Company’s Economic Reality: A Comparative Analyses and Forecasts Regarding Its Subsequent Evolution of Financial Statements Theories and Their Dynamism

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Abstract
All over the time, the accounting theorists and practitioners focused their attention on the synthesis accounting documents because, by means these documents, the financial position and the corresponding results are periodically rendered. Thus it is essential that the way this presentation is made should allow both some accurate comprehension of any company’s economic reality and carrying on comparative analyses and forecasts regarding its subsequent evolution. This is the very reasons for having been looked for an adequate model to help these purposes to be accomplished. Hence, a series of balance sheet theories issued. The aim our paper hints at was to point out some theoretical aspects, specific to the classic theories on the balance-sheet, aspects that still prove to be present interest.

Keywords: balance sheet, static, dynamic, organic, multiple, theories.

Introduction
It has become common knowledge that the very first two components of the annual financial statements, i.e. the balance sheet and the loss and profit account are the ones to focus most of their users interest. Nothing unexpected as long as this is to be considered the very aim the financial statements hint at, namely the bringing up of the financial position and the profitableness the company reports. The financial position, as well as its change, is rendered in the balance-sheet, while the results, both current and previous, are disclosure in the loss and profit account. The presentation of the values of the two subsequent financial exercises allows an instant view on the annual changes recorded.

The balance-sheet displays the synoptic and systematic value of the business accounting data, concerning the economic means of the company, their resources and the final results. To some degree, they could reflect the level of both quality and quantity indicators, describing the company’s activity. By means of the analysis based on he data within the balance-sheet, there could be considered some correlations between resources and means, between their structures and components, order to reach conclusions regarding the ratio between the means the company possesses and the objectives it is to attain. The analysis might interest the profit and loss account which focuses on the financial database of the management over a given period of time. The analysis function of the financial accounting - through the comparative calculus acquires consistency which allows it a survey of the present related to the past. It is to be examined and compared the present situation in relation with the initial one, the recent outcomes with the results recorded previously, in the hope of making capital out of past experience, or taking decisions about future actions.

The classic balance-sheet theories
The importance and the advantage the balance-sheet has for the management of the company have been stirring both the theorists and the practitioners’ concern in his field of activity. They elaborated and founded a series of theories on the balance-sheet, theories differing from each other in their perspective on the content, the purpose and evaluation bases (1). The most significant theories on the balance sheet are:

1. **The static theory** on the balance sheet, elaborated by Walter le Coutre, that supposes drawing up the balance-sheet in a way to show the situation of the assets and the financial result at a particular moment, that is to say the company’s wealth. The balance relation defining this model is:

The financial result is rendered as a financial source, if it is positive and as a circulating capital in reimbursement, if it is negative. Consequently, the income-expenses difference that constitutes the encourages an increase or a decrease in the company’s wealth (2) the same way the assets-liabilities difference suggests the situation of the owners’ funds. In this particular instance, the balance sheet does not reflect the way the financial result emerges. The supporters of this theory, Herman vet Simon, H. Nicklisch, define it as an organic theory, due to the organic relationship the company entertains with the market it depends on, while the theory’s due to
the organic relationship the company entertains with the market it depends on, while the theory’s opponents (E.Schmalenbach, mainly) called it a static one, just to enhance its opposition to the dynamic theory, by underlining the priority the balance sheet (at a given moment) has over the loss and profit account (over the period of time) 3.

According to the static theory, the assets must include the inventories, accounts receivable, fixed assets as well the intangibles on condition that, for the last ones, there had been made expenses liable to be directly allocated. As for the liabilities there should be recorded: the share capital and the reserve funds (the revenue reserves and the capital reserves) along with the debts (if the last ones suppose legal obligations). Such a perspective allows an analysis of the assets structure, mainly the relation between the fixed assets and the circulating ones, of the liabilities that is the relation between proper sources and debts, as well as the balance between assets and liabilities.

The evaluation of the assets within the static balance-sheet counts on the individual evolution, supposing the going-concern activity, taking as a base for the assessment the historical cost (the purchasing cost or production cost, accordingly). The use of the purchase cost or the production cost as a high-value limit encourage substances preservation.

Herman Veit Simon remarked some shortcomings of the static balance sheet, and suggests that it should be given a dynamic pace, by means of the introduction of some regularization posts and he also found it appropriate to the valuation done at the selling price of the goods to be sold (price that is confined to the price used on the market). The regularization asset-posts hint at the right to future services on payments in advance, while the regularization liability posts hint at future obligations to do some services in return for the amounts the commercial partners pay in advance.

2. The dynamic theory, originated by E. Schmalenbach, states the determining of the annual economic results as the main objective of the balance-sheet. In keeping with this theory, less attention should be paid to the amount and the structure of the company’s worth and more attention should be paid to the changes it is subjected to at a specific moment. The valuation of the elements of the balance-sheet is done in such a way that the profit result from the economic activity could be compared with the previous results or with those specific to different other periods and the efficiency of the activity performed could be measured. The assets posts are thus considered elements foreseeing expenses and products to turn into result. For this reasons, they have a temporary status within the balance-sheet (4). E. Schmalenbach does not show much interest to the result got through a temporary business management but to the way this result was achieved:

“The profit of a company is the letter’s dynamic manifestation, the former being the additional income compared to the expenses of a company and representing the measure of profitableness.

