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THE IMPORTANCE OF FINANCIAL INTERIM REPORTING FOR THE POSITION OF COMPANIES

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Abstract:
The importance that each company must grant to the strategic sources of information generates our concern for analysis of the interim financial reporting. In every enterprise, there are doubts on the usefulness of interim financial reports, given the following elements: the necessary time for their preparation (relatively long), their restricted character and the resources necessary to establish them. Finding a common solution to these problems and, implicitly, increasing the interest for interim financial reporting, can help to increase the economic performance of the company, either by reducing the unnecessary costs related to time, or by increasing communication and transparency with third parties. An appropriate management can act early in the direction of counteracting the negative effects in their company or prevention of any commercial or production failures, the overall economic trends in that field and increasing productivity. Starting from these premises, we propose a research in order to capture the main aspects related to the mentioned issues.

Key words: interim financial reporting, financial position, economic performance

JEL classification: M41

1. INTRODUCTION

As our society becomes increasingly complex, policy makers face a growing probability of receiving incorrect information. This is explained by several reasons:
- Distance becoming greater between information and user;
- Bias and personal motives of information providers;
- Large volume of data;
- The existence of complex commercial transactions.

Persons responsible for economic decisions appeal to services of insurance nature in order to improve the reliability and relevance of information they use as a basis in the decision making process. Nature of insurance services are valuable because the person offering such insurance is independent and is seen as unbiased information before they examine.

This study aims at interim financial reporting approach by the link to the performance of the entity. The first step in achieving the objective was to collect concrete data and information analysis of which allow us a better understanding of the link between the performance and the interim financial reports.

The research method used in this study was the analysis, by studying the information from national and international literature. Among the documentary sources used, we mention: books, articles published in various magazines in foreign languages, articles published in journals indexed in international databases, articles published in Romanian in volumes of scientific conferences or in national magazines.

We mention that the research method most commonly used is the analysis of documents as a work that has as objective the research entity's performance through interim financial reports, there may not appeal to the bibliography of the literature, accounting standards and rules, various studies of specialty items, which have the advantage of doing a content analysis and an analysis of the evolution of the researched subject.

2. THE NEED FOR INTERIN FINANCIAL REPORTING

Entities prepare and submit financial reports illustrating the activity and situation at a certain time for different users, both internal and external. Internal users are those who lead and control the company's business and decide its evolution. External users are the financiers' society.

Most of the existing activities is guided through organizations represented by groups of people working together to achieve one or more objectives. To meet its objectives, an organization needs resources, which, in turn, must be financed or paid. To be effective, people in these organizations need information regarding the size of the resource, how to finance them and the results achieved with their help. External users also need similar information regarding the organization in order to form their opinions about the work of organizations. We classify accounting information provided in three types:

■ Information on operation required to lead an organization;

■ Financial information necessary for both managers and third parties (investors, banks and lenders, government agencies, public);

■ Management information necessary for the performance of an organization has three functions: planning, implementation and control.

Interim Financial Report represents financial report containing a complete set of financial statements (as required by IAS 1), or a condensed set of financial statements for a period longer than one financial year named interim period. Normalization information presented in the financial report is circumscribed, internationally, to *IAS 34 Interim Financial Reporting*. It defines the minimum content of an interim financial report and identifies the recognition and measurement principles to be applied in complete or condensed financial statements for an interim period. A specific feature is that it does not require disclosure of such situations, instead required to publish an interim report for any company publicly traded.

Interim financial statements relates to periods less than one financial year. They meet such financial statements that relate to a period of three months (which are called and quarterly financial statements) and financial statements covering a period of time equal to six months (which are called half-yearly financial statements). "An enterprise should apply the same accounting policies in the interim financial statements as in the annual financial statements." (IAS 34 - Interim Financial Reporting, 2004).

The purpose of interim financial statements is to provide to users in due time the accounting information necessary to elaboration of operational or funding or investment decision. Users, based on data contained in the interim financial statements, can project company's performance in the near future. In addition, interim financial statements can give to users, meaningful information regarding business development directions and information on the seasonality of some activities, information that could be highlighted in the financial statements for the financial year.

Interim financial statements have as main aims providing in time and with a certain regularity the information on enterprise performance.

Interim financial statements present also limitations, such as:

■ while reducing the reporting period, increases the impact of errors in the estimation and allocation; proper allocation of annual operating costs are a significant concern for the provision of accurate information;

■ variations occurred in tax rates and changes in interest rates lead to situations where determination of the interim profit tax is very difficult to achieve;

■ there are a number of operating expenses that are incurred and recorded in a period and the benefits arising from these appear later; this category includes advertising expenses and other expenses incurred by the undertaking significant repairs to tangible assets in operation;

■ effects of seasonal variations markets in turn may reduce the reliability and comparability of interim financial statements.

