

HOW TO USE FINANCIAL STATEMENTS WITHIN THE GLOBAL ECONOMIC ANALYSIS TREND

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Abstract

This article aims to put into the light the importance of the financial statements within our day's financial analysis trend. Our research begins with a description of the importance given to financial analyses as part of the global economic diagnose for any worldwide entity. The idea developed throughout is a better understanding of the financial indicators used in this area, even quantitative or qualitative, with a view from outside, as an investor interested to achieve one of the best choice in Romanian market, with a limited information at its disposal. Therefore, our article present a form of how to manage to analyze the economic situation for a company only by the public information gathered through the internet and is looking for a suitable answer on this making easier decision environment.

Keywords: *financial statements, global economic analysis, profit and loss, investment decision, financial indicators*

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1. Introduction

Competition is everywhere and due of the competition all over the world since golden age to our days, most people is thinking that the winner takes it all. On the contrary, the economists are wondering why sometimes the looser can take part of it or can take it all, if the others are not interested.

As a chance of survival into the economic jungle, when globalization seems to be the single way to perform, when the information is spreaded with the speed of our thoughts, an essential place has been billed to the financial analysis as part of the economic global analysis trend.

The specific elements of the global economy (i.e.: economical freedom, globalization, competition, changing the economy based on industrialization with the economy based on knowledge and information, social and ecological challenges, global financial crises) decided also the new items to be solved by any company, both with economic and social

responsibilities, not only for their own profit but also for society improvement.

The global economic environment of our time being, with its specific elements, is asking to the companies for new performance standards and these standards are beyond the economic territories.

In the next, our research is trying to highlight the importance of the financial analysis if is completed with social information about the company, in case of interest and how the financial statements should include such social and ecological information. Considering these aspects, we assume as a must, the integration within the development strategy of a company by social and environment standards elements aiming to perform the activities sustainability and the harmonization of its objectives.

This study tries also to treat and analyze the subject of performance at the Romanian company's level and the most important question is how the performance should be measured considering that, social and ecological information are not reflected direct as indicators in our financial statements derived by the present accounting and tax legislation.

2. The performance concept

Regarding the state of knowledge, the concept of performance has seen a remarkable evolution, so that if up during the 50s years, all definitions references to financial measures of performance, which is particularly appreciated by the couple costs / benefits subsequently being used and other measures such as quality offered to customers (up during the 90s years) currently, performance concept has evolved to a comprehensive approach including financial aspects and the non-financial aspects which relate, mainly, to the elements of social responsibility.

If the last century has in the center the financial performance, currently economic entities have realized that this is only the result of the race, but the race itself and the determinant of success racing future is what today, in the context of sustainable development of society, call overall performance.

The overall performance of the entity involves the aggregation of economic performance, with the social and environmental performance. All economic entities are claiming performance so that performance management has become a tool not only useful but also indispensable, unable to speak of performance without proper management, performance evaluation and in this context, is a key to management.

In this article vision the research is limited for financial indicators for a general economic and financial analysis as the following:

1. **company's ability to generate profit**, with indicators such as: commercial margin, EBITDA, operational net profit, commercial

profitability, return on assets, sales revenue, cost of acquisitions, production cost,

2. **company's ability to pay its debts**, with indicators such as: liquidity-ability to pay short-term debts, solvency- ability to pay debts on short, medium and long terms

As the results of medical tests aim to assess the health of a person, the same applies to the interpretation of financial results (indicators) obtained for the assessment of the "financial health" of a company.

Economic and financial results obtained are assessed by

-comparison with the values obtained for the same company in prior periods, to appreciate the time evolution of the "state of financial health"

-or comparing with the averages registered or recommended for different areas and industries for various types of companies.

Depending on the objectives pursued by the economical-financial diagnosis of a company and depending on the assessment of the results, we can arrive at different conclusions, of which I would mention:

- the financial evolution of the company (overall or industry analysis) their performance has improved compared to the prior period, but compared to the average values of branch activity can be seen as a company is much below these performances;

- the financial evolution of the company (overall or industry analysis) own performance deteriorated from the prior period, but compared to the average values of branch activity can be seen that the company lags far more than these performances.

Depending on the conclusions of the financial diagnosis, which occurs we can identify the strengths and weaknesses of the company, as the first step to prepare a corrective action plan in the short, medium or long term, in order to recover, maintain or optimize "state of financial health" of the company.

In a separate note, all the above concernings for management level, inside the company, would also arise a kind of interest for the investors, too.

But the investors are firstly looking by outside. They are looking for the elements impacting the value of the company in their eyes. As a general rule, the primary information are gathered by mass-media and following, if a private investor wants to make his own short investigation, the next step is the public information which can be asses.

