SHORT INCURSION ON ANNUAL FINANCIAL REPORTS VERSUS INTERIM FINANCIAL REPORTS

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Abstract
Our concern for the analysis of the annual and interim financial reporting was generated by the importance that each entity must give, which in certain periods of its activity is required to give it to this strategic source of information. In each entity questions arise regarding the usefulness of the annual and interim financial reports considering: their (relatively long) preparation time, their limited character and the resources to be allocated for their preparation. Finding a common solution to these problems and implicitly increasing the interest for financial reporting, especially interim, can contribute to increasing the economic performance of the entity, either by reducing unnecessary costs (waste) of time, or by increasing communication and transparency with third parties (creditors, customers, etc.), an appropriate management can act early in the direction of counteracting the negative effects in the activity of the entity or in the direction of preventing possible commercial or production failures, on the overall economic trends in the field in question and on increasing productivity. The article is a theoretical analysis of the annual financial reports versus interim financial reports, starting from international and national regulations, usefulness of comparative data, etc., underlining the particular importance of both types of reports.

Key words: *Interim reporting, International Accounting Standards; Financial reporting; Financial statement.*

JEL Classification: *M41*

I. INTRODUCTION

The financial statements are the final product of the accounting activity. They represent the classification and synthesis of a multitude of financial transactions, some of them being extremely complex (Lungu, 2007).

The annual financial statements are a set of summary accounting documents structured on objectives, in which the elements presented are based on specific rules / criteria for evaluation and recognition in accordance with the accounting rules (Mihalciuc, 2009, Hlaciuc et. al., 2014).

According to the American standardization body, the Financial Accounting Standards Board – FASB (1978), financial statements are the central element of financial reporting, representing the main instrument of communicating accounting information to users of the external environment. For non-entity decision-makers, financial statements, which are usually audited by independent auditors, are often the only source of information available directly from the entity (Boghean et. al., 2009).

In the Basic Principles of Accounting (Belverde et. al, 2001), we often encounter the concept of financial reports that represent the central element of accounting, because they constitute the way of communicating important accounting information to users, respectively, it reflects the entity's image in financial terms (Mihalciuc, 2009).

According to the International Accounting Standards Board (IASB), financial reporting is "a structured financial representation of an entity's financial position and transactions performed" with the objective of providing information on financial position, performance and financial position changes of an entity, a diverse range of users (Melville, 2009). These are basically the classification and synthesis of a cumulative financial transaction, some of them being extremely complex.

Financial statements are the main component of financial reporting. Thus, under the heading of financial statements used by the General Framework of the IASB (the Council for International Accounting Standards), there is a complete set of financial statements that usually includes a balance sheet, a profit and loss account, a statement of changes of the financial position that can be presented in various ways: either as a statement of cash flows, or in the form of notes and other explanatory statements, and may also be supplementary or derivative materials and information that supplement them (Mihalciuc, 2009).

In the content of the IAS 1 standard presentation, we are presented with two types of financial reporting (annual and interim), specifying that its requirements apply only to those external reports that are prepared and presented in accordance with IFRS (Grigoras-Ichim et. al. 2019).

II. FINANCIAL STATEMENTS AS PART OF THE FINANCIAL REPORTING PROCESS

The general framework for the preparation and presentation of financial statements (IASB) specifies that financial statements are part of the financial reporting process and includes the Balance Sheet, Profit and Loss Account, Statement of changes in equity, Statement of cash / cash flows, Accounting Policies and Explanatory Notes.

In this context, general financial statements are those situations designed to meet the needs of users who are not in a position to request reports tailored to their specific information needs, while interim financial reports are those financial reports that are prepared for a shorter period than the financial statement of an entity completed for a year. These must be an update of the last complete set of annual financial statements.

An interim financial report is a financial report that has been established after a complete summary of the situations, for a lower value is almost complete. IAS 34 Interim financing reporting is not required to allow the public to provide interim financial reports; It is not advisable to attend or finish, starting from the end of the interim period, it should be drawn up during the loan process.

With regard to the IASB, they may have problems in terms of national governance, authorization of licenses to use their securities, stock exchanges and accounting bodies. IAS 34 Interim Financing Reporting is applicable where information on interim financing is required to be published, in accordance with international accounting rules, or if they may work.

Most often the government, securities commissions, stock exchanges and bodies can control the taxation of entities whose securities or equity securities are listed in order to make the interim financial reports (Morosan-Danila and Grigoras-Ichim, 2015).

The IASB Council encourages listed entities to publish interim financial reports that comply with the accounting, valuation and information principles set out in the rules. More specifically, these entities are encouraged to:

- prepare interim financial reports at least at the end of the first semester of the financial year;
- make these financial reports available no later than 60 days from the end of the interim period.

