UNIVERSITY”ALEXANDRU IOAN CUZA”, IAȘ I

PhD THESIS

COMPANY’S FINANCIAL STATEMENTS. ANALYSIS AND DECISIONS

Resume

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INTRODUCTION

Economic importance in society is paramount due to the individual characteristics of the company itself. One of the basics of the economic field of accounting is the environment in which the product exists, medium conditioned by various restrictions, influences social, economical, political and legal. The continuous development of society leads to the development of accounting, the rules are the result of influence of the following factors: population/people who live in a world where opportunities and resources are limited and their rational use requires achieving maximum efficiency, society and ability to assign properties and protect them, trust company manager by their owners.

Company's financial reporting includes numerous multiple users of information that they consider valuable to assess its financial position and performance. The advantage comes, however, within the organization, from its management for which financial data are essential to build and support the company's strategy, but in this case no information is collected from published financial statements, but from internal reports, more detailed and drawn sometimes daily, weekly or monthly. Management communicates through financial reporting with outsiders and taking into account the expectations that we have from users, it marks on public financial reporting strategy and content made available to the external environment.

In this context there are investors who are interested in the investments they have made in the company and its ability to protect and develop their investment in the future. The need to always know how the money was spent and which is the route recovery from the activities carried out determines the preparation of detailed reports, true and very explicit, so as not to arouse suspicion from any party involved in the deal. Investors exert a big influence on managers who are responsible for all the decisions token in leading position and any mistake that affects interests of owners is penalized by legal means. The quality assurance of financial statements made available to external users is provided by the fact that investors are some of them and their interests cannot be significantly different or less from the interests of other users.

This paper is divided into two parts in terms of the type of research: theoretical and empirical. Theoretical research is needed to establish the legal framework applicable to the area studied, fulfill specific and indispensable role in the administration of scientific knowledge. Empirical research has as a starting point theoretical research carried out previously and is realized by applying the techniques needed for the approach.

This approach allows knowledge of the main characteristics of the financial statements and regulations to which they are subject both internationally and nationally. The research also helps to highlight the most important financial and economic analysis techniques whose results are used in decision making process. Based on the information needs generated by the high quality of the decisions that will influence the future development of the company, we consider appropriate theoretical incursion and empirical research because of the flow of information generated and use of real examples.

Research methodology

In the present approach we show the importance of economic and financial analysis for business environment, based on a brief theoretical insight on the financial statements and financial statement analysis method and correlation rates in scientific literature, continuing with the analysis of financial position and performance of tourism company's financial statements, finalizing with the identification of the implications on the management decision analysis.

The aim of the research is to obtain information about the tourism company's financial results, being characterized of certain features due to the industry, the correlations between financial and economic indicators in the financial statements and their impact on management decision. It assumes that there are significant elements of financial and accounting nature which are the core of economic decisions, since any user of financial information cannot disperse them.

Research will be mainly practical, but will begin to clarify the theoretical. The first step in our approach is represented by selecting the information to be analyzed and the determination of the time they will be analyzed. Since tourism is characterized by certain features in our approach we will try to consider them and to highlight trends of economic and financial indicators based on them.

The quality of information is one of the most significant terms in the analysis, so we will collect data from trusted sources: the official website of the Ministry of Public Finance of Romania and the official website of the company under study. To compare results obtained with the results of other companies in the same industry, we will take data from their published financial statements in databases created with key financial indicators, for missing information communicating with the companies concerned.

Our orientation will be positive, being impartial to the phenomena studied. Our objective is to establish the general laws governing the preparation and presentation of financial statements, as well as correlations between economic and financial indicators that contribute to the understanding of the financial situation of tourism companies to determine the appropriate development strategy. In our approach we will start from the sub-problems to be solved along the way, so to get the right and complete solution in the last part of the research.

CHAPTER 1
CONCEPTUAL INSIGHTS ON THE FINANCIAL STATEMENTS

The first chapter entitled Conceptual insights on the financial statements provides an overview of the preparation and presentation of financial statements, indicating its importance for the company management. The main elements of financial statements and the characteristics and limitations are treated in detail to create a financial reporting framework at both the international and national levels.

Battle for supremacy of international accounting led international standardization body, the International Accounting Standards Board - IASB, to publish in 1989 a Framework for the Preparation and Presentation of Financial Statements. This conceptual framework became the frame of reference for elaboration of international accounting standards and accounting rules applicable in many countries, including in Romania.

