

PRESENT-DAY FINANCIAL STATEMENT AND THE FOUNDATION OF ECONOMIC DECISIONS

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Nowadays we face a world-scale movement towards the privatization of public enterprise and liberalization of commerce, world-wide investments and monetary policies at a global level. These factors have progressively led to a substantial growth of commerce and international investments. The progress that has been achieved in information technology has determined the availability of financial and non-financial information in different parts of the world, using various means of communicating it (online, on magnetic medium or through publication in various already-sanctioned versions).¹

The availability and communication of information world-wide between organizations that unfold their activity in different countries, are vital to the efficiency of the global market. In order to be able to invest in a direct or indirect manner, so that they should integrate on the global market of goods and services, these companies must have access to and process the financial information of their partners in view of making accurate substantiated decisions, under the circumstances in which the responsibility for the organization and management of accounting goes to the manager or to some other person whose obligation is that of managing the respective unit.²

1. Information in accounting at the beginning of the XXIst century

The professional accountant, within the process of constructing the information in accounting needs to harmonize a variety of interests, more often than not divergent, connected with its use: the interest of the manager (connected with the image of the company on the market, his own image and, last but not least, making long-term decisions), his own interest (which is limited more to professional prestige) and the “general” interest, represented by all the other users of the information in accounting (investors, employees, the State, the public etc.).³

However, this desideratum cannot be achieved without making reference to a prescriptive frame, seen as a set of rules, principles, methods and techniques, to which the accountant’s own judgments of value get to be added, as well as results from his professional experience, his ethical values and not ultimately those he has gained out of his contact with the specialized world. All these lead to the same undeniable truth: the connection between economic activities and the factors of decision is ensured by accounting, an essential component of the informational-economic system – and its product, respectively information in accounting, obtained under the circumstances of having observed the principle of the accurate image.

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¹ Iqbal (2002, p. 244-245).

² Ristea (2003, p. 10-11).

³ Ionaşcu (2003, p. 169-172).

The diffusion of a piece of information must be accomplished before it loses its capacity to influence decision. The acceleration of global diffusion of information modifies the experiences of investors. Chain operators will no longer be pleased with obsolete data, they will be looking for the most recent information. The companies that are able to offer this information will hold an advantage, because they will reduce risk. The issue is that of being aware of the impact that an instantaneous piece of information has on the stock exchange rates, on statements to the press, on the reports of the analysts.

The financial statement – the most representative synthesis of information in accounting

As far as information in accounting is concerned, the most representative is and will remain the **financial statement**. The main objective¹ of this statement is that of providing a structured representation of financial positioning, performances and treasury flows of a company. Financial statements have the purpose of showing the results of the management achieved by the managing team of the company, including the way in which its members have used the resources that have been entrusted to them.²

The manner of presentation of this information, as well as of the general data referring to the company and its relations with the personnel and third parties may be brought to their knowledge via books, video tapes, CDs, and not ultimately through the internet. Thus, information of any kind referring to the respective organization serves as data base in the elaboration of forecasts and in decision-making from the part of the users.³

Among all the methods of publication of the above-mentioned data, the most present-day are the company data bases reproduced on website pages, with the necessary precautions for confidentiality and security.

Information technology and the regulating frame have a temporary influence on the profession of accounting. Technology is the most important factor. Not only does it develop the respective techniques, they have as effect the reduction of time and distance. In this sense, globalization is an outcome of the technologies of communication. The evolution of the regulating frame is no less significant. In the most developed countries, the market of traditional products (the elaboration of accounts and the audits of accounting-financial information oriented towards the past) has narrowed down under the circumstances in which the demand for new forms of control and insurance has developed in an increasingly complex legislative context.

The rapidity of information changes and their implementation lies heavily on the profession of accounting. This entails a need for specialization and the multi-service becomes more and more prominent. Along with business globalization, these changes entail fusions of cabinets, issues regarding their identity as accounting forms and the elaboration of world-scale professional standards.

It goes without saying, the profession of accounting has to cope with the defiances provoked by external factors.

¹ Pop (2002, p. 85).

² Feleagă, Malciu (2002, p. 61).

³ Holt and Hein (2001, p. 10.2-10.3).

The impact of technology and communication on financial statement

The number of companies that have a World-Wide Web site is increasing. This evolution entails questions regarding the best means of informing the markets of the financial situation of a company. The competition between paper and the web most probably leads to the prominence of the second.

The 1999 report of IASB concerning Business Reporting on the Internet highlights the rapid growth of electronic financial information in parallel with the development of documentary research on the Internet.

