The Quality Characteristics of the Financial Information Between Requirement and Utility

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Abstract The objective of this article is to analyze the evolution of the quality criteria of financial information required nowadays by IFAC, the world's largest professional body for effective decisions taken by owners, managers, employees of the entity. Fundamental characteristics are given by relevance and faithful representation. The second category considers verifiability, opportunity, comparability and intelligibility of information. In Romania, by comparing the quality characteristics of the information provided by financial reporting required by the IASB conceptual framework and by national regulations, there is a substantive difference. The relevance of the financial information must express the predictive and confirmatory value so that investors and creditors decisions should be based on the weather in order to help users confirm or adjust previous forecasts. The predictive and confirmatory (feedback) are attributes relevance of financial information. Romania fragmented applies them by Order 3055/2009 [Order no. 3055/2009 for the Approval of the Accounting Regulations in conformity with the European Directives.], without focusing on the relevance and role of undisputed projections based on historical financial information. Given the current state of development of accounting normalization, the ideal is to create a single standard, unitary standard that does not allow exceptions, conditions, exceptions or options.

Keywords Accounting normalization • Fundamental qualitative characteristics • Border of significance • Users of financial statements

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1 Introduction

Information and decisions cannot exist outside knowledge. The sustainable development strategy at the level of the European Union provides a general framework for the emergence from the economic crisis; it addresses the social economic development model from the perspective of a new vision founded on the smart growth based on the knowledge and innovation economy, a sustainable growth, based on a competitive economy. Decisions made by decision makers in the economic and financial environment are important. Ensuring that decision makers have high quality information with all the attributes of this particular quality and they do not hide risks that are capable of hiding undesirable outcomes up to the bankruptcy, remains a notable goal.

As a result of the changes in economic, political, social and cultural domains, accounting is in constant evolution. Legislative changes testify today, in our country, the mandatory transition to the application of IFRS to companies traded on the regulated market that is supervised by the Bucharest Stock Exchange. We support their application because of the advantages these standards of quality offer with regard to the information quality that is worldwide recognized, of the balance sheet taxation methods that lead to temporary differences and not just towards current taxes for governments, of the accounting treatments for each element of the structure of the financial situation (Morariu and Daucianu (Avram) 2013).

The motivation to introduce the IFRS is that of the annual financial statements transparency, of uniform presentation of the information for both its shareholders and potential investors. Introducing IFRS also provides the management the possibility of making the best decisions for future periods, while the IASB general conceptual framework requires relevance and faithful representation as being the basic quality characteristics in Fig. 1.

The relevance of information displays two values: one predictive of prevision, of budgeting of the investments, cash flows, incomes and expenses, etc. and another value of confirmation of previsions. In other words, the quality of current information is extremely important as it represents the basis for future decisions of investment, disinvestment, the attention and the strategy of the entity on the construction of the global outcome, of the present and future cash flows (CECCAR 2013a).

A quarter of a century ago, accountants were using different languages and were offering different interpretations of the same events and transactions; today, for most accounting specialists from all countries, the watchword is internationalization.

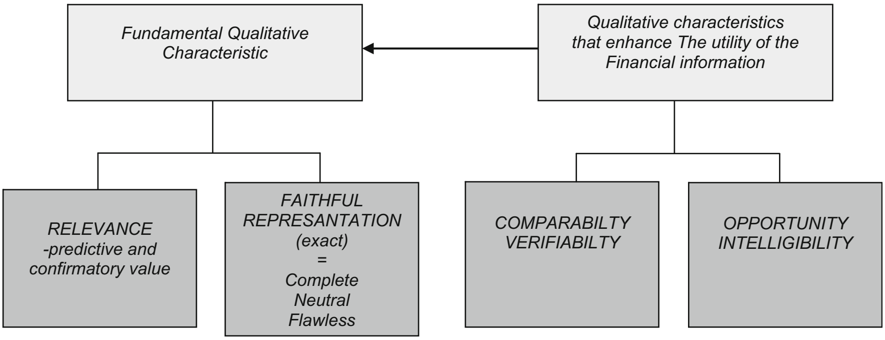

Fig. 1 Quality characteristic of the financial information [*Source* Morariu (2008)]

2 Research Methodology

The objective of this article is to analyze the evolution of the quality criteria of the financial information required nowadays by IFAC, the largest professional body in the world, for effective decisions made by owners, managers, employees of the entity. The significance of the figures in the financial statements, understandable through explanatory notes should represent the economic substance of the phenomena and events that took place at a particular time. The requirement is imposed by the quality characteristics of the information to be useful to the governance/management for the future decisions of the entity: the financial position, performance, net cash flows, earnings per share, etc.