Regulators in the US and Great Britain have developed over time two main directions on interim financial reporting. A first course, called *integrated direction*, considers that an interim period is an integral part of the financial year. Annual operating expenses are estimated and then assigned to interim periods, based on projections related to the annual activities, such as, for example, the sales volume. When used this way, the results of interim periods should be adapted, adjusted to reflect the estimation errors. According to the second direction, called *discrete direction (separate)* of the interim reporting period represent a distinct accounting period, having equal status with fiscal year. Thus, there are no different estimates or allocations from those used for annual financial reporting. The same rules apply for the recognition of costs as for annual reporting and do not apply any other kind of accumulation or deferral. Annual operating expenses are recognized in the interim period in which they arise, without taking into account the number of considered interim periods.

Devotees of the *integrated direction* claim that single recognition of expenditure is necessary to avoid creating any fluctuations misleading, if earnings are reported from one period to another. Using *integrated direction* leads to interim results materialized in annual outcome indicators, making use of predictive purposes or estimate.

On the other hand, advocates of the *discrete direction (separate)* claim that uniform of interim results in estimates purposes have unwanted effects. For example, a turning point in the trend of a result manifested throughout the year, can be hidden.

However, some experts believe that the distinction between integrated and discrete direction (separate) is arbitrary and even meaningless. They consider that between interim periods and fiscal year as a whole there is the same relationship between fiscal years and longer periods in the life cycle of firms and that all required periodic financial reports to make estimates and allocations.

Direct costs and revenues are best accounted for as arising in that order, leading, most often, the direction of discrete approach (separate), while many of the indirect costs require to apply an allocation process, leading to the use of integrated direction. A combination of these methods should be conducted according to the nature of the cost or of the gain that is reported. In practice, it is impossible to use strictly only one of the directions. IAS 34 on financial reporting, adopt a combination of the two ways or methods.

The purpose of interim financial reporting is to provide information that will assist users in making economic decisions. In addition, the interim report is expected to provide specific information about the financial position, performance and changes in financial position of an enterprise. This objective is generous enough to include the preparation and presentation of financial statements is complete, or of condensed information.

Getting enterprise-level performance requires, directly or indirectly, revaluation of competitiveness concepts. The principal action of enterprise management is to increase the competitiveness and efficiency of enterprise, the management being the vector based on economic growth, and as Peter Drucker said “the main way of economic growth”.

Financial position is the relationship between assets, liabilities and equity of an enterprise, as reported in the balance sheet (OMPF 1802/2014). The financial position provides useful information to a wide range of users because of influencing elements:

- The economic resources controlling the enterprise;
- The company's financial structure;
- Liquidity and solvency;
- The company's capacity to adapt to changes in the operating environment.

The usefulness of information regarding economic resources controlled by the enterprise and at their change in the past lies in predicting the company's capacity to generate cash in the future and management's skills regarding administrative assessment.

Information regarding the financial structure are useful to predict future needs and opportunities lending company to obtain financing in the future. These are important in anticipating the distribution of the results and future cash flows from those who have an interest in the enterprise.

Anticipating an enterprise's ability to honor its due financial commitments is performed using information on liquidity and solvency.

The liquidity concerns the cash resources in the near future, taking into account the financial obligations relating to that period.

The solvency surprises cash resources on a longer period, taking into account its corresponding financial commitments.

The usefulness of information on companies' ability to adapt to environmental changes, is due to the possibility of appreciation of how enterprise cope with change unexpectedly. A company's financial adaptability is its ability to act effectively to change the pace and size of cash flows, thus responding to unexpected needs or aroused opportunities.

An enterprise wants to have a financial adaptability to a quality that helps mitigate the risks faced by its work and in periods with low (or even negative) cash flows generated by various obligations, to survive. Such a state allows the company to benefit from the opportunities arising from investment operations.

The risks facing the company and its investors' risk appetite will determine how and to what extent it wants to be adaptable in financial terms.

Financial adaptability depends, among other things, on the company's ability to:

- Obtain liquidity from the sale of assets, but without affecting the continuity of operations;
- Procure new capital (eg. debenture);
- Achieve a rapid improvement in net cash proceeds generated by mining operations.

The efficacy designates goals, objectives, and standards of the enterprise, constituting a measure that the exits meets the customer’s needs. Efficacy is directly influenced by enterprise’s environment, efficiency is used as evaluate enterprise performance and competitiveness of the company and its successes in time.

Maintaining a good state of economic and financial performance and, respective, its improvement should be a key concern of the company to continue conducting business in terms of profitability and liquidity.

Profitability can be seen by considering the following aspects (Gheorghiu A., 2004):

- Appears as a decisive instrument in the market economy mechanism in order to guide the production in relation to the requirements of consumers (productive or individual);
- Involves obtaining higher revenues than expenses from the sale and collection of produced goods;
- Reflects the company's capacity to produce profit, reflecting a synthetic form of efficiency of all economic activity of enterprises.

As the profit, the profitability – a particularly important economic category - knows diversified conceptual approaches. Thus, profitability is regarded as “qualitatively important synthetic indicator that expresses the ability of business units to achieve net income .... Constitutes the optimum point of intersection of all other qualitative indicators” (Bistriceanu Gh., et. al., 1981).