Our research intends to mirror how usefull or not, are the public information provided by the Ministry of Finance official website, for any investor interested to find a primary diagnosis for a company with Romanian residence.

3. Research methodology

Taking into accounts the limits of this article, we decided to analyze two important indicators: solvency and liquidity of a company (picked from the internet www.mfinante.ro by chance).

The financial data and information are extracted from the financial statements published by the Ministry Of Finance on its web page www.mfinante.ro, namely the financial statements as for 31.12.2015 and the balance sheet founded also on the company web page, with data and information as for 30.09.2016.

This financial database is used for indicators calculation in the next passage.

The economic analysis using the company's financial situation *is a methodological study of the company development stage in terms of financial structure and solvency,*

starting from:

1. the balance sheet,
2. the income statement, annexes, a
3. and the corresponding period as of 31.12.2015 and of 30.09.2016 (info provided by company management on its website).

4. An empirical case study

In this context this analysis aims to capture key aspects of the business in terms of economic and financial developments to interpret and recognize trends that can fit future evolution of company solvency on short time (less than 1 year)

As a matter of fact will be analysed the impact of an external event in the health company during for less than one month).

Table no.1. Indicators from Y2015 financial statements

INDICATORS NAME	Value (lei)
1	2
FIXXED ASSETS - TOTAL	34162
CURRENT ASSETS- TOTAL:	11808156
Stocks	3312401
Receivables	8353627
Cash and equivalent	142128
ADVANCE EXPENSES	0
DEBTS	10577674
ADVANCE REVENUE	0
PROVISIONS	0

SOCIAL CAPITAL - TOTAL:	1264644
Subscribed and paid capital	335200
Indicators from the profit and loss account	
TURNOVER	11971596
TOTAL INCOME	11991079
TOTAL EXPENSES	11031158
Brut Profit or loss	
-Profit	959921
-Loss	0
NET Profit or loss	
-Profit	806334
-Loss	0
Taxes (16%)	153587
Indicators for salaries	267000
No of employees	7
Type of activity under CAEN clasification	Trade, import & export for furniture and other home articles

Source: www.mfinante.ro accessed at 14.12.2017

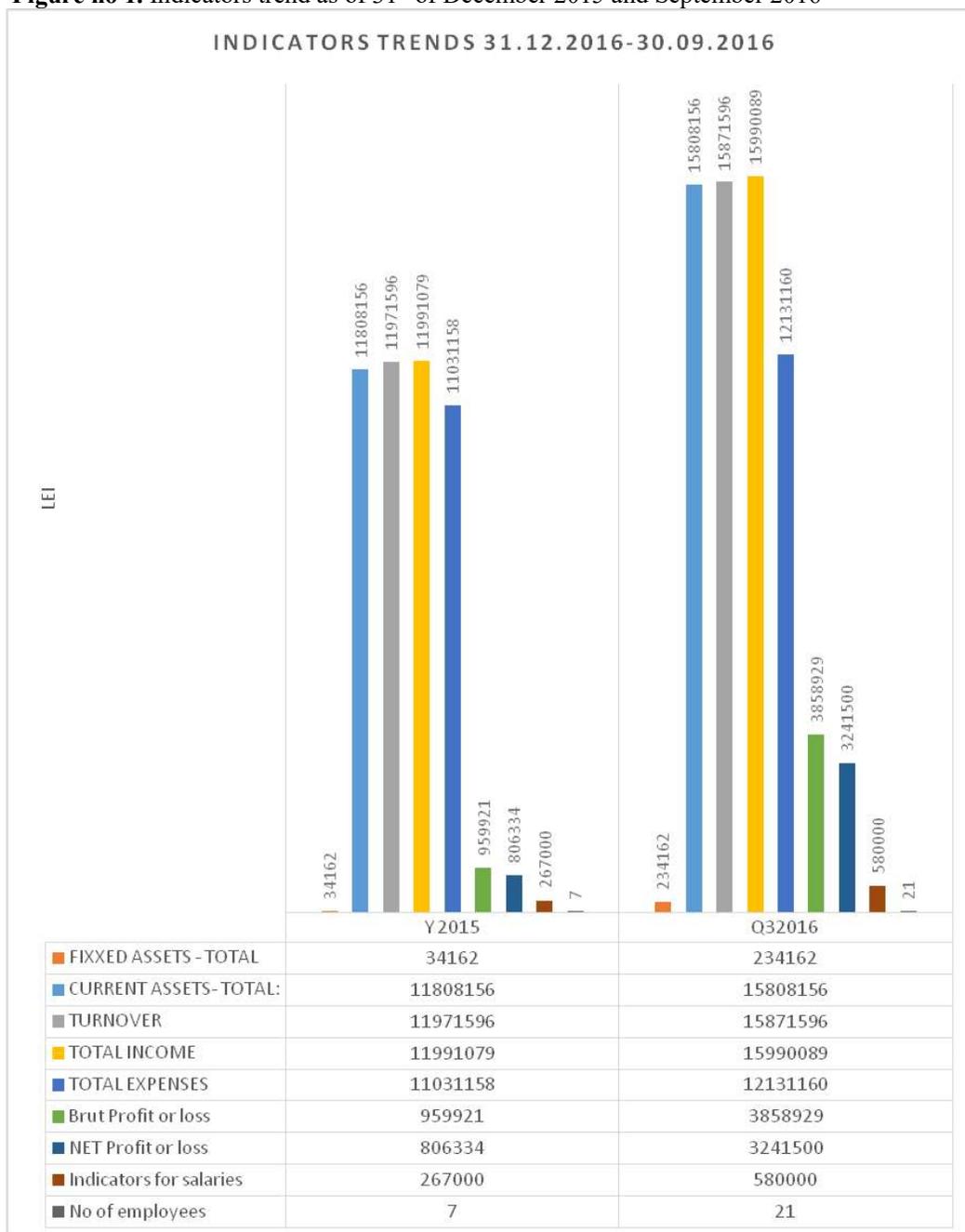
Table no.2. Indicators from Q3 2016 Balance sheet