The quality of the financial information is becoming a major focus nowadays, for any entity or group, because they represent the foundation which future prognostication rely on in the viability of any entity. A basic research methodology was used to achieve the proposed objective. For the demarcation of the concept of qualitative characteristics of the information provided by the financial reporting, they have resorted to mechanisms of inductive and deductive research and to the comparative analysis of some of the national accounting standards, both European and international. The comparative analysis regarding the qualitative characteristics of the information has been provided by the financial reporting according to the conceptual frameworks of accounting.

2.1 The Qualitative Characteristics of the Information Provided by the Financial Reporting According to the Conceptual Accounting Framework IASB

Inspired by the U.S. framework, but addressing to a wide range, the international conceptual framework (also called the Framework for the Preparation and

Presentation of the Financial Statements) covers the concepts and principles that make up the reference framework for the presentation of the financial statements for external users. This conceptual framework has been attributed the referential quality for the development of the accounting standards and of coherence instrument of the accounting norms and practices.

IASC (International Accounting Standards Committee) was established in 1973 by the agreement between professional organizations in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, UK and Ireland, respectively the U.S.A. Later other members as donors joined it and in 1993 an agreement was concluded between the IASC and IOSCO (The International Organization of Securities Commissions), through which a group of 30 standards was identified that could be used for the quoting on international capital markets. On the 1st of April, 2001, the IASB took over from the IASC the responsibility of issuing global accounting standards, of high quality, which were to ensure the transparency and comparability of the financial statements. Since 2002, the issued International Standards called IFRS (International Financial Reporting Standards). The conceptual framework adopted in 2001 by the International Accounting Standards Board (IASB) is pro-investor oriented.

In September 2010, the General Conceptual Framework for Financial Reporting issued by the IASB has as objective of financial reporting with the general purpose of providing financial information that will be useful to the existing and potential investors, lenders and other creditors in the decisions they take on with regard to the providing of resources to the reporting entity. The IFRS try to meet the needs of the investors, based on financial and accounting information. “The conceptual accounting framework of IASB is subject to the review in the collaboration with the FASB and the normative accounting research undertaken in the review process seeks to measure the potential and actual consequences of the accounting standard on investor’s behavior” (Balasoiu 2012, p. 31).

IASB has completed the first stage of the process of updating of its conceptual framework in 2010, which stipulated the substitution of two of the chapters of the general Framework for the Preparation and Presentation of Financial Statements in 1989, one of them being chapter Workplace Bullying in Malaysia: Incidence, Consequences and Role of Organisational Support—Qualitative characteristics of useful financial information.

The general Conceptual Framework for Financial Reporting issued by the IASB in September, 2010, does not follow strict and persuasive rules, but on features and concepts that underpin this process. Along with the overall objective of the financial statements, the conceptual framework also presents the quality features.

2.1.1 Fundamental Qualitative Characteristics that Financial Information Must Meet to be Useful to the Maker

Financial information must have predictive value (to be definite, indisputable) to obtain forecasts of future results. Financial information must have value confirmation, especially in assessments/previous forecasts, which can confirm or deny. Financial information must be significant, since the omission of information can influence a user's decision. Financial information must fully describe economic phenomena for the user to fully understand the described phenomenon. Financial information must describe neutral the economic phenomenon for tracking possible influences on the decision.

To be useful and assist users in making good decisions, the implementation of quality characteristics should include: the identification of an economic phenomenon that has the potential to be useful to users of financial information of the reporting entity, identifying the type of information on that phenomenon which would be the most relevant and determining if the information is available and can be exactly represented.

2.1.2 At the Basic Characteristics, for the Information to be Useful Must be Known, Respected Also the Qualitative Amplifiers Characteristics

Comparability, financial information helps the user to understand the similarities and differences between them. Comparability does not refer to a single element but requires at least two elements, and may be in time and space.