The impact of U.S. rules on the development of financial reporting worldwide is significant. American setters experience has left its mark on improving accounting standards, the effect being evident during the period of collaboration with international normalized body and represented in the results of this collaboration.

Internationally, normalizing body IASB issued accounting standard IAS 1 Presentation of Financial Statements, which imposes rules and conditions for the preparation and fair presentation of the financial statements. This, together with the Framework for the Preparation and Presentation of Financial Statements, sets financial statements objectives, qualitative characteristics of financial statements, their structures and how to recognize them in the financial statements, and how to evaluate financial statements positions.

Financial statements are a structured representation of the financial position of an enterprise and the transactions of this one, presenting also the results of the management of company's resources. The objective of financial statements is to provide information about the financial position, performance, and changes in financial position of the entity, which are useful to a wide range of users to make economic decisions at the right time. To achieve this objective, financial statements provide information about: assets, liabilities, equity, income and expenses, including gains and losses and cash flows of the company. The proper application of International Accounting Standards, with additional disclosure when necessary, results in almost all the cases financial statements that achieve a fair presentation.

Taking into account all benefits for the preparation and presentation of financial statements, their utility is affected if they are not available to users in a reasonable period after the balance sheet date. Businesses should be able to issue financial statements within six months from the balance sheet date. Factors that influence consistently, like area complexity, is not a sufficient reason to not report in time. Specific deadlines are set by legislation and market regulation in many jurisdictions.

The objective of the IFRS Foundation and the IASB is to develop, in the public interest, a single set of financial reporting standards that meet the following criteria: be qualitative, comprehensive, binding and globally accepted. To achieve this objective, IASB cooperates with investor's worldwide, transmitters of national standards, auditors, academics and others who offer their interest and support in the development of quality standards globally. Progress at this level is recorded continuously. Major economies have established time limits for adopting IFRS or their convey the national rules. International convergence efforts of the organization are supported by the G20 leaders at the September 2009 meeting in Pittsburgh, USA, which asked the international accounting bodies to redouble their efforts to achieve the objectives. In particular, they asked the IASB and FASB to complete their convergence project by June 2011.

The financial information is part of the company control system and of other users' decisional system. The accounting information can be divided into two types: management information for internal users standardized, but adapted to the level of management information, and financial information for external users reached in normalized financial statements. Privileged place of accounting information in the enterprise information system is provided by the existence of a large number of users of accounting information, even if not all the information produced within the company from processing documents drawn up as a result of participation in the various economic and financial transactions are available to them.

Limits of any information contained in financial statements determines the economic and financial information users to resort to other sources of relevant and reliable information, such as economic conditions, predictions made by the relevant institutions at national and international and political situation existing.

The financial statements present the image of financial and economic activity undertaken by an organization over a period of time, regardless of the activity. The need for their preparation derived from the importance of the information released to a diverse group of users, from those inside the company until those beyond her.

Since transparency is the most important issue of the new millennium when it comes to financial reporting, how to prepare financial statements in Romania is governed by very strict internal rules imposed by Order n.3055/2009 approving the Accounting Regulations in accordance with European directives comply with the Fourth Directive, applicable from 1 January 2010, on the balance sheet and profit and loss account.

CHAPTER 2
FINANCIAL STATEMENTS ANALYSIS OF TOURISM COMPANY

The second capital entitled *Financial statements analysis of tourism company* includes an analysis of the tourism sector and its contribution to the added value achieved nationally and internationally. Economic and financial analysis of the financial statements of Tourism Felix S.A. represent the foundation of empirical research is included in this chapter. Establishing the evolution of the company's assets and liabilities as well as turnover, profitability and risk are just as many important issues addressed in the analysis, each of them being the subject of correlation analysis to identify the main factors that can influence and determine levers positively influencing the company.

In the final chapter a comparison is made between the results of tourism companies and macroeconomic indicators like harmonized index of consumer prices and GDP.

For managers many aspect about analyze financial statements represent the calculation of financial ratios, because they show how the company achieve the target performance. Managerial level involvement in the analysis of financial indicators is often due to requirements of investors on the level of detail of the information they require. Evaluating company's rating to invest and creditworthiness are issues that are closely monitored.