As an interim financial reporting content, it contains a complete set of financial statements - as required by IAS 1 Presentation of financial statements - or a condensed set of financial statements - as provided by IAS 34 Interim Financial Reporting - for an interim period (specifying that the period interim is a financial reporting period of less than one financial year) (Gard, 2011).

As defined in the Fourth Directive of the EEC, the set of compulsory accounting summary and reporting documents to be prepared by the entities, at the end of each financial year, is called annual accounts, taking into account the balance sheet, the income statement and the notes to the annual accounts that make up a unitary whole. Lately, this name of annual accounts has been found also in Western European countries for the set of mandatory accounting synthesis and reporting documents, to be prepared by the entity, at the end of each financial year.

In French literature, the financial statements are found under the name of summary accounting documents, and are defined as periodic statements in which the entity's statement and results are presented.

According to Directive 2013/34/EU, the annual financial statements pursue different objectives and not only provide information to investors in the capital markets, but also represent the previous transactions that improve corporate governance, being prepared on a prudent basis, giving a faithful picture of assets, liabilities, financial position and profit or loss of the entity (Grigoras-Ichim, 2017).

In Romania, the accounting law (Accounting Law no. 82/1991), states that "the official documents for presenting the economic-financial situation are the annual financial statements that must provide a true picture of the financial position, financial performance, cash flows and other information related to the activity carried out". As a result, the objective of the annual financial statements is to provide information about the financial position, financial performance and cash flows of an entity, useful to a wide category of stakeholders (Boghean et. al, 2011, Hlaciuc and Deac, 2014).

On the other hand, the interim financial report is a report that contains either a complete set of financial statements or a set of simplified financial statements for an interim period. A set of financial statements normally includes the balance sheet, profit and loss account, cash flow statement, as well as selected explanatory notes. Accounting standards on this subject (for example, Accounting Standard (AS) 25 - Interim Financial Reporting in India, IAS 34 Interim Financial Reporting) provide for the publication of interim financial reports.

The early development, rather than the end-of-year publication of intermediate results, limits the ability to measure because of immature information associated with estimating at a higher cost (Hlaciuc et. al., 2017). However, for entities that require or choose to present interim financial results, the principles of recognition and evaluation contained in the Accounting Standard (AS) 25 under the conditions of interim financial reporting are relevant, as they provide guidelines for the preparation of such results. The standard states that:

- An entity should apply the same accounting policies in its interim financial statements as it applies in its annual financial statements.

- Any changes in the accounting policy made after the date of the most recent annual financial statements must be reflected in the following annual financial statements.

- An entity should report intermediate results on an annual basis so as not to affect the assessment of its annual results. The measurements based on the year involve changes in the estimates of the values reported in the previous interim period of the current financial year (Manabendra, 2004, p. 450).

However, in case of changes in the estimation of the amounts before the final interim period, a separate final report will be prepared for the final interim period, and the modification of the estimates will be presented in a note to the annual financial statements. The same treatment applies for a change in accounting policies, other than those for which the transaction is specified by the accounting standard, and must be reflected by restating the financial statements for the previous interim periods of the current financial year. However, the principles for the recognition of assets, liabilities, revenues and expenses for the interim periods are the same as those of the annual financial statements.

An important aspect to consider when it comes to measuring rules to be adopted in the preparation of interim financial statements is whether the transition period is part of a longer period or a period itself. There are two points of view, integrated and discreet. According to the integrated point of view, the interim period is part of a larger period and is based on the estimation of the annual revenue and expenditure budget. The discrete point of view argues that revenues for each period are not affected by projections of annual results and the methods used to measure earnings are the same for any period, quarter or year. The difference between the two approaches can also be highlighted in terms of the fixed cost. According to the discrete approach, the fixed cost is recognized in each quarter in which it is incurred. In the case of the integrated approach, it is recognized in each quarter, based on the contribution or other reasonable basis, but is deferred for the following quarter with the amount with which the actual value incurred exceeds the recognized amount.

Businesses with seasonal activities also raised questions about connecting revenues and expenses throughout the year. When the incomes are limited to a shorter period and the direct costs are incurred throughout the year, is it appropriate to distribute these costs in proportion to the incomes? Or should there be a homogenization of revenues and expenses throughout the year, as a whole? In this regard, the Accounting Standard (AS) 25 - Interim Financial Reporting in India, provides that revenue generated seasonally or occasionally over a year or costs that are unevenly incurred during the financial year of an entity, should be anticipated or deferred to an interim financial date, if the anticipation or deferral would be related to the end of the entity's financial year.

Estimates and professional judgment are needed to determine the operating result for each period, including for a whole year. Normally, although the periods are shorter, the results are less precise, because the relative importance of the estimates and decisions from the point of view of the material basis, with the reduction of the reported values.