Consistency is a means of achieving comparability and refers to using the same methods for determining the financial information either from one period to another, or by two or more reporting entities. Comparability is the goal, consistency helps to achieve that goal. Direct verifiability of financial information requires direct observation of a value or representation, while the indirect financial information verifiability is considering checking formulas or other techniques. Opportunity does not relate only to information of reporting period but also to old information because it may be used to make predictions. Understandability of financial information exists if they are classified, characterized and presented clearly and concisely. Information on the complex inherent phenomena should not be excluded from the financial reports for they are easily understood.

Transparency, high quality, internal consistency, true and fair view or fair presentation and credibility are not included qualitative characteristics, but are suggested as necessary qualitative characteristics for financial information. These criteria are not qualitative characteristics, but they are part of the overall process of assessing the benefits and costs of providing useful financial information (Ristea et al. 2006).

Table 1 Qualitative characteristics of the information in the financial statements

According to the provisions of IFRS for SMEs adopted by IASB in July, 2009	According to the provisions of the general Framework of IASB the preparation and presentation of the financial statements on the 1st of January, 2005	Conclusions
1. Intelligibility 2. Relevance – Border of significance 3. Reliability – The prevalence of the economic over juridical – Neutrality – Prudence – Completeness 4. Comparability	1. Intelligibility 2. Relevance – Border of significance 3. Credibility – Accurate representation – The prevalence of the economic over juridical – Neutrality – Prudence – Completeness 4. Comparability	The characteristics 1, 2 and 4 are similar. Credibility was replaced by reliability in IFRS for SMEs and by the exact representation in the general conceptual Framework for the financial reports issued by IASB in September, 2010

Source Balasoiu (2012)

2.2 Qualitative Characteristics of the Information Provided by the Financial Reports According to IFRS for SMEs

In Table 1, The International Financial Reporting Standard for SMEs adopted by the IASB in July 2009 presents the same components of the quality characteristics of the financial information presented in the conceptual accounting Framework of the IASB prior to the amendments in 2010.

2.3 The Quality Characteristics of the Information Provided by the Financial Reports According to the Conceptual Accounting Framework in the USA

The American accounting normalization framework entitled the Financial Accounting Standards Board—FASB, was the first normalization entity which created a conceptual framework. This project started even from the creation of FASB in 1973, but the conceptual statement was published in 1978. In addition to the financial reporting's objectives, the qualitative characteristics necessary to an accounting information are set for it to be useful.

The main idea that emerges from the American conceptual framework is that the information provided by the financial statements should be useful. To be useful, a financial statement should feature two main qualities: relevance and credibility (or reliability).

The relevance of the financial statements is given, by the following basic characteristics (Walton 2006):

– The predictive value: increase the user's ability to make predictions.
– The retrospective value: the information has the capacity of confirming or correcting a previous prevision.
– Opportunity: the availability of the information when needed.

Credibility should meet, in its turn, the following basic characteristics (Walton 2006):

– Verifiability: is synonymous to objectivity and presupposes the accurate presentation of the information to be found in reality.
– Neutrality: presupposes that the information should not be conceived in a manner in which it may lead to a particular predetermined outcome or behavior.
– Accurate representation: the fidelity of the representation, also labeled validity.

Under FASB, even if not explicitly stated, prudence in the financial statements is required, because of the uncertainty of the economic environment.

Secondary characteristics of the financial information under U.S. conceptual framework are comparability and consistency. Comparability means that the information allows the achievement of comparisons between different companies. Consistency of the information allows comparisons in time within the same company.

The significance of the information is considered to be an appreciation criterion and may influence the decisions of the users (Ristea et al. 2006). The relation between the users of the financial-accounting information and the qualitative characteristics of this information are presented in Fig. 2.

2.4 The Quality Characteristics of the Information Provided by the Financial Reports According to the Conceptual Accounting Framework in the UK

Defining the first conceptual framework was achieved along with the Accounting Standards Board—ASB in 1990 and labeled as "Statement of principles". Under this framework, the financial statements prepared by the British companies have usefulness as main objective. Nevertheless, utility assumes that the financial information is the significant one. The significance border represents the basic quality.

The main characteristics of the financial information are relevance and reliability. Relevance helps users to assess past, present and future events. Relevance confirms or corrects previous assessments. Credibility is given by the information without error, which helps users to rely on the information in the financial statements (CECCAR 2013b).

