

THE COMMUNICATION PROCESS OF THE FINANCIAL REPORTING

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Abstract: *An information has value through the financial reporting. Such are taken into account factors such as: the nature of the event referred to financial reporting, the adequacy of the presentation, the credibility and integrity of information, readability necessary to allow some conclusions on a reasonable impact on the financial statements, the investors risk profile and processing skills recovery opportunities. Communication is not an end in itself. Its existence can not be conceived outside support a general policy orientated goals undertaken by the organization. In this situation, organization and communication should be viewed as complementary tools and not as independent techniques.*

In the communication process, it must be designed in such a way as to contribute to the objectives of the entity. Communication is managed in accordance with the overall strategic plan of the specific activity of that entity.

The financial communication tools are: accounting information and financial information. We can say that for accounting and its environment is interested accounting information and for financial analysis is interested financial information conducted with the help of financial indicators.

In determining values for financial reporting information, should be considered category of users whom it is addressed as well as the purpose for which the information is used.

Entering barriers to effective communication, due to lack of a common reference system or a difference in experience between the entity and its external environment leads to failure.

This article aims to answer the question to what extent the current contents of financial reports for these factors and provide useful information to users.

To demonstrate the communication within an entity will present research conducted for 4 business entity of 4 different counties

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The conclusion is that the way in which financial information is transmitted by the annual financial statements depends not only on the quantity or quality of the information but also on the way we effectively communicate with all that it involves.

Keywords: *communication; financial reporting; entity; accounting regulations; informations; financial statements.*

JEL classification: *M 41*

1. Introduction

Communication is defined - by most specialists - as a set of actions that share the transmission of information in the form of messages, signs, news or written texts, etc. between transmitter and receiver by means of a channel. This term is related to our existence as human beings, then as a society, because human beings and communication are interdependent.

Along the existence, mankind has progressed by improving the communication.

(Figure no. 1)

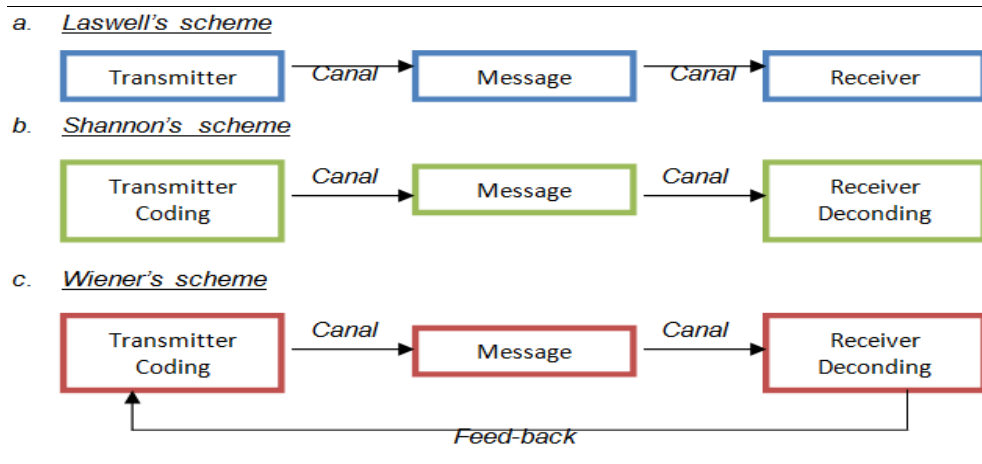


Figure no. 1 – The communication progress

Source: own processing

In other words, the individual civilization endows it with a technique to increase the strength and activity significantly, while its fundamental nature has changed.

2. Methodology of financial communication

Entity-level communication is achieved by providing accounting and financial information through financial statements and financial and economic analysis, so that the external environment of the entity to be satisfied.

According to the statements of the above we can draw the following financial communication:

- ✓ Provision accounting and financial information
- ✓ Sources of information provision through financial statements and economical and financial indicators
- ✓ The destination information is the external environment of the entity.

Is drawn through communication link between the entity and the external environment. (figure no. 2) Entering barriers to effective communication, due to lack of a common reference system or a difference in experience between the entity and its external environment leads to failure.

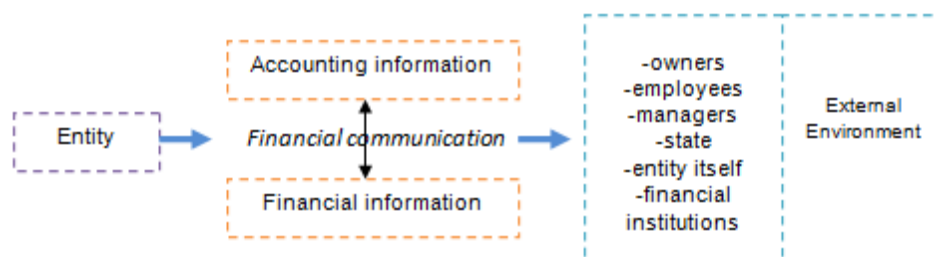


Figure no.2 - Graphical representation of entity-level communication

Source: processing after Dorina Lezeu, Eduard Florea, 2004

3.Communication of financial reporting at international and nationally level

Financial statements of an entity represent the most important means by which accounting information is made available to decision makers.

