1. INTRODUCTION

The article approached a fundamental research type, aimed at studying the concepts of financial reporting treatments related to interpretation of concepts, procedures, and methods used by companies in accounting organisation and disclosure of accounting information in financial reports.

Among the documentary sources used, we mention: specialized books, articles published in various international journals, articles published in journals indexed in international databases, articles published in Romanian, in volumes of scientific conferences held in Romania, or in national magazines, national, European and international regulations.

What concerns the research methods, we mention that in the analysis of the existing international accounting referential, American, European and national, the most often used research method was based on analysis of documents, because the work that aims as research objective the financial reporting, cannot fail to appeal to the specialised literature, standards and accounting rules, various studies of specialized articles which have the advantage of being both a content analysis and an analysis of the evolution of the subject investigated along a period of time.

2. INTERNATIONAL CONCEPTUAL FRAMEWORK

According to US GAAP and IAS / IFRS, the qualitative characteristics of financial statements, as defined by the conceptual framework of the two types of rules, are the same, is different only the way focus on them and their structure. However, the rules of IAS / IFRS classifies the qualitative characteristics of financial information in fundamental and amplifier features.

Fundamental qualitative characteristics include the relevance and faithful representation as primary qualities in the conceptual framework defined by Generally Accepted Accounting Principles. The amplifier features are comparability, verifiability, intelligibility and opportunity (Grosu V., 2015).

US GAAP rules classifies these features as primary and secondary. Primary characteristics are the relevance including timeliness, predictive value and confirmatory information and reliability
with faithful representation, neutrality and verifiability. The secondary characteristics are comparability and consistency and intelligibility, is referred to as a quality characteristic specific to users (SFAC 2).

According to IASB and FASB Conceptual Frameworks, the financial information is relevant when it influences the decisions made by their users, i.e. the difference found between decisions taken by users based on that information and those who do not use them. The financial information is capable of creating a difference in decisions, if it has predictive value, confirmatory value or both (CECCAR, 2011).

The literature presents and treats several categories of qualitative characteristics of accounting information (see Fig. 1).

![Figure 1. Fundamental qualitative characteristics of financial statements](source: own projection)

Qualitative characteristics of accounting information are determined by the accounting systems culture in which the entity operates. In the US and Anglo-Saxon countries, the qualitative characteristics of accounting information is presented explicitly through official documents:

– FASB developed in 1980 the SFAC 2 rule, which contains the qualitative characteristics of accounting information;

– IASB published in 1989, in its conceptual framework, the qualitative characteristics of
financial statements and conditions to be met to obtain a quality information:

−ASB (Accounting Standards Board, the British normalization body) published in 1991 the qualities of financial information.

FASB identifies the qualitative characteristics of accounting information that distinguish a better information (more useful) and inferior information (less useful) for decision making. As can be seen in Fig. 2, the qualitative characteristics can be put in the following hierarchical order:

![Figure 2. Hierarchy of accounting information qualities](source)

As shown in the figure above, qualitative characteristics are divided into basic and fundamental characteristics (consolidated), depending on how they affect the usefulness of the information for decisions. Regardless of classification, each feature contributes to the usefulness of qualitative information from financial reporting in making the decision. However, provision of useful financial information is limited by the omnipresence of an impediment over financial reporting and certain costs that should not exceed the rewards of a reporting period.

3. QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

3.1. UNDERSTANDABILITY

*To be useful, it must be easy to understand.*

Some phenomena are inherently complex and cannot be converted into easily understood phenomena. The exclusion of information regarding these phenomena from the financial statements would lead to the situation that these reports will be incomplete (Order 1802/2014, art. 45, par. 1).

Intelligibility is a key feature that demands for the financial statement data to be easily understood by users. For this purpose it is assumed that users have sufficient knowledge about business and economic activities and accounting concept. Financial statements shall be submitted so as to be understood by all users and complete to give a full, clear and fair view of the assets of a company (Hlaciuc E. et al., 2008).

It can be said that the usefulness and intelligibility go hand in hand. However, the
understandability of financial information varies considerably depending on the user: the mode of decision making, the amount of available information, the source of the information held, information processing ability, etc. For the information to be useful, there must be a connection between users and the decisions they take (Kieso D. et al., 2012). This link creates a practical intelligibility, that is, the quality of information that enables users knowingly to see their significance.