According to the British conceptual framework, the usefulness of the information is questioned by the absence of comparability. The information implies comparisons over time within the same enterprise and space, between different businesses. For the information to be comparable, a condition to be met is the

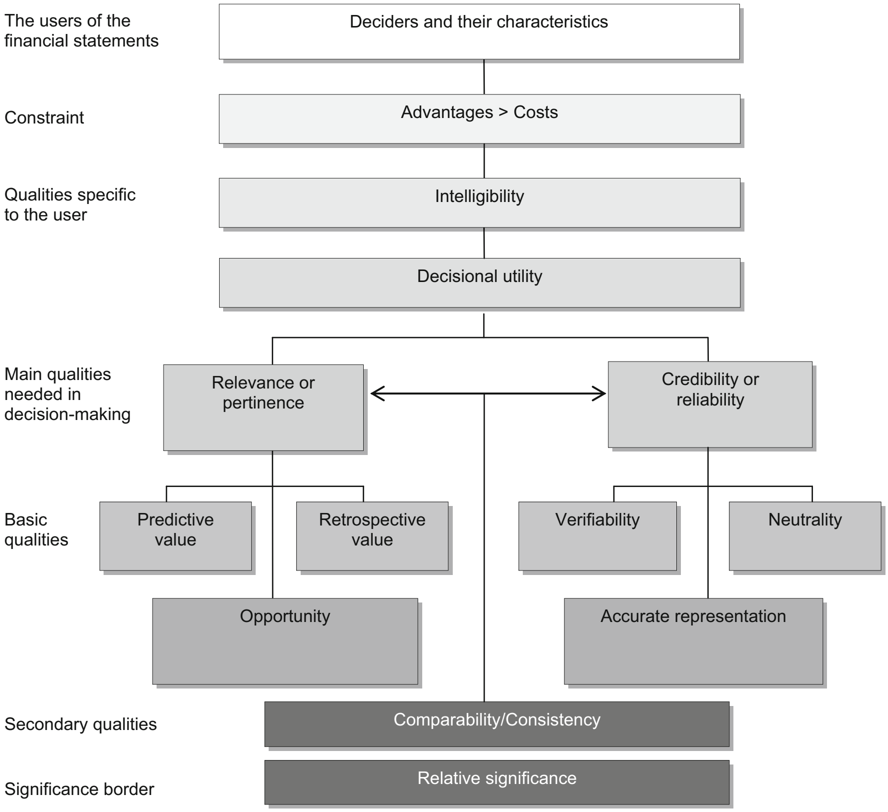

Fig. 2 The relation between the users of the financial-accounting information and the qualitative characteristics of these information (*Source* www.fasb.org/st/index)

continuity of methods by using the same evaluation methods from one financial exercise to another. Intelligibility and adequate presentation imply that the information must be published for users and should be understood by users, in order to make decisions about the reporting enterprise. Also, the presented information should accurately reflect the transaction or event which it proposed to represent (Ristea 2005).

Accounting Standards Board—ASB, also presents the limits of the qualitative characteristics, represented by the compromise between qualities, opportunity and the cost—profit report. The qualitative characteristics issued by the British standards are represented in the following scheme of hierarchy are presented in Fig. 3.

