of decisions : investment decisions and financing decisions.

The operation of investment assumes asset acquisitions to the purpose of increasing owners' fortune. The asset portfolio has a main component in tangible assets and a second component in exploitation net asset.

The financing operation pursuits the distribution between own funds and financial debts – the distribution and capitalization of results – alternative choice between the internal financing and external financing.

The financing structure in the balance-sheet is based on two components : own capitals and financial debts.

The balance-sheet model represents the adequate answer to users' needs, in quantitative and qualitative terms of equilibrium report which characterizes the management of patrimony resources.

The annual accounts are made based on closing of accounting period, founded on inventory, by determining in real proportion the patrimonial structures that have to give a real image of the patrimony, of the financial situation and of the result.

From the juridical point of view, the balance-sheet reflects in assets real rights and property conditioned rights (goods, rights – debts), and in the liabilities reflects debts (external liabilities – debts to third parties, internal liabilities – debts to owners).

From the economic-financial point of view, the balance-sheet reflects the resources invested by the company, their utilization after their nature, own capitals, which regroupes funds or benefits, foreign capitals which represents disposed funds from the third persons. In the balance-sheet the reference amounts appear at effective values, conforming the book registration value with the inventory value, respecting accounting rules.

The international practice shows that the balance-sheet model can be connected to the management accounting system as well as to the fiscal or juridical accounting system.

In the first case the balance-sheet represents the economic reality and assures the rigour of management control, in the second case the balance-sheet is used as a mean of fiscal and juridical control.

The recent developments oppose two conception plans: the “economic” optics towards the “juridical” patrimonial traditional optics.

The juridical conception emphasizes the property rights measured according to accounting principles, in a “prudent optics”.

The economic conception emphasizes the real functioning of the company, independent of juridical rules.

The debate has its origin in the works of Eugen Schmalenbach and it is made very actual by the numerous surveys which favour the functional analysis of the balance-sheet, but cannot hide the complexity of the priblem : there are many ways to approach the evaluation from the perspective of economic environment in which the company performs, and the juridical optics is favourized if the mane users are the creditors, the revenue authority.

Pure conceptions are rare. The juridical optics may borrow many elements of economic optics as the normalizing executive institutions adapts the norms and juridical obligations according to the economic reality.

We consider that in high inflation periods the necessity of re-evaluation imposes on a high degree of generality, but in the juridical optics a rigid model cannot exist, and the choice is a matter of accommodation

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