THE OPINION OF THE AMERICAN LEGISLATORS ON THE BALANCE SHEET

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Abstract: The financial reports seldom represent for the American society the only source of information available directly from the entity. The name for the financial statements has not been standardized yet. The American legislators determine the general rules by the mean of the norms issued for the presentation of the accounts, but without imposing specific names or formats for the documents. The terms used must be explicit, for example the Balance Sheet is also known as Statements of the Financial Position/Condition. Specific for the American companies is the fact they are not compelled to elaborate a standard balance sheet; it has generally the form of a table or a list and the order of the columns and posts is reverse than the one we know.

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In the American society the financial reports represent the most important mean to communicate the accounting information to the factors of decision.

For the factors of decision from the enterprise's external environment, the financial reports often represent the only available information source, directly from the entity, offering precious information that help the investors and creditors to determine the enterprise's capacity to pay the dividend, to repay credits and pay the interests.

The three objectives targeted by the financial reports, determined by the Financial Accounting Standards' Board (FASB) considering the users' and the economic environment's requirements, were:

1. to offer useful information for the investment and crediting decision – the financial reports must offer information that will help the investors and creditors, present and potential ones as well, to take rational decisions regarding the investments and the crediting process; they must be formulated in such a manner to be clear to all those having a certain amount of economic knowledge and wanting to study closely the information offered;
2. to offer useful information for the evaluation of the future cash flows – the financial reports must offer information that will help the investors (owners) and present and potential creditors to determine the volume, the evolution in time and the risk of the future cash ins from dividends and interests as well as the incomes from selling, redemption or the shares and bonds reaching the maturity date;

3. to offer useful information regarding the economic resources, the rights on these resources and their ulterior modifications – the financial reports must offer information about the assets, debts and owners' equity belonging to the enterprise, as well as about the influence of the economic transactions upon these economic categories.

A special attention is given within the financial reporting to "*the accountancy's ethics that require that all the accountants should put in practice the accounting concepts so to present fairly the company's operations and its financial situation, without misleading the users of the financial statements.*" [8]

In the American accounting literature two categories of reports are defined:

- external financial reports of general use;
- systemized financial reports.

The external financial reports of general use "*represent the most important modality of presenting periodically to third parties from the enterprise's external environment the information gathered and processed by the accounting system.*" [9] They are considered of general use because they are addressing to a large range of beneficiaries and they are external because the users are from the enterprise's external environment.

The systemized financial reports are external financial reports of general use that are divided in subcategories of information useful to those interested.

The determining of some categories within the principal categories of elements offers the investors and creditors the possibility to analyze and evaluate the relations existing in the contents of the financial reports.

The financial statements, generally known in the accounting practice as financial reports, made by the American enterprises are referring to:

- balance sheet;
- the profit and loss account;
- the cash flows statement;
- the owners' equity statement;
- the statement of the global return(in various forms of presentation), introduced since 1997;
- the annexes afferent to the financial statements.

We can notice the American legislators have not however regulated by a specific norm the structure and contents of the balance sheet and of the profit and loss account.

"*The American pragmatism and liberalism are reflected in the accounting plan through the absence of some standard models for the financial statements, the American enterprises choosing a presentation able to reflect best their activities and to present useful information as relevant and reliable as possible* " [10].

The exception is the cash flow statement to which the American accounting standard reference system has dedicated the norm FAS 95 The Cash Flows Statements

[8] Ristea M.,Olimid L., Calu D.A. – Comparative Accounting Systems, C.E.C.C.A.R. Publishing House, Bucharest, 2006.

[9] Needles jr. B., Anderson H., Caldwell J. – Basic Principles of Accountancy, Fifth Edition, ARC Publishing House, Chişinău, 2001.

[10] Minu M. – Accountancy as an Instrument of Power, Economic Publishing House, Bucharest, 2000.

modified by the norms FAS 102 *Modification of Norm FAS 95*, *regarding the cash flows statements* and FAS 104 *Modification of Norm FAS 95, regarding the cash flows statements* (the same name as the norm FAS 102).

An American company that has branches is compelled to elaborate and publish consolidated accounts. In this case, the individual accounts are not published and audited. In the absence of branches, the evaluation methods used for the individual accounts of a company are identical to those it should use to elaborate the consolidate accounts.

"*We consider that for the European specialists used to the standardized formats of the financial statements, the difficulty of reading the reports of the American companies derives from then fact there are no standard models, not even for the balance sheet and the profit and loss account.*"[11]

The name of the financial statements is not standardized as well. The American legislators by the norms issued regarding the presentation of the accounts delimit the general rules without impelling precisely defined terms and formats for the accounting documents. The important thing is the terms used to be explicit. The balance sheet is known under many terms, the most frequently used being that of *Balance Sheet*; but other names such *Statements of Financial Position* or *Statements of Financial Condition* are used.

For the statements in which the consolidated accounts are presented, the name of the financial statements is preceded by the word consolidated.

Considering the specific characteristics of the American reporting system, we can notice that in spite of a very diverse terminology, the principle of the permanence of methods is applied within the same company which signifies the user of the financial statements is sure he has financial information stabilized for a long period of time.
A characteristic of the American enterprises is they are not compelled to elaborate a balance sheet in conformity with a standardized frame or scheme. The format of the balance sheet and of the financial statements, in general, is therefore far less rigid than the ones from the continental Europe.
The balance sheet of the American enterprises is presented under the form of table (account) or as a list, presentation preferred by the British and Romanian specialist. The order of the columns and posts from the balance sheet is reverse than the one we are familiar with: the assets start with the current assets and close with the fixed assets, the liabilities start with the current liabilities and closes with the owners' equity.

