

INFORMATION SYSTEM OF THE FINANCIAL ANALYSIS

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ABSTRACT: *Financial analysis provides the information necessary for decision making, and also helps both the external and internal users of these. The results of the financial analysis work are dependent on the quality, accuracy, relevance and effectiveness of the information collected, and processed. Essential sources of information for financial analysis are financial statements, which are considered the raw material of financial analysis. One of the financial statements -the balance sheet - provides information about assets, liabilities, equity, liquidity, solvency, risk, financial flexibility. The profit and loss account is a synthesis accounting document, part of the financial statement reporting enterprise financial performances during of a specified accounting period and summarizes all revenues earned and expenses of an accounting period and reports the results.*

KEY WORDS: *financial information, economical information, usefulness, accuracy, financial statement.*

JEL CLASSIFICATION: *M21, M41.*

1. INTRODUCTION

Information system for financial analysis is essential because financial analysis is based mainly on information and in turn financial analysis provides the information necessary for decision making. Financial analysis requires the use of an information system to allowing knowledge of all phenomena and processes occurring within and outside the entity.

By its content financial analysis provide financial information which helps both the external and internal users, and the knowledge of these is necessary in order to reflect the entity functioning. Knowledge means understanding the information at the level when decisions can be taken (Popescu, 2009).

For information to be exploited effectively in the management process it must meet the following requirements:

- to be useful in the process of knowledge;

- to be accurate and to reflect accurately and objectively analyzed phenomenon;
- to reflect causal relationships of economic phenomena.

Financial statement analysis is an exceptionally powerful tool for a variety of users of financial statements, each having different objectives in learning about the financial circumstances of the entity.

2. INFORMATION TYPOLOGY AND THE MAIN FEATURES OF INFORMATION

Information system is essential to the financial analysis and it is formed of two categories of sources: external sources and internal sources generated by the internal process. External sources generate the information necessary for the orientation of the entity activity into the complex context of economy in order to achieving its specific objectives and internal sources reflect the proper functioning of the entity.

In the literature there is different classification of the information using different criteria.

Depending on their nature information can be: economical, financial, technically, technologically, political, legal, social and ecological.

In the financial analysis essential are economical and financial information in order to reflect the performances of the entity, expressed by qualitative and quantitative indicators.

From the point of view of their origin information is:

- Internal information (endogenous) generated inside the entity included in the activity programs and plans, accounting documents (especially financial statement);
- External information (exogenous) which is formed outside the entity and reflected in various economic and financial publications, legislation, from the banking system, statistical reports.

From a functional point of view the following types of information can be distinguish:

- Plan information, which reflects the current objectives of the entity;
- Normative information, which regulates the different process under rules, norms or standards,
- Actual and effective information, which reflects the real status of the entity functioning, the results achieved in the previous and current periods;
- Estimative information, which estimates the future trends and consequences of the phenomena and processes which will take place in the future.

Depending on their periodicity information can be:

- Current information which reflects the status of the entity at short intervals;
- Periodical information which reflects the status of the entity at larger intervals.

Depending on their role and usefulness in managerial process, we can distinguish:

- Active information used by the decision centres which reflects current activity and can generate real measures during the activity ;
- Passive information which not generate measures or actions of the decision making process, but could be helpful for future decisions.

From the point of view of using the information (Popescu, 2009):

- Fixed information, which is used during a relatively long period (plan and normative information);
- Variable information, which reflects the dynamism of the processes and must be rapidly processed and distributed to the decision centres.

The economic and financial information must comply with the following request (Popescu, 2009):

- The usefulness of the information – the information must be reliable and reasonably understandable for it to be of value to users; reliability is found in information that is free from error.
- The accuracy of the information; all the data must be correctly collected and processed and must be objectively filtered by the receiver,
- The deepness of the information: assuming a complex and complete description of the cause-effect connections of the economic phenomena, such a request increases the effectiveness of the managerial actions.
- The relevance of information – an information is considered relevant if a user can better predict future consequences based on that (information about past events);
- The age of the information – the decision makers should have the information at hand anytime;
- The value of the information – the use of an information must conducted to take the right decision;
- The cost of the information – efficiency of the information depends also on the cost of obtaining it.

The results of the practical analysis activity work are dependent on the quality, quantity, accuracy, relevance and effectiveness of the information collected, and processed.

3. FINANCIAL STATEMENTS - INFORMATION SOURCE FOR FINANCIAL ANALYSIS

Financial statements provide useful information regarding the financial position and performances of an entity, the success of its operations, the policies and strategies of management. Information is useful to a wide range of users, helping in the decision making process: owners, investors, managers, creditors, government regulators.

The qualitative features of information from financial statements are the most important attributes that reveal the usefulness of the information provided by financial statements (OMF 3055/2009):

- *Intelligibility* – the information offered by the financial statement must be easily understood by users; it is assumed that users have sufficient knowledge about business, economic activity, accounting discipline and have the desire to study with maximum attention all the presented information; also information about complex issues which should be included in financial statement due to their relevance in decision making process should be not excluded only because it may be not so understandable for some users.

- *Relevance* – the information must be relevant in order to satisfy informational user's needs; the relevance of information is influenced by its proper nature and significance. Information is considered significant if their omission could influence user's decisions.

- *Comparability* – measurement, quantification and presentation of the financial effect of the transactions and events should be carried out in a consistent manner within the entity and different businesses over the time. It is necessary to inform all the users about accounting policies used in preparing the financial statements, and about any change occurred in such policies, as well as about the effects of such changes. It allows the identification of trends in the financial position and performances of the entity or comparison with other entities.