CHAPTER 3
INCREASING THE CONFIDENCE IN FINANCIAL STATEMENTS THROUGH EVALUATION AND AUDIT

The third chapter entitled *Increasing the confidence in financial statements through evaluation and audit* presents the main issues regarding valuation for financial reporting, so that the image presented in the financial statements to be fair and aspects of internal control to ensure the accuracy of the information contained in the financial statements and mission of the audit of the financial statements by external auditors which operates according to the laws in force.

The last part of the chapter deals with the characteristic elements of the ethical code of professional accountants in Romania, pointing out the basic principles and how a professional should perform their duties.

The true and fair image is the desiderate of accounting and the basis of the commitment assumed by accountants. To contribute to the development of the global economy by providing accurate, complete and timely information means fulfilling the social role of professionals. When we refer to the financial statements, it means principles and techniques of valuation of assets and liabilities at their fair value with regard to different types of values used in practice as well as market value, use value, replacement cost, value realization, the recoverable amount. In further support of the objective of financial reporting, the income recognition is a direct result of the valuation of assets and liabilities.

The first concerns about the quality emerged in the second half of the nineteenth century, researchers believing that this area has evolved in four stages: inspection of control, quality control, statistical methods in quality control, quality assurance and total quality stage. In the mid-twentieth century starts to get the issue of quality assurance, Joseph Juran justifying the 80% of employees' errors in the organization by poor management, quality is everyone's problem from his point of view.

By providing quality financial statement is carried out the mission of auditing financial statements, giving a reasonable assurance level that allows auditors to express their professional opinion on how financial statements are prepared in all material contained in accounting referential.

CHAPTER 4
THE MODERN COMPANY MANAGEMENT BASED ON FINANCIAL STATEMENTS

Chapter four entitled *The modern company management based on financial statements* presents the importance of accounting in the decision-making process, the quality of information in decision making, major financial decisions taken by the company. In the second part of the chapter is summarized basic knowledge on computer progress and results that can be capitalized by managers in their work, particular attention being paid to the balances scorecard by presenting the principles of its development and the possibilities of company performance evaluation. This chapter was concluded with a trip to the topic of corporate governance at national and international level.

In the context of globalization, the importance of information increasingly stirs more debate about the nature of the information forming the basis of the most important decisions to be taken at local, national and global levels. The importance of financial information in the financial statements, whether produced on demand or according to legal charges is discussed in each country, and even in academic circles when discussing the Nobel Award winners. Marketing strategies, production or financial starts from raw data to be analyzed, being placed in the structure simulation, and becoming general factors for most significant channels of economic success.

The multiple financial management objectives are subordinated to company survival and maintenance in the competitive market, achieving profit and growth. Financial decisions are fundamental act of leadership. Modern enterprise management involves possession and use of a huge amount of information, they increase the possibilities of knowledge and appreciation of the work done by the company and its management to the desired performance. A well-founded decision, coordinated with set of global decision adopted at the enterprise level and at the right time promote business to success, but don't provide it. For example, the main purpose of investment and financing decisions is to maximize shareholder value. The investment decisions are searching for the best way to allocate capital and the financing decisions on determining the best way to pay for investments by using existing capital, loan or choosing to sell shares. Decisions on the company's dividend distribution policy mean reinvestment of profits or distribute them as dividends capital providers, taking into account the financial needs of the company and its long-term strategy.

The last part of Chapter IV we identified some aspects related to corporate governance, which is an important element in the process of increasing efficiency and economic prosperity, and to increase investor confidence. Organization for Economic Cooperation and Development (OECD) issued in 2004 Principles of Corporate Governance, whose role is to provide assistance to improve the way corporate governance is practiced worldwide. There is a model of good corporate governance, so that the principles identified by the OECD are built on a research conducted in both countries and non-OECD countries.

According to the Bulletin of Applied Economics Industrial Group in 2007, 77.8 % of companies do not know the driving principles published by the OECD and 79.7% of the companies don't apply these principles. It is considered likely that a significant number of companies apply corporate governance principles but not knowing, on the assumption that 34.7% of them do not have a written code of conduct to govern the rights and obligations of members and management.

CONCLUSIONS

Accounting is an integral part of business, and if not managed with great skill and care, can become the main element of recourse heritage. Accounting information is economic by its nature, and has to be identified and measured using covered methods and procedures.

