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Analysis of the Correlation Managerial Decisions - Interim Financial Statements

Claudia-Elena GRIGORAS-ICHIM¹, Lucia MOROSAN-DANILA²

Abstract

The specialized economic literature has debated and analysed from an empirical point of view the importance of the content of the interim financial reports made by companies for their management. The economic reality shows us the disability of the business environment to cope to further legal changes related to taxes, financial and accounting field, correlated with their desire to understand and use the information generated by the financial-accounting reporting. The present article analyses the existence of the link among the data revealed in the interim financial reports and the process of the decision making by the management of these companies for investment and development purposes. This correlation was analysed using statistical tools, such as: logistic regression equation, Varimax rotation method, Wald test, which focused on identifying significant factors to reflect the actual position of a company and factors for substantiating investment and development of decisions, based on a research made on 290 economic operators from the commune cross-border area of Romania, Ukraine and Republic of Moldova. The results of the research are presenting companies futures concerning the results of the company in terms of profitability, decision making and the possibility to reflect the company's position in the interim financial reports.

Keywords: *Managerial decisions; interim financial statement; accounting information; IAS 1; IAS 34.*

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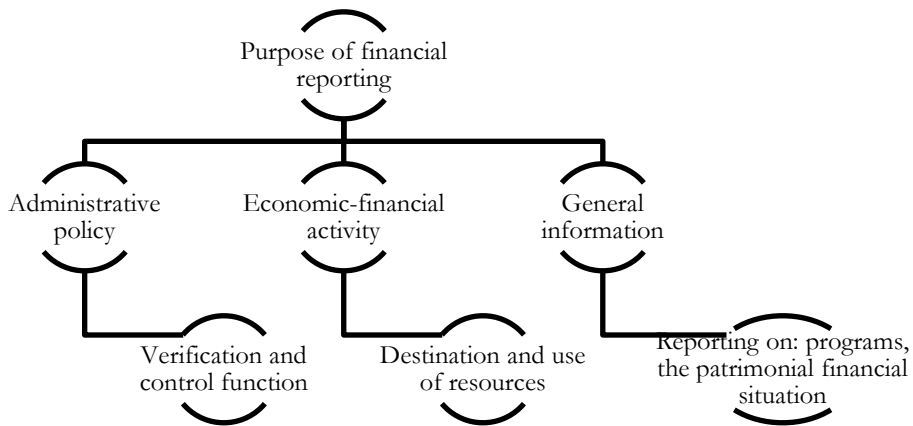


1. Introduction

The managers, at all levels, daily have to make different decisions, in all fields (technical, related to supply, production, employees, financing, payments, etc.)[2]. In this paper we will focus on financial reporting as a mean of information for managerial decisions, especially on interim financial statements.

Because interim financial reporting can explain the function of a vector of information to the various categories of subjects interested in the success or failure of the company, they have to achieve and assure certain clarity and credibility. It is clear that such a representative capacity of interim financial reporting can be hampered by several subjective components and the uncertainty that characterizes the drafting of documents, so the role of auditors is important to express an opinion on their credibility, which represents for the stakeholders of the company, the assurance of the accuracy of the data revealed in the interim financial statements [5],[14].

Figure 1. Function of interim financial information



As for the company's managers, they are primarily interested by the data offered by managerial accounting (as internal source of information), and in the same time, by the public data (revealed in the annual or interim reports), even if they have access to additional financial and management information, which helps them in the planning processes, decision-making and control[6],[10].

If external reports containing common information for all users are to be prepared and submitted in accordance with certain general regulations [8], the stakeholders of the company (especially the managers) can request different records and statements, according to their own standards. Although, International Accounting Standards state that “financial statements that are prepared and presented in accordance with International Financial Reporting Standards” [11] are the only ones to use by internal and external users, apply. Such reports are referred to in international standards as financial statements [9]. The information needed by both the entity's management and third parties may be available through the accounting process, which identifies, measures and communicates economic and financial information in order to enable users to make decisions and reason correctly[3], [7].

