

# **ANNUAL FINANCIAL STATEMENTS - INSTRUMENT USED IN THE MANAGEMENT OF ECONOMIC ENTITIES**

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**Abstract:** One of the main functions incumbent on economic and financial analysis is of enterprise's managerial instrument since the competent management of a company means to meet the economic realities in which we operate, be aware of the ups and downs of the entity you run, and this is not possible without relevant and timely analysis. Efficient resources management is to achieve the desired results with as little resources as possible. One of the major goals of enterprise's management is the sound and efficient management of its available resources, due to their limits, in order to ensure a higher level of efficiency and profitability. The management team is interested in all aspects of financial analysis, because the company it leads has to be able to honor and pay both short-term and long-term and debts and it must equally make a profit for shareholders. A variety of indicators (profitability, liquidity, solvency, working capital etc.) can be calculated based on the company's financial statements, and their result will help the management team for decision-making. Company's management necessarily includes the management of its resources, economic management and particularly financial management, as well as decisions on the purchase and distribution of resources, both human and material, as well as the financial and informational. Thus, because of its importance, financial control system can be considered as an indispensable managerial instrument for monitoring the regular activity of company's activity in order to make timely decisions regarding each function, but also the entire company.

**JEL classification:** M21, M41

**Key words:** annual financial statements, financial management, economic entity, financial resources, financial position, efficient resources management

## **1. INTRODUCTION**

Financial statements represent a system of economic and financial indicators which characterize the property's situation and the results obtained at a certain time by the entity. A number of indicators that reflect the true and fair view of the entity's financial position, financial performance and other activities during a financial year can be calculated based on information presented in the financial statements of an economic entity.

Financial and economic information about an entity's financial position, its financial performance and its cash flows are useful in decision-making for the allocation and use of resources, production and distribution of results, which are obtained by using financial statements.

The objective of financial statements is to provide information about the financial position, performance and changes in the company's financial position. All this information meets the common requests of most users, and they let out a series of non-financial and predictive information needs. Information on the financial position are provided by the balance sheet, that on the financial performance by the profit and loss account, information on entity's treasury are presented through cash flows statement and information regarding changes in firm's financial position by the help of distinct situations: financial performance and cash flows of an entity

As an instrument for the analysis of economic and financial balance, annual accounts are used for acknowledging, directing and controlling the balance relations between assets, liabilities and equity, on one hand, and between expenditure and revenue flows, on the other hand.

## **2. IMPORTANCE OF INFORMATION PROVIDED BY ANNUAL FINANCIAL SYSTEMS IN THE MANAGEMENT PROCESS**

In the context of profound economic - financial transformations occurring both nationally and globally, it has become increasingly obvious both the need and opportunity of ongoing and deepening involvement/influence of the information provided by the annual financial statements in the management process, because their credibility and relevance grew significantly in the perception of users.

In recent decades, due to multiple changes in economic, financial and legal domain, accounting information had to adapt, on the international markets, to the changes mentioned to facilitate economic decision-making and risk management in a way that ensures obtaining the transactions' expected effects. Thus, accounting information have part of a broad capitalization on all levels of decision, materializing for this purpose in economic - financial indicators obtained directly from synthetic and analytical accounts, either by calculations based on them, depending on the need and possibility of operational knowledge, or recording such indicator sat a specific time.

Users of information provided by the annual financial statements seek in general to assess the entity's profitability, but especially its risk of non-liquidity, basing on the economic and financial analysis their decisions on the company's ability to generate active treasury flows, performance and changes in financial position. Each user of accounting information has different requirements depending on the interest he pursues. Entity's management considers and uses accounting information provided by the annual financial statements as managerial instruments, shareholders want to know

the viability and profitability of investments made, the banks assess the maintenance and development of property unit, its profitability and the possibility of recovery of amounts borrowed, the state oversees the amount of taxes and fees the firm owes and the creditors monitor short-term solvency and liquidity of the entity, without defending risks related to recovery of loans.

In order to be adequately capitalized, information provided by annual financial statements must be characterized by *reliability*, a parameter that allows comparisons over time and space and is an essential in the decision-making process, and *quality*, specific for information that must meet the entity's internal and external goals while proving *informing rapidity*, necessary for making the optimum decision.

In the context of profound economic transformations - Financial occurring both nationally and globally is increasingly obvious as the need and opportunity of ongoing and deepening of the information provided in the annual management process in the increasing credibility and relevance in their perception of users.

*Precise quantification* of the information provided by the annual financial statements allows adding and comparing economic processes and phenomena using the monetary standard, and *verifiability* of accounting information enables the professional accountants to control content of information, techniques and procedures used in accordance with the objectives set by the entity' management. *Objectivity* of accounting information requires fairness in the organization and management of accounting evidence, in the use of accounting methods and procedures, in the disclosure of accounting information obtained, thus eliminating any personal assessments.

### **3. ROLE OF ANNUAL FINANCIAL STATEMENTS IN THE MANAGERIAL DECISION**

The principal role the analysis holds, both as science and practical activity of evaluation and orientation of the economic life, is to appreciate the performances realized at a certain moment in time by a company, to identify the factors that lead to the impossibility of achieving preset performance levels, to determine these factors' intensity and to explain the manner in which they work, so that the influence of factors with unfavorable impact can be eliminated and the favorable influence of other factors should be amplified so to improve the performance of the enterprise. One of the main functions of economic and financial analysis is being an instrument of the company's management since managing with competence means to know the realities of the economic life in which you develop activity and the advantages and deficits of your business, this being impossible to achieve without a pertinent analysis.