3. THE LINK BETWEEN GOVERNANCE AND FINANCIAL REPORTING

Enterprise governance groups all mechanisms aimed at solving a problem by the agency, implicit the conflicts of interest between shareholders and managers. It may be about a check by the Board, of an incentive pay, a shareholder activism or financial market pressures, through public tenders.

Two large enterprise governance models are highlighted in the literature:

- The shareholder type, controlling opportunistic behaviour where the driver is exercised by external way through the market;
- The stakeholder type, in this model, the main objective is to defend the overall interests of the enterprise participating parties (shareholders, employees, who are charged with the work yielded a main contractor, clients, immediate environment, etc.).

The concept of corporate governance is based on ensuring equal treatment, non-discriminatory for all investors, achieved through the practical application of a set of principles, such as access to company’s information (public nature, not confidential) and transparency of decision (provided by participation in ordinary and extraordinary general meetings) (Boghean F., 2013).

Quality and prompt financial and accounting information contribute to efficient management of the company and increase its market value. However, the main character in a business administration is the manager; it plays an important role in creating value and can actually influence its distribution. The decisions of managers is condition of enterprise performance, and shareholder wealth, and where they increase the value of the company, will receive appropriate remuneration and other facilities, thus observing managers temptation to manipulate financial information or financial position of the company and her performance.

Interim financial statements are useful to the extent that induce a vision or a bridge forward-looking, respectively if helps users to evaluate the company's ability to generate future cash flows and the timing and certainty of their generation.

In general, regardless of the accounting system in each country, the interim report structure is the same, the differences occurring especially in the presentation of financial information through the summaries.

It must be said that the information provided by summary documents must respond primarily to all its users.

In conclusion, of all sources of used information, all users as the most comprehensive consider the synthetic documents, and best reflects the official image of the company. They are central to the whole process the information on which are made the decisions.

Therefore, the quality of information submitted by them, appropriate disclosure of the company, are elements of great importance for those who prepare financial statements and for those who require this information.

Understandability, relevance, comparability and reliability, in which the true and fair view, prudence, neutrality and respect other accounting principles are fundamental the qualitative characteristics that must be taken into account in the preparation and presentation of financial statements.

The objective of interim financial statements is to provide necessary information regarding changes in equity, year-end financial results, performance and dynamics that lie revenues, expenditures, results and receivables and financial liabilities, profit and its distribution capacity to honour payments and repayment of payable loans, wage obligations, dividends to shareholders.

The information on performance and return / profitability is needed to assess changes that are likely to occur in the short term in size and structure of its economic resources.

Financial performance shows the extent to which the company has achieved its objective to achieve profit line. Economic theory considers that for any undertaking this objective involves maximizing profits. However, there are managers who wish to obtain a satisfactory return only. Recognition point of maximum profit is, however, a highly subjective process. For this reason, we can assume that a company has met its objectives to achieve profits in the case where shareholders are satisfied.

To assess the profitability / return, users use the information from the profit and loss account. This information does not satisfy, however, fully the needs.

“The estimates character of the size of these elements increase with rising prices and technical progress, due to inability to draw a line between operating expenses and uses of the benefits... From the economic point of view, there is no reason to support one decisive decisions in relation to the other. However, every choice leads you to a different result” (Malciu L., 1998).

4. CONCLUSIONS

The profit in absolute value can lead users to misleading judgments (eg. an increase in profit does not necessarily mean a favourable change). You need to see to whom is due this increase. Is this an effect of size turnover of greater efficiency, or the influence of both factors? Is it due to the fact that the year ended was a “good” as the previous year was “bad” or is simply the result of choice between different accounting methods?

To obtain a satisfactory answer, users need comparable information over several years. On the other hand, synthesis documents belonging to different exercises are not always comparable. In addition, they provide information only about the options chosen by the company and not about left out options, which could generate more profit.

A detailed analysis of the differences between forecasts and financial results is needed in order to understand the particular factors that led to the recording of differences between them. Interim financial statements may also act establishing a trend of future performance.

Fidelity of accounting information consists in rendering in the interim financial reports the economic reality as accurately, reflecting fairly the entity's financial performance and position, and amendments thereto.

Information is material if their omission or inaccuracy are likely to influence economic decisions taken by users of information. Any information should be relevant, useful, objective, reportable and verifiable.

Activity of the patrimonial entity has a continuing character, the information on which the decision makers are based must: be real (to exist as such), to be properly presented, to be reviewed and reflected in the accounts comply with the going concern principle and not least to be comparable. In order to assess the reliability of accounting information, are taken into account the accuracy and materiality.

Interim financial reports can help increase the economic performance of the entity, either by reducing unnecessary time costs (waste) or by increasing communication and transparency with third parties (creditors, customers), proper management can act early to counteract negative effects on entity’s activity or to prevent any commercial or production failures.

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