2. Problem Statement

The financial statements are intended to provide common information for all categories of users, as specified in IAS 1 Presentation of Financial Statements and Directive 2013/34/EU [1], [4], [13]. Table 1 presents the users that can take managerial decisions based of accounting information presented in financial statements.

Table 1. Users of accounting information involving managerial decisions

Categories of users	Information needs	Objectives pursued
Entity management	It appreciates the degree of achievement of objectives compared to the set levels, establishes the levels to be achieved, the strategies of the company. It's interest of aims at present and future performance.	Follows the substantiation of the research, development, promotion, acquisitions or mergers policies of the company. Establishing the company's financial situation. Diagnosis of financial balance. Increasing the entity's profit. Increasing the value of the entity.
Current shareholders and associates	They are interested in the inherent risk of transactions and the return on their	Pursuing the profitability and recovery of investments. The company's upcoming profits.

	investment, and will maintain or sell or buy the investments. In the same time, they need to know the possibility's company to pay dividends.	<p>The company's capacity in generating long-term cash.</p> <p>The level of liquidity and solvency of the entity.</p> <p>Monitoring the entity's management on how it controls and directs the entity's resources.</p>
Members of the Board of Directors, internal auditors	How to manage the entity and the results obtained by managers.	<p>Pursue the objectives set by the beneficiaries.</p> <p>Auditing and certification of financial statements.</p> <p>Appreciation of the continuity of the exploitation activity.</p> <p>Assessing the possibilities of recovering an entity in difficulty.</p>

3. Aims of the research

The aim of the research is to analyse the existing correlation between the managerial decisions and interim financial statements, based on the perception of the companies involved in the research.

4. Research Methods

The concern for the investigation of the interim financial reporting was generated by the importance that each economic agent must give to this strategic source of information. This research is part of a larger analysis, involving a number of 290 economic operators in the cross-border area Romania-Ukraine-Republic of Moldova: 201 from Romania, 46 from Moldova and 43 from Ukraine, companies with a similar economical context and similarities [12].

The paper studies the correlation using statistical tools, such as: logistic regression equation, Varimax rotation method, Wald test.

5. Findings

5.1. Identifying significant factors presenting the company's worth

In the process of identification of the company's worth, have been detected important components, in this respect, the statistical model contains as a predictive variable the inclusion of a simplification of the display of the organization's accounting reports (FAC3_1).

Table 2. Summary of the statistical model

Values observe		Expected values		Correct estimates %
		Presenting the company's worth	Unimportant benefits	
Presenting the company's worth	Unimportant benefits	3	70	4.1
	Important benefits	2	195	99.0
Total percentage				73.3

The model manages to correctly estimate approximately 73% of the cases analysed based on the data related to the retained factor variables.

Table 3. Summary of the statistical model

	B	S.E.	Wald	df	Sig.	Exp(B)
FAC3_1	0.515	0.144	12.811	1	.000	1.673
Constant	1.048	0.144	53.243	1	.000	2.852

The table shows the estimated values of the regression coefficients of the binary logistic regression model. The values of Sig. lower than the threshold value of 0.05 shows us that all factorial variables of the regression model are statistically significant, and influences the dependency variable benefits on reflecting the real value of the company. Also, the values of the Wald test show us that the regression parameters β_i are different from zero. The null hypothesis is thus rejected.

The following logistic regression equation can be established:

$$\ln(\text{odds_benefits_real_values}) = 1.048 + 0.515 * (\text{FAC3_1})$$

Analysing the estimated values of the regression coefficients, it can be seen that a favourable impact would be obtained on the benefits of

reflecting the company’s worth, if simplifying the data and the shape of displaying them within the interim financial situations of the organization.

5.2. Identifying significant factors for substantiating investment and development decisions

Identifying significant factors for substantiating investment and development decisions, the statistical model contains as a predictive variable the orientation of the content of the interim financial reports towards the detailing of the internal events of the organization and which have a financial impact (FAC1_1).