Structure of financial statements is the following:

Annual financial statements	Simplified financial statements
<ul style="list-style-type: none"> • Balance sheet • Profit and Loss Account • Statement of changes in equity • Statement of Cash Flows • Explanatory notes 	<ul style="list-style-type: none"> • Simplified Balance sheet • Simplified Profit and Loss Account • Explanatory notes

At international level the financial statements are different from country to country. Thus U.E. decided to implement Financial Reporting Standards (IFRS) in accordance with EC Regulation no.1606/2002 of the European Parliament and of the Council, aiming to increase transparency, improving the financial accounting communication and comparability of financial statements information and other financial reports.

IFRSs address the requirements from international level of developed and emerging economies to have a common set of accounting rules addressed to all those who work in business.

As it is shown in the IASB (International Accounting Standards Board), users use the information in the The financial communication, leading to economic decisions:

- deciding when to buy, hold or sell
- Assess management administration
- assess the entity's ability to meet salaries
- Assess guarantees for loans made
- Determine entity profit and dividends

f. regulate the entity etc.

In Romania, the main law that governs currently the accounting and financial reporting environment comprises Accounting Law 82/1991, republished and Ministry of Finance Order 3055/2009 (OMPF 3055/2009).

Accounting Law indicates accounting framework provisions on Romanian entities and OMPF 3055/2009 refers to financial reporting and related accounting provisions, in accordance with European directives (Directive to IV for individual financial statements and VII to Directive for consolidated financial statements).

4. Case study

The entity's financial communication is achieved most of the times through financial statements. A basis of these reports we can see the approach of a business entity from one financial year to another.

To demonstrate the communication within an entity will present research conducted for 4 business entity of 4 different counties, currently incapacitated for liquidity, according to BDI (Bulletin of insolvency proceedings) no. 4720-4817 of 18.03.2013. The study refers to the period 2008-2011, having as a real data information provided by the Ministry of Finance of Romania.

Referred business entity are:

- a. ALACOM IMPEX SRL, based in Deva, with the activity - retail of footwear and leather goods in specialized stores, founded in 2003.
- b. GENERATIV CONSTRUCT SRL, in Timisoara, with activity - other specialized construction, established in 2007.
- c. INTER EDIL GEO SRL, from Arad, as predominant activity - construction of residential and non-residential buildings, taking into being in 2001.
- d. MAGNOLIA 91 SRL, based in Oradea, with the activity of underway - Renting and operating of own or leased real estate, date of establishment 1991.

To reflect the situation of insolvency of companies, we drawn up Figure. 3 – financial data and indicators.

SCALACOM IMPEX SRL					GENERATIV CONSTRUCT SRL				
Balance sheet	2008	2009	2010	2011	Balance sheet	2008	2009	2010	2011
Non-current assets	19.240	16.003	14.318	13.393	Non-current assets	49.488	28.320	28.320	28.320
Current assets	417.031	434.610	522.654	544.449	Current assets	818.600	790.290	719.037	671.709
Stocks	327.062	353.878	436.517	459.562	Stocks	301.564	442.856	308.913	269.068
Accounts	68.655	58.399	19.183	30.033	Accounts	11.334	78.143	72.461	2.003
Total assets	436.271	450.613	536.972	557.842	Total assets	868.088	818.610	747.357	700.029
Capital	200	200	200	200	Capital	600	600	2.000	2.000
Shareholders' Equity	217.328	228.507	238.390	242.820	Shareholders' Equity	35.711	152.748	267.028	217.271
Debts	218.943	222.106	298.582	315.022	Debts	877.657	677.185	491.652	482.758
Total liabilities	436.271	450.613	536.972	557.842	Total liabilities	868.088	818.610	747.357	700.029
Profit and Loss Statement					Profit and Loss Statement				
The turnover	648.718	521.138	478.394	376.707	The turnover	1.596.608	1.136.935	655.395	5.188
Total income	649.455	521.142	478.394	376.707	Total income	1.830.894	1.311.532	555.933	-20.939
Total expenses	584.690	502.396	459.893	371.359	Total expenses	1.695.332	1.156.370	428.849	28.818
Net profit/loss	54.291	11.180	9.883	4.430	Net profit/loss	128.841	137.037	110.345	-49.757
Gross profit margin	8,37%	2,15%	2,07%	1,17%	Gross profit margin	8,07%	12,05%	16,83%	-959,07%
Number of employees	3	3	3	3	Number of employees	15	0	3	0