Further, in order to accelerate the elaboration of the intermediate results, it is necessary that the companies rely more on estimates. This task proves to be costly, resource consuming and time consuming. Thus, the more sophisticated the accounting system adopted by the company and the stronger the internal control system, the less it will need to rely on these estimates. And yet investors tend to project the results for a whole year, based on the data provided for shorter periods.

III. ENSURING COMPARABILITY WITHIN THE FINANCIAL STATEMENTS

Figure 1 presents the situations, according to IAS34, para 20, the situations when the entities, that report quarterly or semi-annually, and the fiscal year is corresponding to annual year. However, there are situations in which entities wish to provide additional information. For example, in the case of entities whose activity is dominated by a strong seasonal character, they must present financial information regarding the twelve-month period ended on the interim date, and comparative information on the same basis (CECCAR, 2013).

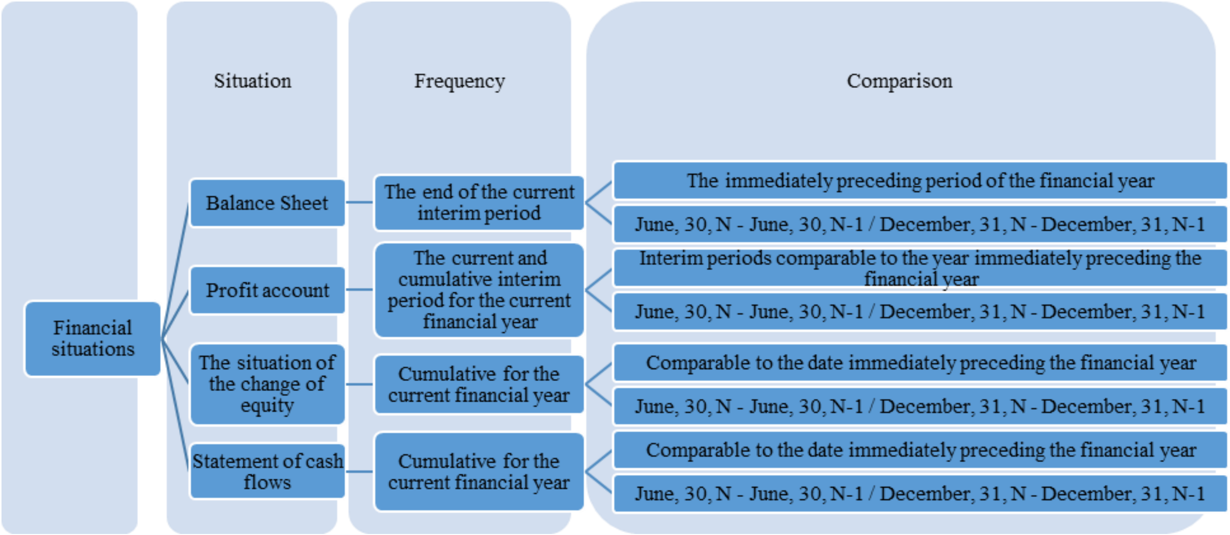

Figure 1 – Comparison of information contained in the interim financial reports

IAS 34 interim financial reporting does not specify the conditions under which there is a change in the end of the reporting entity's financial year. Thus, in paragraph 20 of IAS 34, it is necessary to present comparative information for the profit account, the statement of changes in equity, the statement of cash flows and for comparable periods. Consequently, in the preparation of the interim report based on the new end of the financial year, the company must submit comparative information for the same interim period, which could not have been the basis for the interim financial information previously reported.

When a company is in a position to prepare the first interim financial report, unless the report concerns the first operating period, it should generally include comparisons as presented in the previous sections. In the exceptional situations where the company does not have available in accounting to record the financial information it needs to prepare the comparison of the interim financial statements, the company has no choice, it will have to omit the previous period from the comparative financial statements.

In the circumstances described above, omitting comparative information is a violation of IAS 34 Interim Financial Reporting. Therefore, the interim financial report cannot be described as in accordance with IAS 34 Interim Financial Reporting, except for the omission of the comparative figures of the previous period.

The main arguments in favour of preparing the semi-annual external interim reports, rather than the quarterly ones, are the following:

1. Quarterly reports are likely to be uncertain predictors of complete annual financial results due to seasonal factors that will not be successfully used by external users of financial statements; and

2. Many of the problems of allocating the costs for the period involved in preparing the interim reports can be alleviated in the half-yearly reports, but they are exacerbated when the quarterly reports are prepared. As a result, both the UK and Australia have chosen the discrete basis for preparing the half-yearly interim reports.