The intelligibility can be improved when the information is classified, characterized and presented clearly and concisely.

For example, the financial statements should be prepared so that they are easily understood by anyone? Or should assume that all readers of the financial statements have completed at least one accounting course? Have sufficient business experience to understand financial reports, regardless of the person preparing them? As you might expect, there are no simple answers to these questions. However, FASB believes that financial information should be understandable to those who are willing to understand:

*The financial information is a tool, like most tools, it can be helpful to those who are unable or unwilling to use it. Their use can be learned, however, also the reports received must provide financial information that can be used by everyone - professionals and non-professionals - who are willing to learn to use them properly (SFAC No. 1, par. 36).*

### 3.2. RELEVANCE

The intelligibility feature itself, certainly is not sufficient to make the information useful.

*To be useful, information must be relevant.*

The relevance of information is the ability to make a difference in a decision (SFAC No. 2, par. 47). Information with no influence on decisions are irrelevant. Financial information is capable of making a difference when it has predictive value, confirmatory value or both (Kieso D. et al., 2012).

The relevance stands with materiality. An information is significant when its omission or misrepresentation may influence the economic decisions of users.

D. Kieso presents, in his work *Intermediate Accounting*, the relevance components, namely: predictive value, confirmatory value and materiality (summarized in Fig. 3). On the same issues, it is based the conceptual accounting frame IASB 2010, and the Romanian one, stated in OMPF 1802/2014.

#### Predictive value

- Financial information has predictive value if have value as an input of predictive processes used by investors to form their expectations about the future.

#### Confirmation value

- Relevant information also helps users to confirm or correct prior expectations, have confirmation value.

#### Materiality

- The information is material if omitting or misstating could influence decisions that users take based on financial reporting information.

*Figure 3. Quality components of relevance*  
*Source: own projection*
3.3. CREDIBILITY

What makes accounting information be trusted? In accordance with FASB “the accounting information is credible to the extent that users can depend on it to represent economic conditions or events that it purports to represent” (SFAC No. 2, par. 62).

In turn, credibility has three basic characteristics:

1. **Verifiability** - Verifiability helps to ensure users that the information is presenting accurate the economic phenomena that it purports to represent (Order 1802/2014, art. 42, par.1), and that we can ensure that it has no errors, seeking the price paid for an asset in a contract or an invoice. In Romanian law, this feature is treated separately, along with other amplifier features. Verification can be direct (using direct observation) or indirect (using a model, formula or other techniques).

2. **Exact representation** – The exact representation refers to the fact that financial information must present phenomena exactly how they proposed to represent and is based on three qualitative characteristics. Therefore, data must be complete, neutral and without errors. An economic phenomenon must contain all necessary information which help the user to understand it (Grosu V., 2015). The information is completely accurate when corresponds to a particular event, such as if the acquisition of land corresponds to a transaction in company records. Exact representation is a must, because most users have neither the time nor the expertise to evaluate the factual content of information (Kieso D. et al., 2012). An important aspect of exact representation of the information is completeness, which means that are provided all necessary information for faithful representation. An omission can generate false or misleading information and therefore are not helpful to the users of financial reporting.

3. **Neutrality** – The neutrality of financial information refers to the general nature of its submission to the effect that they should favour or not a particular category of users. Without error means that a described phenomenon should not contain errors or omissions (Ristea M. et al., 2011). Information is neutral when is not inclined to present the position of an entity in a light better or worse than the actual circumstances, such as where the expected losses from an important process are presented accurately in the notes to the financial statements with all the potential effects on society rather than being minimized as a possible future loss. The neutrality means that a company cannot select information to favour certain stakeholders for others.

The neutrality, in making decisions, is increasingly important. Some experts argue that the FASB should not issue statements that produce undesirable economic effects on an industry or entity. The accounting rules (and the standard setting process) must not be biased, otherwise we will not have reliable financial statements. Without reliable financial statements, users will not use this information in the future.

