

Importance of Evaluation for Financial Reporting

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Abstract

In order to be able to make informed decisions, the managers of the economic entity must know in detail and at all times the real situation of the patrimony. The quality of financial accounting information is closely linked to the possibility of evaluating and knowing how to centralize and collect it.

Evaluation is the operation of appreciating, establishing value, price, number, calculating, counting, etc. Valuation is a process of the accounting method without which it would not be possible to achieve its objective. The evaluation is used to express the value of the existence and movement of the patrimonial elements. The exact knowledge of the volume and structure of the patrimonial elements can ensure at any moment, the obtaining of the information necessary for the decision-making by the managers of the patrimonial entities.

The competitiveness of economic entities is largely influenced by the quality of the decisions necessary to carry out the economic activity that are taken by their management.

Keywords: evaluation, evaluation methods, patrimony

1.Introduction

The issue of valuation is a rather controversial topic in accounting. Valuation involves assigning monetary value to an economic and financial operation.

Valuation is a method of accounting and is the process of quantifying with the help of the monetary standard, "the elements of the financial position and performance of the enterprise". [1,2,3]

In this article, the authors propose to highlight the importance of valuation for financial reporting, because the financial accounting information provided by them depends on the decisions of the users of this information so as to determine the increase in competitiveness of these companies.

Accounting, through annual financial reports, provides those who need (internal and external users) financial-accounting information about the financial position of companies and the results of the financial year. [4]

Users of financial accounting information may be "present and potential investors, banks, customers,

employees, suppliers, government and the manager of the economic entity". [5,6]

In figure 1 we presented the forms of evaluation in accounting. There are several main moments of evaluation, namely: at the entrance to the patrimony; invent it; closing the exercise; or leaving the patrimony. [5,6]

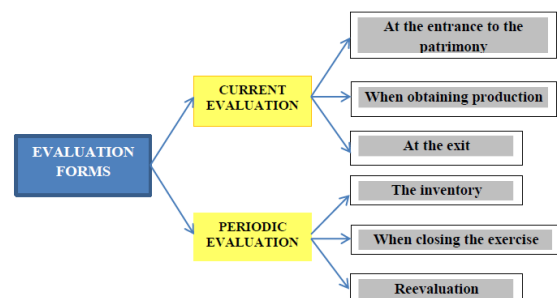


Figure 1. Forms of accounting evaluation

Today, we are witnessing the reformulation of the value accounting model, respectively a reconsideration of the basic principles of valuation. In accounting, it is currently evaluated starting from the historical cost system to the current value system. The historical cost

assessment is questionable, but this is not new. The price increases specific to the inflationary moments show that, by using the historical cost, the accounting creates a distorted image of reality: balance sheet elements, inventory expenses, depreciation expenses are underestimated. As a result, the result of the exercise is overestimated, consequently its distribution determines the distribution of the company's share capital. [6, 7]

In order to improve the quality of the financial statements and to provide credible information, relevant to the users, alternative values to the historical cost are sought. In this sense, the use of fair value is considered to contribute significantly to an improvement in the accounting information provided by the financial statements.

In recent times, the use of fair value has been a hotly debated topic.

Even if it is easy to identify and criticize the shortcomings of fair value accounting, it is quite difficult to find an alternative that provides features of credibility, relevance, and intelligibility, but also comparability.

Fair value accounting is seen as a conceptual revolution in accounting. [8]

The factors that determined the emergence and use of fair value are: the development of the capital market Inflation The need for accounting to be harmonized on a global scale. [9]

Fair value refers to "the amount at which a good could be traded between knowledgeable business partners, interested and independent of each other, or the amount at which a debt can be settled" [10].

2. Material and method

The research methodology is based on a rich bibliography from various sources that consisted of collecting data from the literature and includes books, articles and papers. The data collected through documentation were analyzed, processed formulating the conclusions.