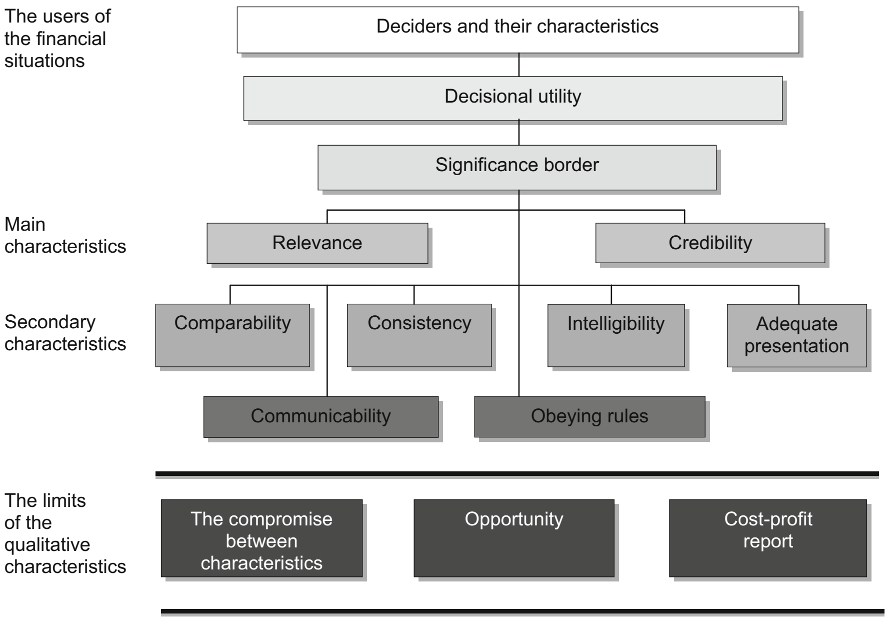

Fig. 3 The scheme of hierarchy of the quality characteristics of the financial information

2.5 Qualitative Characteristics of the Information Provided by the Financial Statements According to the European Directives

The most important directives governing accounting in the European Union are the Fourth Directive regarding the accounts, the Seventh Directive, to which the Modernization Directive, issued in 2003, was added. The European accounting directives are not based on a conceptual accounting framework which will establish the objectives of the financial statements, define the qualitative characteristics of the financial information, identify users and the information needs and ensure the consistency of the norms. This leads to differences between the financial statements of the European Union member countries. These differences are due to the fact that they do not have a uniform accounting doctrine, but two current accounts:

(a) The Anglo-Saxon approach—which attaches importance to the information provided to the shareholders.
(b) The continental approach—based on the precautionary principle, which favors the protection of creditors and of the IRS (Neag 2000).
(c) Compared with the accounting standards issued by the IASB, targeting the large groups listed on the stock, the European accounting directives have a much larger target audience, being applicable to small and medium enterprises.

"The proposal for the directive of the European Parliament and of the Council of the European Union no. 2011/0308 regarding the annual financial statements, the consolidated financial statements and the related reports of certain types of entities, has among its objectives the increasing of the efficiency, clarity and the comparability of the financial reporting and the protection of the needs of users" (Balasoiu 2012, p. 34). In order to stronger harmonize the accounting norms in the European Union, the proposal for the directive provides the elimination or reduction of the number of options available to the Member States of the EU in many aspects: evaluation, interpretation and reporting. Harmonization has convergence as its outcome.

In the proposal for the directive no. 2011/0308, two binding principles are introduced among changes in the framework of the general principles of financial reporting, as follows:

- The significance border turned into mandatory requirement for recognition, assessment, measurement, and presentation of the items in the financial statements;
- The prevalence of substance over form turned into mandatory requirement to present the economic reality of a transaction in the financial statements and not just its legal form.

The general principles of financial reporting, which the information in the financial statements must comply with, concern the disclosure of transactions and the elements of the financial statements.

2.6 *The Qualitative Characteristics of the Information Provided by the Financial Reporting According to the National Accounting Rules*

In Romania, after 1989, the transition from a centralized economy to a market economy, the reforms that marked the Romanian environment, led to a reform of the accounting system. This shift has led to the replacement of the accounting system at that time, which aimed at providing the necessary information for the planning and controlling of the national economy, with another aiming at providing information for both internal users and external ones of the financial information. Thus, a new accounting law was born, Law 82/1991. In 1991, the policy choice made by the Government, through the Ministry of Finance, led to the choice of the French accounting model which founded on certain considerations more or less subjective, including: the political and cultural ties between Romania and France, old in the ancient of times; the ties of the Communist regime in France, more than any country in the Western Europe; the presentation of the French system, by the French experts as a simple, easy to adjust and compatible with European directives one (Dima 2009).

Among the technical difficulties encountered by the reform in 1991, in the specialized literature, a number of drawbacks are reported, including the fact that there are not clearly stipulated the qualitative characteristics that the financial accounting information must satisfy.

Since 1999, OMF no. 403 has been issued on Accounting Regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards, which involves the opening to the Anglo-Saxon concepts and practices and the shift towards the international reference. These rules were applied to the financial statements of 1999 on a representative sample of the companies listed on the Stock Exchange and companies of national interest.