1.The results and conclusions from the theoretical research. Accounting has been strongly influenced throughout her history by many factors, therefore appeared more accounting systems according to the country's political and economic system, or legal and fiscal system, or according to financing model of the enterprises, but also according the way accounting profession has evolved. Tradition, culture and belonging to a model have been other reasons why countries have chosen different accounting systems. But now, all countries tend towards harmonization and international accounting normalization to ensure comparability of data, to facilitate exchange of information and to unlock the international markets and therefore the global economy.

Accounting for the economy has created an exclusive set of summary information so that all users of financial accounting information to be provided all necessary data they need in their decision making process. Even if the United States is advantaged the investor and financial reports provide all the information that supposedly requires this category of users, but in Romania is favored the government, this situations does not prevent the company management to seek information whenever needed like periodic financial statements to ensure efficient management of the company.

Statements are useful for showing the condition and the extent to which a company is positioned at a time and in a period of time. Types of financial reporting differs depending on the purpose for which they are prepared, even for internal use even for outside users.

The laws applicable to financial reporting is complex and cumbersome, but it is very useful. The complexity derives from the multitude of applicable international legal systems. The difficulty in assimilating law to prepare accurate and complete financial statements sometimes creates professional discomfort. But the utility is prevailing. Utility gives confidence that needs a professional accountant, a financial analyst, even a manager so finality to be the one targeted.

Solutions implementation of mitigation informational limits of the financial statements will help to fill gaps and uncertainties related to the accuracy of information presented. A quality financial communication can ensure the soundness of the business enterprise, gaining the information users confidence in the success of the business. The quality of information contained in the annual accounts and played after primary processing depends on the accuracy of the documents underlying economic transactions. Any error justified or not is detrimental to the true and fair image emitted by the economic entity through financial statements, whether annual, half-yearly, quarterly, or on request. Transparency in business should allow accurate knowledge about economical-financial market potential, the movements taking place and those that are intended to be made.

2.Results and conclusions rose from empirical research. For effective management, organization leaders resort to various tools that process financial accounting data and generate statistics, forecasts, the exact position and performance of the company. Financial analysis is inaccurate to say, the right hand of managers, because the use of data in future financial statements they obtain the accurate results. The most important aspect is that these results should be viewed in the correct context, falling in the existing environment and compared with other comparable data. Individualization of information from the analysis leads to errors difficult to correct.

Financial analysts can identify the most important issues in the analysis of financial statements, helping company management to fully understand the economic act and take the best decisions in existing conditions or those projected. Respecting the analysis rules is important, but specific areas may be more important, comparative studies and evolutionary one. Comparisons with other companies and with the average of other countries can raise shareholders confidence in that economic activity, managing to attract new investment.

Our approach succeeded to highlight analysis benefits of the correlation method performed during the analysis through financial ratios and outlined the implications of the results obtained in the implementation of decision. Strategic and financial, this type of analysis enables the identification of the best relationships of economic and financial indicators for the key success factors to boost business. Compliance stages making and using the available qualitative data can help to develop the business even in an economic climate affected by the global financial failures.

Theoretical and practical contributions from carrying out this research can be summarized as follows:

- Sequential covering the main aspects of the preparation and presentation of financial statements at international and national levels;
- Presentation of Financial Statements limits and ways to mitigate their negative effects;
- Highlighting the main rates for economic and financial analysis of financial statements prepared by a tourism company;
- A basis of departure for developing a specific analytical model four tourism companies that will contribute to the effective management;
- Presentation of the main categories of decisions taken based on information contained in the financial statements, but also on economic and financial analysis results;

- Identification and presentation of supporting tools in the management process, contributing to increased analysis field, encouraging the adoption of appropriate decision;
- Identification of main principles of corporate governance and determination of whether application or not in enterprises.

Research limitations are highlighted by the numerous papers on the subject of financial statements that discuss essential aspects, and financial analysis techniques well known. Failure validation of a questionnaire on the usefulness of financial statements in the tourism management companies is a significant limit to this approach, that being due to the unavailability of the leading persons of the companies responding to the questionnaire. Also in this research have just put up a financial analysis model specific to the tourism companies and its failure to complete is one of the most important limits.

Future research directions will consider extending the analysis techniques of financial statements avoiding not useful load of data for managers in decision making and completing a financial analysis model progressively useful for tourism managers.