INTER EDIL GEO SRL					MAGNOLIA 91 SRL				
Balance sheet	2008	2009	2010	2011	Balance sheet	2008	2009	2010	2011
Non-current assets	341.121	265.884	259.787	160.570	Non-current assets	35.575	25.958	31.883	25.029
Current assets	2.400.431	3.132.409	2.175.950	2.216.358	Current assets	9.947	17.577	7.777	2.332
Stocks	8.229	78.226	0	1.180.017	Stocks	4.776	7.679	5.748	1.640
Accounts	427.660	164.626	138.913	137.439	Accounts	5.171	9.896	1.774	692
Total assets	2.741.552	3.398.293	2.417.737	2.376.928	Total assets	45.522	43.535	39.660	27.359
Capital	200	200	200	200	Capital	200	200	200	200
Shareholders' Equity	420.053	292.221	227.621	300.609	Shareholders' Equity	41.147	35.585	29.139	11.852
Debts	2.444.569	3.229.142	2.329.608	2.199.389	Debts	4.375	7.960	10.521	15.509
Total liabilities	2.741.552	3.398.293	2.417.737	2.376.928	Total liabilities	45.522	43.535	39.660	27.359
Profit and Loss Statement					Profit and Loss Statement				
The turnover	4.446.431	1.689.881	668.260	361.960	The turnover	94.114	94.104	93.488	45.287
Total income	4.539.007	1.715.460	669.115	362.116	Total income	94.125	94.105	93.488	45.287
Total expenses	4.530.422	1.835.439	717.265	274.689	Total expenses	87.045	96.140	86.849	61.215
Net profit/loss	2.827	-127.832	-64.600	72.989	Net profit/loss	4.727	-5.562	3.414	-15.928
Gross profit margin	0,06%	-7,56%	-9,81%	20,16%	Gross profit margin	5,02%	-5,91%	3,65%	-35,17%
Number of employees	10	5	3	1	Number of employees	1	1	1	1

Figure no. 3 – Financial data and indicators
Source: own processing

According to existing data in the balance sheets and profit and loss statement of entities results these:

- Commercial entity climax was reached in 2008 where each of the four entity has recorded positive value increasing as against the previous years.
- The year 2009 was the beginning situation of uncertainty on business continuity.
- From the data provided in the above documents are observed insufficient information provided.
- Those entity have reached a disability cash, due to the low level of communication to the financial statements of managerial level, as well as

management focusing on enrichment desire, and less on activity in a relatively constant rate, leading to continuity trust future activity.

- The balance sheet is not sufficient the entities communicating financial data, simplifying the it provides indicators of financial statements. You must put a higher value on the balance.

The evolution of entities can be represented graphically as follows:

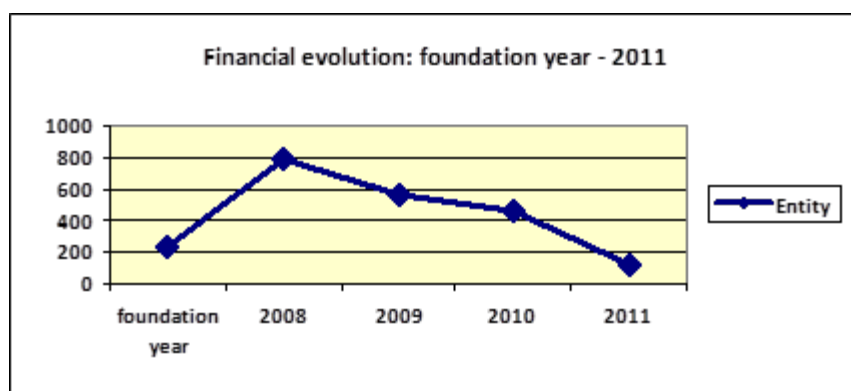


Chart no. 1 – Financial evolution of the entities

Source: own processing

It is noted that the evolution of the four business entity has decreased from year to year, falling in the category of entities with an unhealthy position on the Romanian market.

Given all those elements we believe that the four economic entities do not understand the importance and role of financial communication, which has led to their position in the list of entities failing.

5. Conclusions

At the level of communication stays elements such as: transmitter, receiver and message so that the information passed is correctly perceived through the channel. Currently we can say that the communication accounting (financial) is not used correctly perceived within entity, because year by year, an increasing number of entity enters in the inability to continue operations.

One reason for this approach is the lack of generating communication of information through the monthly financial statements, quarterly or annually by the entity.

Objective of financial statements is to provide information about the financial position, performance and cash flows of the entity that are required at managerial decision making.

As a corollary, we can say that the presense of financial statements contributes to the enrichment information for users but also to strengthen accounting as a privileged source of information because it is the basis to any strategic and financial analysis.

In conclusion, communication must occupy a leading position in the expansion and continuation of any entity.

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