We consider that this inverse order points out a feature of the American accounting culture that has adapted to the rapid growth of the economy: that of acting on short term, respectively to register in the first position of the balance sheet the liquidities and debts with immediate, current due date.

There are included in the balance sheet presented by the American companies: the assets, the liabilities and the owners' equity.

The 3rd Directive of the American conceptual frame (SFAC 3) defines the elements of the balance sheet, as follows:

- the assets are the elements that generate economic benefits or advantages resulting from past transactions and events;
- the liabilities (the debts) are future possible sacrifices regarding the benefits,

[11] Doinea O. – Annual Financial Statements – National Theory and Methodology, Universitaria Publishing House, Craiova, 2005.

sacrifices that will emit the present obligations;

- the stockholders' equity corresponds to the difference between the assets and liabilities (debts), determining them by the formula:

STOCKHOLDERS' EQUITY = ASSETS – LIABILITIES

We mention that the equity is expressed in the U.S.A. by two terms:

- for an individual enterprise/firm, the term *owners' equity* is used;
- the *stockholders' equity* is used in the case of the companies.

The horizontal presentation of the balance sheet confronts the assets represented by the goods with the liabilities which include the debts and the stockholders' equity, based on such an equation:

ASSETS = DEBTS + STOCKHOLDERS' EQUITY

Similar to Romania or France, the balance sheet of the American companies expresses its elements in historical costs and not in the present values.

The same modality of presentation as in the case of the I.A.S., but the American balance sheet points at the difference current assets, respectively liabilities, and non-current assets (fixed assets), respectively non-current liabilities (stockholders' equity).

The accounting approach of the assets and liabilities is not generally influenced by the type of economic activity's organization, but, in the case of the owners' equity, the section about it from the balance sheet is different depending on the type of economic agent: one-man business, association or corporation (Joint Stock Company). The corporations represent specific juridical entities by law, their owners being the shareholders.

The section of stockholders' equity from a corporation's balance sheet is called owner's capital and has two parts: capital stock and retained profits for the enterprise's interest or accumulation of capital, reflecting in this way in the accountancy the shareholders' rights on the assets and on financing sources of these assets.

Considering the data presented above, our opinion is the American balance sheet allows the formulation of value judgments concerning the risks an enterprise takes on and the evaluation of the future cash flows. Therefore, it is practically recommended to use also two other models of balance sheet that allow the pointing out of the capitals (owners' equity and permanent capitals), of the working capital and of other significant measures of analyze .

We should accentuate that the American companies have no reserves at their creation, those being created ulterior from the benefits. The net benefit, left after the tax process, is divided in dividends and the creation of reserves that remain at the disposition of the company, accumulating in time.

We determine that the accounting approach of the balance sheet which allows the pointing out of the capitals (owners' equity and permanent capitals) is of juridical nature, based on the next equation:

STOCKHOLDERS' EQUITY= ASSETS – DEBTS

In this type of balance sheet format, it is pointed out the percentage of the debts in the company's asset, the stockholders' equity being seen as a residual part, fact that proves the priority of satisfying the necessity of the third parties opposite to stockholders.

The other model of balance sheet points out the working capital is treated differently, as follows:

- either is determined through two modalities, respectively:
  - it results from deducting the short term debts from the current assets;
  - or as the difference between the permanent capitals and the total fixed assets.
- or is not individualized from the necessary of the working capital.

From the analysis of the presented model of balance sheet, we notice the importance given by the American companies to this indicator presented in the first rows of the balance sheet form. The equations on which the elaboration of this type of balance sheet is based are:

CURRENT ASSETS – SHORT TERM DEBTS = WORKING CAPITAL

or

PERM. CAPITALS – TOTAL FIXED ASSETS = WORKING CAPITAL

The expression net working capital is a term used in the specialized literature and is synonymous with the notion of working capital.

„The net working capital is referring to the assets and debts the company is constantly operating with as part of its daily activity. Those are also the most liquid assets, offering information about the firm's solvability. Therefore the *working capital includes the current assets and the short term debts*[12].

Comparative to the preferred American model, the Romanian legislators favor a format of vertical balance sheet, list type which facilitates a financial analysis depending on the liquidity/solvability.

Different from the American reporting system, the Romanian balance sheet, by the compulsory list format, classifies the assets and the liabilities depending on the economic criterion, respectively on the nature (provenience), liquidity and liability being just secondary criteria.

It is also justified to affirm that the presentation of the balance sheet's elements is totally different from the one used in the American balance sheet models, since the Romanian companies point out first of all the fixed assets and the forms of manifestation of the owners' equity are recorded in the final, in the last section of the balance sheet, noted with letter J, called *Capital and reserves* which expresses the basic balance sheet equation:

OWNERS' EQUITY= ASSETS – DEBTS,

equation that can be found in some of the balance sheet models used by the American companies.

In conformity with the accounting norms emitted by the FASB, the national norms stipulate the evaluation of elements at the historical account and not their real value, and they are usually expressed in the balance sheet at their net value.

And in consensus with all the information previously presented, we consider that grouping the debts (liabilities) on two categories of liability: short term debts (current ones) and long term debts (longer than one year) favor the calculus of some indicators such as the working capital, indicator representing a modality of measuring the

[12] Silbiger S. – MBA in 10 days, ANDRESCO Publishing House, Bucharest, 1999.

company's solvability, with the condition it is determined in concordance with the accounting principles generally admitted.

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