The management team is interested, of course, in all aspects of financial analysis, because the company it leads has to be able to honor short-term and long-term debts, and equally, it must make a profit for shareholders. For this purpose, based on the company's financial statements, a variety of indicators (profitability, liquidity, solvency, working capital etc.) can be calculated, the result of which will help the management team for decision-making.

One of the major objectives of enterprise management should be the rational and efficient management of available resources, because of their limited nature and the need to ensure a higher level of efficiency and profitability. Efficient resource management consists of achieving the desired results with a limited amount of resources possible.

Enterprise management necessarily includes enterprise's resource management, economic management and particularly financial management, and decisions on the purchase and distribution of resources, both in human and material, as well as the financial and information ones. Thus, because of its importance, financial control system can be considered as an indispensable instrument for monitoring regularly the company's activity in order to make timely decisions to be taken on each function, but also on the whole economic unit.

At the level of a socio-technical and organizational system where there is interconnectivity and professional hierarchy, the communication and cooperation is achieved only with human support, since it is the richest resource in the enterprise. Information properly received and processed, lead to timely and accurate decisions. These steps are essential for a successful management team.

Financial management is the link between management and accounting. The manager, based on the financial information processed according to their needs, can effectively evaluate and manage the company's available resources (financial, material and human) in order to achieve the objectives and strategies set for the development and strengthening of the company. Financial management is a set of principles, methods, instruments and actions on which financial decisions are based in the context of achieving organizational objectives formulated by the corporate strategy.

For mitigation of general risks that can influence a company's activity, we must know which are the pressure factors that may occur in the external environment of the firm (legislative, fiscal, financial, social, etc.) and the weaknesses in the internal environment of the firm (lack of goals and overall and financial strategies). Financial management is a top priority in any successful business and can have a considerable effect both on profitability and the company image to customers. Regardless of the size and ownership of the enterprise, financial management assumes most of the responsibility for the financial policy adopted at the microeconomic level that will be applied to achieve the objectives of owners and / or managers of financial resources. The general objective is to ensure effective formation and use of capital, realizing in this way the financial support for the maximization of the company's market value and thus increase shareholder wealth.

Financial management as a core, independent component of the overall management of the organization, performs two key functions, namely:

- planning and control of the organization in terms of specific criteria and means of finance;
- grounding and taking financial decisions, related to achievement of performance goals through programs while taking into account the financial efficiency criteria.

The role of financial management is to create a favorable framework for action, in which will be possible to establish natural connections between the company's financial objectives, its market value, the means and instruments used to measure its financial performance. This triad is absolutely necessary because once the company's objectives have been identified, defined and evaluated their performance at the microeconomic level should be monitored and analyzed.

Production of accounting information answers some strict legal stipulations, requiring economic entities to inform internal and external partners even if, exceeding these requirements imposed by law, entities tend to absorb their production of accounting information for a genuine financial communication strategy.

Financial management of a business development faces many problems, the main ones being:

- determining the reasons for an expansion of firm's activity;
- best choice of business expansion strategies;
- analyzing the financial implications of the activity's enlargement process.

Elaboration of the strategy for growth requires sustainable investment, especially in creating new assets. Therefore, providing conditions financial favorable to the development of growth strategy and respecting the financial rigors associated to investments should represent the first involvement of financial management in ensuring company's economic development, materialized in estimating the main factors that determine the investments' efficiency: total volume of investment costs, estimated lifetime, profit expected, residual value of the investment.

#### **4. CONCLUSIONS**

Many problems that a manager is currently facing, the complexity and diversity of influencing factors that interfere with the management activity, the profound mutations occurred in the political, social and especially economic environment, the frequent technical, technological, legal and mentality changes, require, more than ever, a multifunctional and multidisciplinary training of decision-making officials. Expanding a business activity, analysis and anticipation of failure in business are fundamental problems of management.

Expansion of a company is one of the most important goals of an organization. The financial implications of growth are represented by a continuous need for funding, both on short term and long term. A good cash flow management will reduce the need for financing by the shareholders and creditors of the long-term economic growth and the control exercised by company on the current capital will minimize short-term financing needs. An efficient financial management of a business development incorporates both elements mentioned above.

Market economy is based on competition and competitiveness due to its mechanism of development. Always succeed those managers who have a great capacity for leadership and organization and adapt quickly to market's demands. In the current context, we are witnessing a process in which some enterprises demonstrate their viability and future development opportunities, while others beat up on the spot or fall in a state of bankruptcy. This happens due to lack of general and specific objectives, clearly stated, and strategies necessary for achieving them. The managerial team of companies whose performance is achieved at a low level focuses on solving current problems, basing its work on achieving short term goals without having a clear view of the future business development in accordance with the requirements of the market economy. It is clear that ensuring the viability and economic growth of the enterprise should be based on a long-term strategic plan, well designed and dimensioned, able to ensure a good competitive position and achieve superior economic and financial indicators.

The main objective of management generally consists in maximizing the enterprise's value.

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