The accounting regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards are structured as follows:

– the Ist Volume, which covers general framework of harmonization of the accounting regulations with the Fourth Directive of the European Economic Community and with the International Accounting Standards, applied for the period of 2000–2005;
– the IInd Volume comprising the general Framework for the preparation and presentation of the financial statements prepared by the International Accounting Standards Committee.

The general framework for the harmonization of the accounting regulations with the IVth Directive of the European Economic Community does not clearly show the qualitative characteristics the financial and accounting information must meet, but a number of accounting rules and principles are found: the principle of continuity, of consistency of methods, the principle prudence, the principle of exercise independence, the principle of separate assessment of the separation of assets and liabilities, the principle of inviolability, the netting principle, the principle of prevalence of substance over form, the principle of the significance border (Feleaga and Ionascu 1998).

In 2001, the Order of the Minister of Public Finance No. 94 was issued on the Accounting regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards which repealed the provisions of the Order 403/1999.[1] The provisions of this Order were applied to a limited number of companies: companies listed on the Bucharest Stock Exchange, some autonomous administrations, national companies, other entities of national interest, as well as specific categories of companies operating in the capital market. In developing this order, Romania received expert assistance from the British experts from the Institute of Chartered Accountants in Scotland

[1] Order no. 403/1999 for the Approval of the Accounting Regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards. Official Monitor no. 480 on the 4th of October, 1999.

(ICAS), and hence the opening of the order towards the International Accounting Standards. The order preserves, to a large extent, the structure of the provisions of European Directive IV. This order paves the way for an efficient accounting system, the users of the financial statements and the financial statement quality characteristics were mentioned in a similar range to that presented in the conceptual framework of the IASB. The users of the financial statements include present and potential investors, employees, creditors, suppliers and other trade creditors, customers, the Government and its institutions, the public. They use financial statements in order to satisfy some of their different needs for information. The quality characteristics are the attributes that determine the usefulness of the information provided by the financial statements. "The four main qualitative characteristics are understandability, relevance, reliability and comparability."[2] (Order no. 94/2001, p. 24).

The Order 94/2001 also describes the limits concerning the relevant and reliable information, which refers to the timeliness of the information provided and to the cost-benefit report. The establishing of a balance between the quality characteristics is often necessary in practice, the application of the main characteristics and of appropriate accounting standards results in the preparation of the financial statements which reflect a true and fair view of the company. In 2005, Order no.1752/2005[3] for the approval of the accounting regulations compliant with the European Directives, amended and prior supplemented, repeal the previous accounting regulations issued by Order no.94/2001. Although the new regulations were stated, the annual financial statements to be drawn up by business people, differentiated by their size criteria (ensuring full compliance with the European directives), these regulations were not considered explicitly the aspects of the accounting referential developed by the IASB and did not include the presentation of the users of the financial statements.

In 2009, the emergence of the Order no. 3055/2009 for the approval of the accounting regulations compliant with the European directives introduced new provisions relating to the general preparation framework and to the presentation of annual financial statements, presenting the users of the financial statements and the qualitative characteristics of the financial statements. The qualitative characteristics are the conditions that determine the usefulness of the information provided by the financial statements. The main quality characteristics are intelligibility, relevance, reliability and comparability.

A prerequisite for the information to be comparable is that the users to be informed about the policies used in preparing the financial statements, about any changes to these policies and the effects of such changes. The conditions that must

[2] Order no. 94/2001 for the Approval of the Accounting Regulations harmonized with the Fourth Directive of the European Economic Community and with the International Accounting Standards. The Official Monitor no. 85 on the 20th of February, 2001.

[3] Order no. 1752/2005 for the Approval of the Accounting Regulations in conformity with the European Directives.

be met in order for the information to be relevant and credible are: the appropriateness of the information for decision-making by users; the benefits from the information should overcome its costs; the existence of a balance between the qualitative characteristics of the financial information.

3 Result

Comparing the qualitative characteristics required by IASB, both in the international regulations and in the U.S., two types of characteristics are found: fundamental and the ones which enhance the usefulness of the financial information. The fundamental characteristics are given by relevance and faithful representation. The second category considers verifiability, opportunity, comparability and the intelligibility of information.