- *Credibility* – the information is credible unless they contain significant errors, it is not biased, and users can trust that it represents aims accurately and what it is reasonably expected to present. In order to be credible any information from financial statement must be completed. Any omission could make the information to be false, misleading, and not to have a believable character or to become irrelevant.

Financial statements analysis and its tool and techniques provide messages that are not revealed simply by reading the financial statements (Griffn, 2009).

Financial statements are the output of an accounting period and in the same time became an input of the financial analysis and the decision-making process.

3.1. The balance sheet

The balance sheet is called also, the statement of financial position, and it is a logical starting point to assessing an entity's financial position. The balance sheet provides a wealth of valuable information about a business, especially when examined over a period of time (several years) and evaluated in relation to the other financial statements.

Balance sheet, though it shows the size of global result, it doesn't explain his origin or causes that have generated him. The balance sheet shows the classes and amounts of assets, the entity's resource structure, major classes and amounts of liabilities and equity, the capital structure, and provides information about liquidity, solvency, risk, financial flexibility.

The statement is a summary of what the entity owns and what owes to outsiders and to internal owners. By definition a balance sheet must balance and the total assets must be equal with the liabilities and equity, expressed through the accounting equation: $\text{Assets} = \text{Liabilities} + \text{Equity}$

The structure of balance sheet in Romania, according to OMFP.3055/2009, Accounting Regulations in Accordance with European Directives is the following:

- A. Fixed Assets
 - I. Intangible assets
 - II. Tangible assets
 - III. Financial assets
- B. Current assets
 - I. Inventories
 - II. Receivables
 - III. Short-term investments
 - IV. Cash and bank accounts
- C. Prepaid expenses
- D. Debts: amounts payable within one year
- G. Debts: amounts payable within more than one year
- H. Provisions
- I. Deferred income
- J. Capital and reserves
 - I. Subscribed capital (presenting separately the paid-up and unpaid capital)
 - II. Share premiums
 - III. Revaluation reserves
 - IV. Reserves
 - V. Profit/loss carried forward
 - VI. Profit/loss of the financial year

Balance sheet accounts are listed in a logical manner that is dictated by generally accepted accounting principle. The formats utilized of the balance sheet make it useful to all users (analysts, investors or managers).

3.2. The income statement

The income statement is a synthesis accounting document, part of the financial statement reporting enterprise financial performances during of a specified accounting period. The income statement summarizes all revenues earned and expenses of an accounting period and reports the results. The income statement is useful to determine enterprise's net profit or loss (difference between revenue and expenses).

The profit represents the main component of company's wealth and it reflects both the performance and its capacity to reinvest or allow dividends (Popescu, 2009).

The expenses are decreases of the economic benefits recorded during the accounting period, and the revenues are increases of the economic benefits recorded during the accounting period. In income statement expenses and revenues are structured by the activity in 3 segments: operational, financial and extraordinary.

The form of profit and loss account is different from one country to another according to the informational content and ways of displaying the information (Vâlceanu et.al., 2005).

According to the informational content it can distinguish:

- The profit and loss account with the presentation of the revenues and expenses by their nature;
- The profit and loss account with the presentation by the destination of operating expenses.

According to the ways of displaying the information it can distinguish:

- The profit and loss account in the form of a list (vertically) that presents the results step by step;
- The profit and loss account in the form of account (like a bilateral table) where on the left side are presented expenses and profits and on the right side are presented the revenues and losses.

In Romania, according to OMFP.3055/2009, Accounting Regulations in Accordance with European Directives, the content of the Profit and Loss Account is the following:

1. Net turnover
2. Variation in inventory of finite goods and production in progress
3. Production realized by the entity for its own purposes and capitalized
4. Other operating revenue
5. a) Expenses on raw materials and consumable materials
- b) Other external expenses
6. Personnel expenses:
 - a) Salaries
 - b) Social protection expenses with a separate indication of those covering pensions
7. a) Adjusting value on fixed tangible and intangible assets
- b) Adjusting value on current assets, in case of those exceeding adjusting value which are normal in the entity
8. Other operating expenses
9. Revenues from participation interest with distinct indication of those obtained from affiliated entities
10. Revenues from other investments and credentials which are part of fixed assets with distinct indication of those obtained from affiliated entities
11. Other interest receivable and similar revenues with distinct indication of those obtained from affiliated entities
12. Adjusting value on financial assets and investments held as current assets
13. Interests payable and similar expenses with distinct indication of those obtained from affiliated entities
14. Profit or loss from ordinary activity
15. Extraordinary revenues
16. Extraordinary expenses
17. Profit or loss from extraordinary activity
18. Profit tax
19. Other taxes that do not appear above
20. Profit or loss of the financial exercise

In financial analysis it is used the structure of profit and loss account taking into consideration five levels corresponding to the activity types, economical, financial and extraordinary which allows the determination of the results flow as a return margins – (Petrescu, 2010).

4. CONCLUSIONS

All users of information provided by financial analysis based their decisions on these in order to: assess the management operating decisions; take decisions on transactions such as purchasing, holding or selling an investment; assess the entity's ability to meet its payment obligations; to establish the profits and dividends distributed.

The results of the financial analysis are significant dependent by: the amount of information; quality of information, the accuracy of the information and efficiency of information.

Financial analysis field of study has extended by taking into consideration the integration of entity' environment study according to the sector trends and development and analysing all information in the context of a competitive field. Due to increasing complexity of the decision making process information provided by the financial analysis is more and more considered an input of strategic diagnosis.

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