On the other hand, the evolution of interim reporting in the United States from semi-annual to quarterly reports seems to be based on beliefs such as:

1. The benefits of completing the quarterly statements outweigh any problems of estimating the complete annual results from the quarterly reports; and

2. The problems of allocating the costs related to the period involved in the preparation of quarterly reports can be alleviated by preparing the interim report on a full basis. Thus, the APB Opinion no. 28 (AICPA) mandates the integrated approach, and this point of view was confirmed by the financial accounting standards in FASB Interpretation no. 18.

Both views regarding the desired frequency of the interim reports are based on the demand of the capital markets regarding the confidentiality costs that reflect the fundamental values of the entities. Supporters of the quarterly reporting base observe that it is a great opportunity for the entity to evaluate its stocks as frequently as possible, thus making the economic results more current. Proponents of the half-yearly reporting base believe that the values estimated in the quarterly financial reports are perceived to be potentially misleading (in terms of estimation capacity and confidentiality limit), and prefer to delay the drafting of the interim report, in order to ensure greater accuracy of prediction. So, finally, it remains an empirical question whether capital markets are better supported / helped by quarterly or semi-annual interim reports?

Regardless of the diversity of approaches to the synthesis accounting documents, in the opinion of most authors (Stefanescu, 2005), they represent the necessary database in the economic decisions made by the different categories of users.

IV. COSTS ASSOCIATED WITH FINANCIAL REPORTING

Regarding the costs involved with the realization of the frequent financial reports, the opinions of the specialists are extremely controversial. Companies complying with international standards, cannot ignore the cost related to annual financial reporting. Our questions is: Interim reporting in efficient to the company?

Some experts say that the IASB Standards and Standards involve a costly infrastructure for reporting, overloading the user with data, and at the same time, putting American companies at a disadvantage abroad (Stice, 2010). More exactly, they consider that quarterly reports as very costly in preparation and counter-productive, as they cause management to focus on short-term gains rather than long-term growth.

Despite fears that quarterly reports lead to reduced management focus on short-term profits, these are still necessary situations in the United States of America. Publicly traded firms must submit quarterly financial statements in accordance with the SEC in 10-Q within 40 days of the end of the quarter for large firms and 45 days for smaller firms. In this age of instant information, it is simply unreasonable to expect users of financial statements to wait a full year to submit financial statements for an entity. The SEC regulations require listed entities to prepare financial statements every quarter. Preparing these interim financial statements involves difficult estimation and allocation problems.

The interim financial statements are prepared using the concept "integral part of the annual period". Using this concept, each quarter is not viewed as a distinct period, but as an integral part of the year, and estimates are used to appropriately allocate a portion of the annual results for each quarter.

Starting from the fact that part of the reporting entities that are listed on a stock exchange, on a regulated EU market, requires the mandatory adoption of IFRS in the elaboration of financial reports. This aspect involves a number of additional costs arising from the application of these rules in both annual and interim reporting.

Romanian companies listed on the stock exchanges have to spend more resources for annual and interim reports, being obliged to draw up financial statements according to IAS (reported to shareholders and the Bucharest Stock Exchange), as well as annual financial statements according to the Accounting Law no. 82/1990 (reported to the Ministry of Public Finance) (Grigoras-Ichim, 2016). We must specify that they must publish through the Bucharest Stock Exchange and quarterly reports on the evolution of the company.

V. CONCLUSION

The interim and annual financial reports are part of the international reporting framework adopted and implemented by companies, through the FASB or the national framework. Both categories of reporting are directed towards meeting the needs of reporting and informing users of accounting information in certain time periods. Regarding the content of financial reports, the interim reports contain the same amount and category of information as the annual reports, but we have already explained that the reporting and correspondence period of the information differs.

The economic-financial communication of the entities through the interim financial reports turns out to be very important in order to gain credibility, trust and legitimization of being increasingly responsible for the needs of their own stakeholders (Mates et. al., 2010). This is why the interim financial reports are aimed at improving relations with the holders of resources, explaining the patrimonial, financial and economic aspects of the entity, the expected increases in the value of the economic capital, thus rendering more perceptible the own quality of the economic activity (Grigoras-Ichim and Morosan-Danila, 2016), the capacity to produce profit in continuously by using certain resources.

But the most important aspect remains the timeliness (topicality) of the interim information that has the role to serve the interests of the users and also it should not be ignored that the opportunity of reporting (on time) contributes simultaneously and significantly to the increase of the usefulness of this type of information.

Today, the role of interim financial reporting is well-known as the main economic-financial communication tool, meant to provide a broad range of stakeholders (investors, financers, customers, suppliers, etc.) with a minimum of knowledge, so that these subjects can - and can meet its own informational and decision-making needs. Any form of communication included, therefore also that of the interim financial reports, is subject to the use of the same language by an issuing subject and the one receiving them.

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