Chapter 4

The Informational Value of the Profit and Loss Account in Line With International Accounting Standards

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ABSTRACT

In the context of the monitoring of businesses through accounting, the profit and loss account is the component that reflects the performance of the enterprise, that is, the extent to which it has achieved its objectives in terms of profit. In the income statement, there are flows that determine the result, understood in principle as a variation in equity during a financial period. Defining the performance of an enterprise is different, depending on the interest of the users, on the principles, conventions, and accounting rules used to determine the outcome. This is what specialists in the field call accounting policies. This chapter examines the profit and loss statement in the context of scarce and expensive resources, which must be used efficiently. The results show that it is necessary for companies to determine efficiency indicators by comparing the effects obtained with the efforts and the resources consumed by the company and operated by the management.

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INTRODUCTION

The main objective of any economic activity is considered to be the «performance», and this objective has proven to be quite difficult in regards of finding an example for it (Caylor, 2010). Recent studies have shown that in the financial information market, the “most” popular product is the profit and loss account because it shows whether or not the enterprise has achieved its basic objective of achieving an acceptable return (He et al., 2017; Hou et al., 2015). Undertakings have the possibility to add to the profit and loss account other items, rows, titles and subtotals when an International Accounting Standard requires it or when such a presentation is required for a true presentation of the financial results of the enterprise. The criteria to be respected in this case are the materiality threshold and the nature and function of the different components of income and expenditure.

In the context of the expansion of transnational companies, users of financial information are interested in the performance of the enterprise determined not on the basis of the accounting result but of the economic result (Jackson & Liu, 2010). This latter indicator cannot be accounted for by the profit and loss account because it has a more comprehensive structure than the accounting result, including items that do not translate through the profit and loss account. Users of financial information are interested in information that the profit and loss account cannot provide (Dennis, 2014). In order to meet their informational needs, decision-makers need to turn to new sources of information. That is why the accountancy profession is called upon to create new tools to remove the information limits of the financial statements. The statement of changes in equity and the cash flow statement are the “new products” of the accounting offer (Ball, 2013). The statement of economic outturn should include the effects of all transactions and events occurring during the year, whether or not related to current operations, and which have an impact on equity (excluding shareholder or associate and distributor contributions). Also, gains or losses accounted for during the year, realized or unrealized, exceptional or extraordinary, participate in the performance of the enterprise and should therefore be included in the statement of comprehensive income.

On the other hand, given that companies can choose their accounting policies within certain limits, the results obtained reflect their objectives and not the reality. In this situation, is the outcome credible and relevant? The objectives of accounting policies differ according to the size of the enterprise and the economic environment in which it operates (Ahrens, 2008). As an example, it is possible to mention the reduction of the published losses, the decrease of the taxable profit, the increase or decrease of the current result, the increase or the decrease of the profit to be distributed, the temporary arrangement of the accounting results in order to reduce the risk perceived by the financial environment.

Many of the reported deficiencies were corrected during the reform (Barth et al., 2008; Cahan & Sun, 2015; Lukka, 2010). Moreover, the principle “nothing is perfect, everything is perfect” also works in accounting. In our opinion, any accounting system, however modern, converging with International Financial Reporting Standards, will never be perfect, because the world economy and, implicitly, the national economy is constantly changing (Richardson, 2011). New trends, new informational needs are emerging, and they pose a challenge to the accounting system and an invitation to reflection for accountants (Chen et al., 2017). The present chapter intends to identify the construct of a set of factors that influence the Profit and Loss Statement in the context of scarce and expensive resources.

This chapter is structured in the following way: in the first section, the authors will introduce a radiography of the current situation regarding the profit and loss account in accordance with the International...