Table 4. Summary of the statistical model

Values observe		Expected values		Correct estimates %
		Substantiation of investment and development decisions Unimportant benefits	Important benefits	
Substantiation of investment and development decisions	Unimportant benefits	2	65	4.1
	Important benefits	1	202	99.0
Total percentage				75.6

The model manages to correctly estimate approximately 76% of the cases analysed based on the data related to the retained factor variables.

Table 5. Summary of the statistical model

	B	S.E.	Wald	df	Sig.	Exp(B)
FAC1_1	0.459	0.148	9.576	1	0.002	1.583
Constant	1.157	0.147	62.050	1	0.000	3.181

The values of Sig. lower than the threshold value of 0.05 shows us that the factorial variable of the regression model is statistically significant, and influences the variable dependence benefits on the substantiation of investment and development decisions. Also, the Wald test rates show us that the regression parameters β_i are different from zero. The null hypothesis is thus rejected.

The following logistic regression equation can be established:
 $\ln(\text{odds_benefits_investment_decisions}) = 1.157 + 0.459 (\text{FAC1_1})$

Analysing the estimated values of regression coefficients, it can be seen that a favourable impact would be obtained on the benefits of substantiating investment and development decisions by orienting the content of interim financial reports to detailing events within the organization that have a financial impact.

The application of the Principal Components Analysis method led to the retention of 2 factors that explain a proportion of the variation of the answers of approximately 55%.

6. Discussions

The component matrix found by the Varimax rotation method indicates 2 categories in which the results obtained are grouped for the questions regarding the performance registered and declared by the company and its possibility to reflect it within the interim financial statements:

1. The first group of stakeholders who desire a more detailed and comprehensive display of the data in terms of periodic statements.

This group of participants in the research wish that the next aspects are expected to be included in the interim financial statements:

- Companies that have an occasional/periodic activity should be stimulated to prepare and submit interim financial statements, correlated with the oscillations related to the activity.

- In order to decide the recognition, appraisal, distribution and display of an element from the interim financial reporting, the significance threshold should be assessed.

- Existence of significant events and transactions that caused changes in the entity's financial position and performance at the end of the previous annual reporting period.

- Costs that are incurred unequally during the financial year of an entity shall be anticipated or deferred for the purpose of interim reporting, if and only if the anticipation or deferral of that type of cost is also appropriate at the end of the financial year.

- Revenue earned seasonally, cyclically or occasionally during a financial year shall not be anticipated or deferred at the date of an interim reporting.

2. The second group of stakeholders who prefer that the interim financial statements not be affected by the seasonal nature of their activity and that the reporting reflect as accurately as possible the evolution of the entire fiscal period.

This group of participants in the research wish that the next aspects are expected to be included in the interim financial statements:

- The periodicity of the display (annually, semester, once every three months of each month) it should not influence the analysis of the entire year. Therefore, in order to achieve this objective, the evaluations carried out for the interim reporting should be based on the information from the start of the period to the present.
- The diagnosis operations to pursue in elaboration of the periodical financial reports should be structured to cover the requirements of honesty, clarity, and significance of the needed information by stakeholders, is presented in a timely suitable manner.
- The company must respect all the accounting policies, in annual and interim financial statements. Because the regulations offer the possibility to change the accounting methods (in a justified way), the principles valid from the last submitted reports must be applied.
- If there have been large differences (plus or minus) from previous interim statements, the company must state this in the appendices to the financial statements in question.

7. Conclusions

The ultimate goal of the financial statements should always be taken into account. Why do we prepare interim financial statements? Because they are necessary for certain categories of users. As a result, the main purpose of financial statements is to communicate to users data as concrete as possible and to reflect as well as possible the reality, which should not be affected by errors, by omission or by mentioning unimportant information.

The research performed, as well as the calculation of the ratios between the performance registered (or desired) by the companies with the possibility to reflect it in the interim financial reports, shows the direct correlation between the decision making process and information offered by the interim financial statements. In the future, we consider to apply the correlations on the published financial data, according to IAS/IFRS.

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