The Professional Standard No. 21 from Romania - Bookkeeping mission, preparation and presentation of financial statements, in 2127 norm, explains the consistency and credibility of financial statements as including the following:

1. To not contain any obvious abnormality presentation;
2. To be not the result of any mathematical errors;
3. To give a coherent and credible information in relation to knowledge of the entity's business and the environment in which it operates and in relation to documents and information submitted by the entity (CECCAR, 2011).

The Rule 2130 of the same standard, completes the credibility concept as being the quality of financial information to be credible when they do not contain significant errors and are impartial (CECCAR, 2011).
Figure 4. Analysis levels of consistency and credibility of financial statement
Source: processing after CECCAR, Standardul profesional nr. 21: misiunea de ținere a contabilității, întocmirea și prezentarea situațiilor financiare, Ed. a 4-a, rev. și adăugită, Editura CECCAR, Bucharest, 2011, pg. 89

3.4. COMPARABILITY AND CONSISTENCY

Comparability enables comparisons between or among entities.

The comparability, a feature presented in both the conceptual frameworks gives users the ability to compare financial statements of an entity from one year to another as well as with other similar entity. That requires consistency in the accounting policies used for (Grosu V., 2015). As states also the international conceptual framework, the consistency helps to achieve the goal, to provide comparability of financial statements. So the comparability is not the same as the consistency. According to SFAC 1, no change in the accounting methods and policies cannot be achieved without affecting the consistency but there is another way for progress in accounting.

The comparability enables users to identify real similarities and differences of economic events between entities (Kieso D. et al., 2012), and similar information about the same entity related to another date or period (Order 1802/2014, art. 39, par. 1). For example, historically, accounting of pensions in Japan is different from the United States. US entities registered pension costs when they incurred. As a result, it is difficult to compare and evaluate the entity’s financial results of Toyota or Honda with General Motors or Ford. Investors can only make valid assessments if are available comparable information.

For example in our country-specific financial accounting, another type of comparability and consistency is present when an entity applies the same accounting treatment to similar events from one period to another, either in a single period for different entities. Through such an application, the entity presents the consistent use of accounting policies. The idea of consistency does not mean, however, that companies cannot switch from one accounting method to another. An entity may change its methods, but must first demonstrate that the recently adopted method is preferable in exchange for the old one. If approved it, then it shall disclose the nature and effect of changes in accounting and justification in the financial statements for the period in which he made the modification. When there is a change of accounting principles, the auditor generally must make a reference in the audit report. This paragraph identifies the nature of the change and sends the reader to note in the financial statements which discusses in detail the modification made.

When using US GAAP, is allowed some freedom in choosing the alternative treatments competing for certain transactions. For example, under US GAAP, entities may choose from a range of accounting methods for the impairment of long term assets. For example, the amortization represents the cost allocation process of a tangible asset on long-term, such as a building or equipment, during their useful life. Each method can affect different assets. How this choice can affect the ability of investors to make comparisons between entities?

Suppose we are considering buying stock in one of three entities. The annual report indicates that one of the entities uses the accelerated amortization method and two entities use the
linear method of depreciation. The lack of a common method of depreciation make it impossible to compare the performance of the three entities?

Obviously, the comparison between entities would be easier and more meaningful if the three entities would have used the same method of amortization. However, comparisons are impossible not only to entities that use different methods. Of course, similar situations - albeit uneven - is based on the principles used to prepare them, thus providing a higher probability of comparison.

To make significant the entities statements that use different methods, the reporting has a very important role. For example, the first note in the annual report of a listed entity is the disclosure of the used accounting policies. The reader of this note for each of the three entities are aware that companies do not use the same method of amortization. The disclosure of accounting policies allows the reader to make some kind of subjective adjustment to statements of one or more entities and therefore to compensate for using a different method of amortization.

Consistency means that financial statements can be compared in a single entity from one accounting period to another. Consistency is closely linked to the concept of comparability. Both involve the relationship between two numbers, i.e. the comparability of figures between different entities (usually the same period) and comparability between the figures for different periods of a single entity. However, while the accounts are comparable, where they can be compared between one entity and another, the statements are consistent when they can be compared in a single entity from one accounting period to the next.

3.5. SIGNIFICANCE

For information to be useful in accounting, it must be significant for a decision.