In Romania, comparing the quality characteristics of the information provided by financial reporting required by the IASB general conceptual Framework and the ones required by the national regulations, substantive differences are noted. The relevance of the financial information must express the predictive and confirmatory value so that the decisions of the investors and creditors should be based on previsions in order to help users to confirm or adjust previous previsions. The predictive and confirmatory (feedback) value are the attributes of the relevance of the financial information. Romania applies them in a fragmented manner through OMPF 3055/2009, without focusing on relevance and the undisputed role of the projections based on the historical financial information.

If we apply the assessments of Italian economist Messier on the credibility of information, it should take account of the following: existence, information must reflect actual transactions and existing facts; completeness, the frame provided by information inside or outside entity must be complete; accuracy, the information should not be simple surface data, it is necessary to provide relevant and detailed study elements; classification, information must clearly meet classification parameters on optimization beneficiary benefits and minimize search time; "on time", the information will be calculated not only by its intrinsic fairness, but also by the time needed to obtain; imputation, the conclusions evaluation must be correct; assessment, the information must be the result of a proper assessment, in accordance with generally accepted laws and rules; allocation of rights and obligations related to operations management; description and presentation, the use and availability of information results depending on how they are represented.

The need for full transparency of information which became available element in economic competition, goes by only through the effectiveness of corporate governance and especially the internal control system. A proper regulation in accounting is required as necessary condition, but not sufficient to achieve information transparency. Required information must be part of a process of integrated communication, not only for the purposes of the rules, but must also be consistent with systems of governance, with the position to the reference external environment, and the strategic guidelines of the fund.

Considering all the above, the financial information get to facilitate activities by removing any disturbances and contribute to the achievement of stable development. For the most part, managers use in decision-making information provided by management accounting. Effective decision-making is conditioned by the quality of financial information generated by the two accounting circuits, internal information circuitry or external circuit. The Production “science of accounts” occupies an important part in both the enterprise information environment and the information market.

In conclusion, the financial information is an essential component of economic information system, oriented to the knowledge and management of heritage separate economic values. Accounting and its summary statements represent the most important source of information for both company managers and external users, the two categories are required to know its achieved work and the results.

Financial information provide necessary safety required in decision making and predicting the evolution of economic activity, their use in decision-making information system enhancing in present by automating calculations in management. Nowadays, in many cases financial information has a major flaw—the lack of transparency. Being vital to the decision making, financial information should be continuously improved to become more flexible, relevant and understandable, paying attention and also to its quantitative nature.

4 Conclusions

Analyzing the accounting reference through the lens of the objectives of the financial information it is found that both the IASB general conceptual Framework and the American and British ones have as the objective of the financial reports, with general purpose, the useful information. Unlike the IASB general conceptual framework, the European Accounting Directives have as objective of the reported information the transactions and items of the financial statements.

In order to harmonize the accounting norms both IASB and the European Directives, said the need to reduce the number of alternative of accounting treatments permitted by IFRSs, respectively the number of the accounting options available to the Member States has been declared. Given the current state of the development of the accounting normalization, the ideal is to create a single, unitary standard that does not allow exceptions, conditions, exemptions or options. For the reported information to reflect reality unitarily, it is useful to be understood uniformly, this being achieved by the knowledge and understanding of the economic phenomena, transactions, items and events.

Currently, in Romania the accountants meet difficulties in practice, in the restatement process of the IFRS and towards those provided by OMPF 3055/2009. For proper implementation of tax laws, it should be identified and implemented the accounting and tax treatment as IFRS operates either with assessments to fair value or with revalued value or cost inflation, depreciations, estimations of the value of assets, debts, provisions.

Even if the application of IFRS in the first phase of implementation generates only problems regarding the choosing of the optimal solution, in this case, since there were not clarified all the tax implications, we should not ignore the advantages of their application. IFRS requires the professional accountants a new language and improved knowledge depending on the development of the profession in the world.

The access to the international markets can reduce costs and conduct the international transactions easier, because by applying the IFRS the foreign partners have greater confidence in the "Financial Statements" when partnerships are closed or additional capital is attracted. At the same time the application of the IFRS allows reporting to other similar companies worldwide and allows comparability to the performance of companies globally. "Globally, the strongest financial markets appreciate the international accounting standards as an embodiment of effective competition, knowing that the need of the preparation of additional accounts, in order to enter a foreign market, is actually a brake." (Feleaga 1999, p. 16).

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