*Technology has dramatically “modified” not only the psychology of corporations, but also their traditional boundaries. Paper has been supplemented and, in the case of many users, replaced with electronic financial reports, obtained via Internet. And, while the normalization accountants display a tendency towards the preservation of the traditional format of financial statements, as well as of supplementary information, investors and other users have left this stage behind.*¹

The IASB vote has granted its approval to obtaining the accounting-financial information not only via traditional means, but also via modern and rapid methods offered by electronic technique. In this way the users working online will search for the information themselves. The Internet will change not only the way in which information is distributed, but also its content in order to adapt better to their needs. Anyway, one needs to mention the fact that, while national accounting regulations are obligatory, International Accounting Standards represent prescriptive instruments.²

4. The presentation of financial statements via web pages

The financial statements of the majority of organizations quoted at the stock exchange may be obtained starting from the allocated website. Nevertheless, the reader will seldom be satisfied with the result: statements are very long, charts are wider than the screen, complementary information appears with different usages. The exploitation of these statements might be improved through new computer science instruments: hyperlines, key-words, regular calculations programs etc. These functions may improve the exploration of data and this without necessitating a major change of accounting regulations. However, the objective will not be attained without giving up the fixed character of formats and without the use of techniques that are familiar to the users of the Internet.

The publication of financial statements on the web does not challenge the prescriptive and methodological frame of accounting. In many countries, the registration of these documents in the commerce book or at the administration may be done electronically.

There is no difference between a statement on paper and its electronic version. The responsibility of the auditor does not change. It is quite often that the annual statement reproduced on the website constitutes a copy of the version on paper in electronic format

¹ IASB (1999, p. 4-5)

² Horomnea (2004, p. 392-393).

(often a fixed format of the PDF type – Portable Document Format). This file may be consulted directly or printed on paper.

Whenever a company presents an electronic version of its annual statement using computer science instruments that realize an easy connection (for instance, through HTML or XML languages) the problem of conformity with the version on paper arises. Sometimes, the presentation of data is adapted to the necessities of reading on the screen, but this one has obvious risks. We are confronted here with *three major problems*:

1. a risk of modifying the information;
2. the difficulty of identifying the audited information;
3. the gradual passage from the audited information to the unaudited one.

How can we make sure that these pages present the same figures as the official printed version? The risk of modification is inherent to the flexibility of mass-media means of communication. The data might be modified after the auditor certifies it, as well as when the information is transferred to the website. Here the problem regarding the difference between the certified information and the uncertified one appears. On the version on paper, the auditor may identify the audited figures, through quotation on the page on which they are mentioned. In France, the Stock Exchange Operations Committee demands that the source of the information published on a website should be mentioned.

*XML (Extensible Markup Language)*¹ is the universal data language on web. It allows the creation of unique data formats for certain specific applications, granting the developers the possibility of forming, out of a large variety of applications, structured data for local calculations, presentations, ratios, statistics.

XML allows the creation of unique data formats for specific applications, also ideally serving as a form for the transfer of structured data in-between servers. It is a relatively new technology. This does not stand in the way of this technology as far as imposing its importance in almost all the branches of informational technologies.

What needs to be settled from the very beginning is that there are a few myths referring to XML. Namely, it is believed that XML was created in order to replace HTML (Hyper Text Markup Language). It is certain that the same structure that uses tags lies at the foundations of both HTML and XML. However, the functions of these two languages are absolutely different.

Starting from these premises, one must emphasize the fact that there are many applications of XML within the domain of international financial statements.

One of these, which is extremely important, is the interchange of data in electronic format (EDI – *Electronic Data Interchange*) between two or more data web sources. This aspect has determined a growth in its importance, as more and more companies and organizations world-wide have decided to provide access to their data bases and to exchange data with other organizations from complementary domains.

Secondly, XML represents the basis for creating another language, used for the management and publication in electronic format of the corporate financial information.²

XBRL (Extensible Business Reporting Language) represents an electronic format for the simplification of financial statements, performance statements, accounting

¹ See www.xprim.ru.

² See www.xmlfiles.com.

registrations and of other information which the organization makes available to its users in electronic format. This language ensures the publication of information in accounting, so that it may be accessible to both managers as well as investors or other participants on the financial market. Moreover, it offers to the financial community a standardized training method, publication in a variety of formats, an automatic change of financial statements belonging to various companies that wish to adhere to these new electronic technologies. XBRL increases the utility, the transparency and the simplicity of the financial statement and allows companies to communicate financial-accounting information via Internet.¹

Thus, the introduction of the characteristics of XBRL language automatically generates the processing of the information in accounting, eliminating in this way, through remaking, the costs and elaborate work that the calculation imposes, the data analysis and comparison. We owe this fact to computers which, once they are equipped with this program, they treat data in an intelligent manner: they acknowledge the information that is contained within a XBRL document, selects it, analyzes it, deposits it and provides the interested users with it.