INDICATORS NAME	Value (lei)
1	2
FIXXED ASSETS - TOTAL	234162
CURRENT ASSETS- TOTAL:	15808156
Stocks	2312401
Receivables	10353627
Cash and equivalents	3142128
ADVANCE EXPENSES	0
DEBTS	5577674
ADVANCE REVENUE	0
PROVISIONS	0
SOCIAL CAPITAL - TOTAL:	1264644

Subscribed and paid capital	335200
Indicators from the profit and loss account	
TURNOVER	15871596
TOTAL INCOME	15990089
TOTAL EXPENSES	12131160
Brut Profit or loss	
-Profit	3858929
-Loss	0
NET Profit or loss	
-Profit	3241500
-Loss	0
Taxes (16%)	617429
Indicators for salaries	580000
No of employees	21
Type of activity under CAEN clasification	Trade, import & export for furniture and other home articles

Source: www.marne.ro accessed at 14.02.2017

Figure no 1. Indicators trend as of 31st of December 2015 and September 2016



Source: made by the author

As the figure above we could say that the company is in a positive way of living: **is generating profit and has the capacity to pay its debts.**

As a matter of number facts, we can observe that, the entire company assets (fixed and current) are increasingly in a better way and the profit accounts registered high good steps.

So, we can conclude using this kind of information source that the company is in a good health and any investor should find it as an attractive investment.

We also note that the number of employees and the salaries registered a growing up trend and this information could confirm at first sight that a social responsibility is taken by the management of this company in a good way.

But, let's imagine how this lovely picture is changed by a simple TV news or an article spreaded into a national newspaper. Because of an innopinate control made by the fiscal state bodies at the level of several companies acting in the same commercial area as the above company, their activities were closed and the legal representatives went under the fiscal investigations motivated by a fiscal bad behavior of a couple of common suppliers (not paying their taxes).

Therefore, the company fall apart, the activity was suspended, the employees were fired, the creditors were not able to recover their money. So, the good health of the company as of September 2016, is changed into an worse scenario at the end of October 2016 and the value for investments seems to be down or better said seems to be zero.

In this case the question for everybody should be like: are really mirroring the financial statements the health of any company?

What about the general principle of accountancy: to reflect the company as a mirror?

It seems that financial statements are only a tools not the entire stage and the actors are many others in the whole picture, but this accountancy mirror cannot reflects them all.

Therefore, any investors would read some financial indicators bu should investigate many others elememnts in order to assure for a future investment.

Conclusions

The idea developed throughout this article was to highlight the risk of using the financial indicators without any kind of external elements. We showed in a limited analysis how to get a better understanding of the financial indicators used in this area, even quantitative or qualitative, with a view from outside, as an investor interested to achieve one of the best choice in Romanian market, with a limited information at its disposal,

namely the official website of the Ministry of Finance. If from a day to another the health company could be changed so easily by an external event (fiscal control for example), how trustable are the figures about company: having capacity to generate profit, having the capacity to pay its debts, having the capacity to hire more people, being able to a continuously increasing commercial activity, if at the end of the month all of this are suddenly gone and the company enter a process of insolvency. Therefore, our article present a form of how to manage to analyze the economic situation for a company only by the public information gathered through the internet and is looking for a suitable answer on the consequently question: Is the accountancy the real mirror of any company?

To be or not to be, that's the question!

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