3. Results and discussion

Costs, prices, tariffs and values can be used to evaluate the financial position and results of the enterprise.

The cost includes the set of "efforts", expressed in value, that an enterprise makes in order to procure or produce goods, perform works, provide services, etc. [10,11]

Accounting uses the following costs:

- The acquisition cost that includes all the company's efforts to procure the purchased goods, works and services. It consists of the following: [11,12]

- The price that was negotiated with the suppliers of the goods, services or works purchased;
- expenses for supply, transport and handling;
- any non-deductible taxes to be paid by the buyer are added (eg excise duties, customs fees, customs fees, etc.);
- if tangible assets have been purchased, the costs of installation and commissioning are added.

- The production cost refers to all those expenses (consumptions) of an economic entity necessary to obtain goods from its own production. In other words, the cost of production includes: "the cost of purchasing raw materials and consumables, other direct costs related to production, as well as the share of indirect costs of production allocated rationally as being related to its manufacture". [10,11,12]

- The full commercial cost is calculated for the goods sold and consists of "the cost of acquisition or production of the goods sold plus the selling expenses related to those goods".

Price is defined in the literature as "the equivalent value required by the owner of a good for the sale of that good". [11,12]

From the point of view of evaluation, prices fall into two broad categories in accounting (Figure 2):

- The transaction prices that are used for the actual sales of goods and represent the value equivalent that is accepted by the owner in case of transfer of ownership over the goods. In turn, transaction prices are of two types: [11,12]

- Total selling prices, representing the amount collected or receivable from the customer.

- Sales prices excluding VAT, representing the value at which the revenues resulting from the sale of goods are valued.

- Record prices are used to record stocks of goods held. There are two types:

- Wholesale (wholesale) prices that are used to record merchandise by wholesalers. They consist of the cost of purchasing the goods plus the trader's profit.

- Retail (retail) prices that are used to record the merchandise of retailers. They consist of the purchase cost for the goods sold plus the trader's profit in the form of a trade surcharge and, where applicable, VAT.

- The tariff is equivalent to the sale price, but it is used for the works performed or the services provided.
- Values are used in accounting as equivalent to costs, prices, or fees when considering the two participants in an asset transaction. [11,12] These values usually do not imply the actual completion of the transaction, but are used only to assess the financial position and performance of the enterprise. In accounting, several values are used

for evaluation, the most important ones, according to the legal regulations, are presented in figure 2. The evaluation is related to the other accounting procedures, their application being conditioned by the value expression of all economic operations. The account, for example, can only be used to record economic transactions expressed in cash. As a result, in order to record the results of the inventory in the accounts, they must contain the elements expressed in a natural and monetary standard.[13,14,15]