Its main advantage is represented by the speed of manipulation of financial data, the reduction of the chances of existence of error and automatic access to information. To companies, XBRL signifies the reduction of costs, speed and accuracy in financial statement. Consumers of this data, investors here included, analysts, financial institutions etc., may receive, find, compare and analyze data efficiently and rapidly via this language.²

This program is created, managed and promoted by the consortium that initiated it in 1998, XBRL International. This is a non-profit organization which comprises almost 250 companies and agencies world-wide, which work together for its adoption. The goal of this consortium is that of *transforming XBRL in a universal language of publication of financial statements via Internet, which is in perfect agreement with rules, accounting principles and financial statement practices.*

Other information available on websites

The information communicated on the web does not have only a financial-accounting character. It also comprises aspects regarding the products on the market, activities, background, social relations etc.

Under some exceptional circumstances, for instance an emission or public buying offer, share-holders will be entitled to a more developed financial information during the exercise.

One can differentiate between the general detailed information offered by annual financial statements and other information regarding the specific risks of the company, which would be communicated more frequently (biannually or quarterly). Also known in English by the name *disclosure*, this information is only solicited either by accounting rules or by the law, or it is voluntary. Here we may include press conferences, information regarding a new product, the choice of a new president, the acquisition of a

¹ <http://www.xbrl.org/XBRLandBusiness/>

² IASB (2004).

subsidiary in a foreign country etc.¹ Electronics modifies perspective. Although the cost of production of information stays the same, that of its diffusion is no longer an acceptable excuse. Share-holders and other external users will thus be able to acquire a global vision of the life of the company and in this way to found their decisions on pertinent, correct information that has especially been obtained in due time.

The development of electronic information grants in the end access to certain data which is accessed with difficulty within traditional patterns of financial statements. Many other aspects of the information of a company will be approached in this manner.

This aspect might become the basis of a new type of annual report in which financial statements will only represent one section. The main problem would then become achieving some sort of balance between competition and commercial sensibility, on the one hand, and the need for unlimited information from the part of accounting-financial analysts, on the other.

Challenges and opportunities for financial statements internationally

The financial statement is facing nowadays a variety of challenges but opportunities as well, which support the process of convergence unfolding at a global level.

In the process of harmonization, countries throughout the world are in search of the common presentation form of financial statements, of the other information that companies put at the disposal of their public and the users that are interested, as well as of formulating the legislative frame that would support their conception, drawing up and publication.

Companies publish an enormous quantity of information. Starting from the premise that this information is believable and relevant as far as its manner of conception is concerned, in agreement with the accounting international standards, the opportunity and rapidity of access to it has considerably increased in the past few years, through the usage of the Internet and the programs developed via Internet, in addition to traditional mediums for data manipulation.

The sustained continuation of the globalization and harmonization of international accounting is necessary (with everything that it involves: financial statements, information of any kind regarding the activity of the firm etc.), so that the differences in financial statements between countries and, in some cases, within the same country, should disappear.²

Globalization is a hard fact of present-day economic life, in the context in which activity on international markets has dramatically increased. This situation has determined a growth in the acquisition of foreign companies, in the need for financial resources and implicitly in that of markets of capital. Contemporary global economy undergoes nowadays a process of conversion from the pattern based on interdependent national economies to the pattern created according to a network of multinational firms, which act globally.

The development of an accounting system, of a uniform manner of making financial statements and of a financial audit internationally compatible, their correct application into practice renders the rigor that is so necessary, particularly to transition economies

¹ Holt and Hein (2001, p. 10.3).

and which leads to the amplification of the trust coming from internal and international investors, but also from credit, insurance-reinsurance institutions and from capital markets in general, through the protection that is granted by information in accounting that has been constructed and audited accordingly.

Under these circumstances the part played in ensuring the comparative quality of economic information has increased significantly. Hence, nowadays there are a lot of reasons that have led to the necessity of uniform financial statements, that can be applied world-wide.

There no longer are barriers that allow rapid, efficient and clear access to information, there is only the pressing necessity of finalizing harmonization and normalization internationally, so that global implementation and acceptance should be reached.

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