The concept of materiality is closely related to relevance and is dealing with the size of error in accounting information. The question is whether the error is large enough to affect reasoning based on accounting information.

Each individual entity determines whether or not information is significant because both nature and / or size of the item (s) to which the information should be considered in the context of separate financial reporting of an entity. The information is insignificant and therefore irrelevant if would not have any impact to substantiate a decision. In short, the information should help in making decisions.

Regarding the assessment of materiality it is one of the most difficult aspects of accounting because it requires to assess both the relative size and importance of the element. However, it is difficult to provide firm guidance in judgment when a certain element is significant or not.

In terms of the evaluation of the financial statements, generally through, the materiality means the level / size of an amount over which the professional believes that is an error, inaccuracy or omission which may affect the regularity and sincerity of the financial statements, also the accurate image of the result, the financial situation of the entity (Toma M., 2009).

Materiality in Anglo-Saxon conception

The level of error in the understanding and interpretation of financial statements will not be considerably affected.

3.6. CONSERVATISM

One of the main features of economic and financial referential, specific to Anglo-Saxon accounting is the conservatism, which represents the practice of using the most optimistic estimate when two amounts estimated are about the same. Is the case where, the main financial situation was the balance sheet and the main user of this situation were the credit institutions, in which it used to
be underestimated deliberately the assets in the balance sheet, because this has led to a greater margin of safe even if the value of assets was considered sufficient to provide security for the loan.

At present, the balance sheet is not the only financial situation, as the asset position is no longer considered necessary. The practice of conservatism is reserved for those situations where there is uncertainty about how to account for a specific operation or transaction: “so, if the two estimates of receivable or payable amounts in the future are about the same, the conservatism dictates using less optimistic estimates; however, if the two amounts are not similar, the conservatism does not dictates necessarily to use the most pessimistic rather than the probable one” (SFAC No. 2, par. 95).

Different accounting rules are based on the conservatism concept. For example, the assets held to be ceded or sold are shown in the balance sheet at a lower cost value or market value. This rule requires for an entity to compare the inventory value to market value or actual value to replace this inventory value, and report to the lesser of the two amounts in the balance sheet at the end.

4. CONCLUSIONS

Interestingly, four of the most influential members of the IASB, representing organizations that develop accounting standards, the United States, Great Britain, Canada and Australia, agree on the primary objective of financial reporting which is to provide useful information in making economic decisions.

The standardization body from UK distinguishes between qualitative characteristics that relate to the information presented and that relate to the presentation itself. Similar to FASB, this group recognizes the relevance, reliability and key features regarding the content. Comparability and understandability are the main qualities related to disclosure.

The concept of conservatism is also recognized in other countries. For example, both the IASB and accounting standard-setting authority in the UK fall the prudence among their qualitative characteristics. The prudence requires caution when accounting estimates are necessary. As US standardization body, these groups recognize that prudence does not justify the deliberate understatement of assets or income or overstatement of liabilities or expenses.

Improving the amplifier quality characteristics are complementary fundamental to qualitative characteristics, distinguishing the relevant information from the less useful information, D. Kieso adding here the opportunity, treated also by the national literature specialists.

Basically, the opportunity lies in making information available to decision makers before losing the ability to influence decisions. Featuring relevant information in a timely manner, it is possible to increase the ability to influence decision making, lack of information exchange may reduce or cancel their current utility. The Order 1802/2014 specifies that the older is the information, is less useful. However, some information may remain timely long after the end of the reporting period because, for example, some users may need to identify and assess the trends.

The qualitative characteristics of financial information helps to identify the types of information that may be useful for current and potential investors, shareholders or creditors, employees, suppliers, customers, government and other creditors, in the decisions that they adopt regarding the reporting entity based on the annual financial statements.

Most often, they do not perform their financial analyses, but employs to analyses published by the specialized press or seek advice from a professional analyst. However, often external users only have access to financial information disclosed by the company as a legal obligation, and their decisions are deeply marked by the quality and accuracy of data provided by issuers of these financial statements.

In conclusion, the qualitative characteristics of financial statements are very important because, based on them, are assured the financial information required to all users, and is reflected the correct financial position, performance and its changes.
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