The promoter of the dynamic theory divides all the company’s activity in periods, or in sub periods (i.e. the financial year). For this purpose he introduces the concepts revenues and expenses which he distinguishes from the notions receipts and payments. The balance-sheet is acknowledge the role of taking over the suspended posts” (the assets and the liability) which, excepting for the clear payments (expenses included), are based on the fact that the economic events do not influence the result the same period when the inflows and the outflows are registered. The balance-sheet functions as some regularization account whom Schmalenbach suggestively calls the power deposit of the company” (3).

In order to permit the result to be compare, the valuation based on the market value is not desirable (as it could undergo change), but the cost valuation. It is yet accepted some assessment in keeping with the price of the day for the fixed assets, as they are protected by the market fluctuations. This dynamic theory on the balance-sheet is also influenced by prudence principle that is the profit is stressed on as soon as the goods are realized and not when the market value of the unsold product rises. Schmalenbach recommends that the result should be handled carefully, finding an overestimated profit more unsafe than the underestimated one.

The author of the dynamic theory has the merit of contributing much to the theory and the practice of the financial reporting, establishing some theoretical concepts concerning the drawing both of the balance-sheet and of the profit and loss account. He also insisted on the fact that the main purpose the dynamic balance-sheet looks for is giving the external users accounts and just for this reason, it must be as objective as possible.

3. The organic theory: Stated by Fritz Schmidt, represent a dual concept that supplies the balance-sheet with two functions, namely finding the result at a certain moment and getting knowledge of the means and the resources at work (5). So, the balance-sheet displays both the company’s wealth at particular moment and some results calculus. Every single company is considered a cell in the economy’s body so one could appreciate the result of the company as being positive only if it keeps its relative position within the entire economy, managing to maintain its economic substance (3). Thus, the profit as the result of the inflation must be distinguished from the real profit of time period.

The important element of the theory is considering a valuation model based on the possibility the
expenses are covered. Calculated at their repurchasing cost, under a going-concern assumption. In this instance, the financial result represents the difference between the selling cost and the reproduction cost, and not between the selling cost and the purchasing cost (for goods) or production cost (for products).

Apart from its being able to monetarily express the value and the inner progressive process, the theory of the organic balance-sheet makes use of quantitative expression, stating that, this way, it could assure a steady productive rhythm of the assets.

**Other balance-sheet theories**

In the specialized literature, there are mentioned some other theories such as: the integrated theory, the financial theory, the forecast balance-sheet theory etc. Many of these particular ones are developed approaches to the above-mentioned theories.

We can’t finish without dealing with a recent theory, i.e. the theory of the multiple balance-sheet professor M. Ristea develops in his. “The balance-sheet in the patrimony administration” {we are to employ further on the patrimony term even if, nowadays, it is considered outdate}. According to the author’s opinion, the balance sheet is allotted a series of double-functions, abased on the double representation of the patrimony (2)

So:
- the balance-sheet represent a global and a structural model. It synthetically renders the patrimony, but it also reflects the motions involving the patrimony’s elements (assets and liabilities).
- the balance-sheet represent a state and a motion model. It shows the patrimony’s condition at a certain moment, by means of balances of assets and liabilities accounts. It also reflects the patrimony’s changes. This particular one could be described in the form of a matrix of the motion relation (i.e. inflows, outflows and processes), between the patrimony’s elements. This way defined, the balance-sheet should present an accounts system (and an implicit financial-economic indexes system) to characterize the financial position, the financial result as well as the financial position’s change.
- the balance-sheet represents a reflection and a control model. The balance-sheet assures a subsequent representation of the relations between assets and liabilities but it must offer anticipatory data regarding the relations about the preservation and the rising of the company’s wealth. Such an informative perspective on the balance-sheet is based on the fact that the equilibrium relations characteristic of the double representation (Assets = Liabilities = Financial results and Expenses = financial results = Revenues) are, at same time, efficiency relations.

Taking into account the complex role the balance-sheet should perform, it should be drawn in the form of a set of documents to contain.
- the account balance-sheet, as a basic model, to describe the patrimony as a whole and to focus on its structure.
- Some other models in relation with and converging to the account balance-sheet that are meant to show: the financial result and the profit’s allocation, the revenues and the expenses, the state and the motion of the assets, the state and the motion of the liabilities.

**Conclusions**

Even if developed at the beginning of the 20th century, most of the concepts specific to the three classical theories are also to be found today in the rules concerning the elaboration and drawing of the balance sheet and the profit and loss account. As far as an assessment is concerned, are there to be maintained both the assessment at the historical cost - characteristic of the static and the dynamic theories - and the assessment at the current value at the moment when the financial statements are drawn - characteristic of the organic theory. The matter of advantages or disadvantages of the employing of the two valuation’s bases is still debated and analyzed among the accountant theorists and practitioners. The going-concern principle that stays for the basis of the three classical theories on the balance sheet is still one of the main concepts looked for at the elaboration of the financial statements. The concepts of both the financial and physical capital maintenance - belonging to the organic theory - are still available. It is also to be noticed the which is used to discern the financial position revealed by the present balance sheet (assets - liabilities = owners’ funds).

The actual pattern of the financial situations, a mixture of models specific to various previous theories on the balance sheet, appeared as a natural consequence of the users needs for more and diverse information. Apart from the revealing the instant value of the assets and the liabilities, the financial statements must as well show the way the results are made up, and the cash flows so as to make it possible the study of the degree to which the revenues and the expenses that influenced the financial result were collected and paid. It also must disclosed the changes the company’s capital underwent. The importance paid to the financial statements’ notes is greater and greater nowadays. By means of these notes, it is asked that all the additional data to be disclosure, data liable to contribute to a more accurate report addressed to the users of these financial statements. This set of synthesis accounting documents must permit both a retrospective analysis and a prediction of the company’s
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