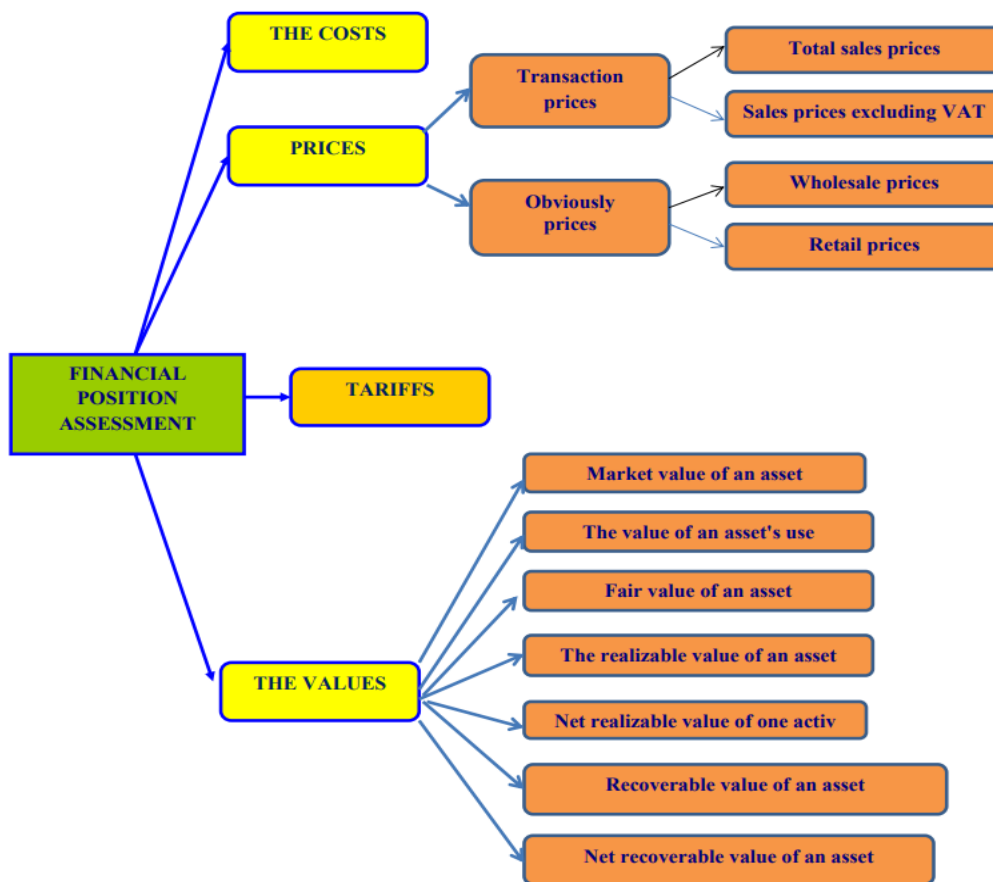


Figure 2. Financial position assessment

The valuation is related to the calculation, because in order to accurately reflect in the accounts the initial balance and the movements of the patrimonial elements in the economic circuit, it is necessary to establish their exact value.

The evaluation operation involves [16]:

- the subject of the evaluation, ie the person who will perform the evaluation, in other words the evaluation specialist, who may have economic, legal, technical training, etc. For example, if a specific construction or equipment is being

evaluated, the evaluator must have knowledge in the field.

- the object to be valued, which may be movable or immovable property, business or intangible assets.

Valuation involves assigning a value to each element of the financial position, of the results of the company recognized according to the recognition criteria. The accounting uses the following valuation bases: [16]

- Historical cost. According to him, the elements of the company's financial position and performance retained the value they had at the time of recognition, for the entire period of their stay in the company.
- Current cost. According to him, the elements of the financial position and the performances of the company should be evaluated at the value at which similar elements would be evaluated that could currently enter the patrimonial unit.
- Achievable value. According to it, the elements of the financial position and the results of the company should be valued at the value that can be obtained if they are sold or exchanged on the market under normal conditions.
- Updated value. According to it, the elements of the financial position and the results of the company should be evaluated at "the present value of the cash flow that it would generate in the future or that are necessary for their settlement". [17]

Currently, in accounting as a basis for evaluation, the historical cost is mainly used, and punctually for some situations, it is combined with the other bases of evaluation.

Firms revalue property, plant and equipment from the balance sheet at the end of the financial year so that they are known at market value (fair), with the presentation of the results of the revaluation in the financial statements prepared for that financial year.

4. Conclusions

The evaluation is imposed by the calculation of the cost of the products, as its components contribute to the establishment of the price through the money standard.

The maintenance of the market and the development of the enterprises are possible in the situation where the economic activity carried out by them results in a high level of competitiveness. The competitiveness of enterprises is influenced by the quality of the decisions necessary to carry out the economic activity that are taken by their management.

As for the basis of evaluation, none of them has a generally valid applicability and does not satisfy absolutely, consequently, the problem of option intervenes in this sense. In Europe, accounting standards have shifted to historical cost while combining with other valuation bases or using alternatives.

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