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Balance Sheet Taxonomy

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Abstract: The general objective of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity, information that is useful for a wide range of users. For the current paper is very interesting to take into account is the presentation of the important role given to assets even in defining the subject of accounting, both in economic and financial concept.

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1. The Concept of Balance Sheet

The concept of *balance sheet* comes from Italian language from *bilancio* and it was introduced in the circuit of the accounting literature as a *key of double accounting* (Rusu, 1972, pp. 14-15) by Luca Paciolo through his paper *"Summa de Arithmetica, Geometria, Proportioni et Proportionalita"* from 1494, as specific instruments of the double entry accounting. At that time the concept of balance sheet was confused with the one of balance, due to the way of its preparation and structure, with the two sides in balance, and of the fact that at its turn the *bilancio* came from Latin from *bis* and *lanx*, which meant a balance taler in balance.

Currently, the concept of balance sheet refers to that synthesis documents from the composition of the financial situation through which the economic entity is presented from the perspective of the assets owned and operated, but also from the perspective of the sources of financing of these assets. It comprises two parts, namely: one destined to the resources or assets and other one destined to the sources of funding from the part of owners and creditors (Stolowy, Lebas, & Langlois, 2006, p. 64).

2. Structures of the Financial Position

The financial statements of an economic entity, allow in accordance with IAS 1 (par. 7), a structured representation of the financial position and of the financial performances of that entity. To this end, the general objective of the financial statements is to provide information about the financial position, financial performance and cash flows of an entity, information that is useful for a wide range of users. Thus, we identify within the financial situation information about:

a. Assets;
b. Debts;
c. Own Equity;
d. Revenue and expenditure;
e. Other changes in equity;
f. The cash flows of the entity.

To answer to the informational requests required by the users, within the financial statements we identify the following concepts:

a. The balance sheet to regroup the information with regard to the assets, debts and own equities of the economic entity;
b. The profit and loss account, to regroup the information with respect to the revenue and expenditure of the economic entity;
c. The situation of changes in own equities, to regroup the information related to obtaining a dynamic picture of how the equity component has evolved from the balance sheet, in the reference period;
d. The situation of cash flows to highlight the entrances and exists in and out of the economic entity's treasury;
e. Notes containing a summary of the significant accounting policies and other explanatory notes used to obtain/prepare the above components.

The correspondence between the information offered by the financial statements and their components is highlighted by us in the table below.

<table>
<tr><td>Category of information from the financial statements</td><td colspan="2">Components of the financial statements</td><td>Representation</td><td colspan="2">Objective of the financial statements</td></tr>
<tr><td>Assets</td><td rowspan="3">Balance sheet</td><td rowspan="6">Notes with a summary of the significant accounting policies and</td><td rowspan="4">Static</td><td rowspan="6">Information about</td><td rowspan="3">Financial position</td></tr>
<tr><td>Debts</td></tr>
<tr><td>Own equities</td></tr>
<tr><td>Revenues and Expenditure</td><td>Profit and Loss account</td><td>Financial performance</td></tr>
<tr><td>Other changes in own equities</td><td>Situation of changes in own equities</td><td rowspan="2">Dynamic</td><td>Explanation of the evolution in dynamic of a structure from the financial position</td></tr>
<tr><td>Cash flows of the entity</td><td>Cash flow situation</td><td>Cash flows</td></tr>
</table>

As follows from those mentioned above, from static perspective, the financial position is highlighted by the entity's balance sheet , in which we find information about the structure of assets, debts and own equities, which an entity holds at a given time. In other words, knowing the financial position of an economic entity involves acquiring knowledge about assets, debts and own equities.

The financial position is defined by the economic resources that the entity controls, by the financial structure of the assets, debts and own equity, of liquidity and solvency of the economic values and ability to adapt to the changes of the environments in which is carrying out the activity (Guide 3055 – p. 84).

Fundamental equation of the financial position has the following form[1]:

Own equity = Assets – Debts **(2.1)**

2.1. Assets as Structures of the Financial Position

From the conceptual perspective the assets describes in terms the concrete way in which are presented the factors of production made available to an economic entity in order to achieve the essential

[1] *** Practical Guide of Applying the Accounting Regulation in accordance with the European Directives approved by OMFP no. OMFP nr. 3055/2009, CECCAR Publishing House, Bucharest, 2010, p. 84

objective for which it was created, namely the minimum financial performance expected by its owners.

In synthetic way the assets are defined as *"economic resources from where is expected in the future to benefit the business"* (Horngren & W.T., 2007, p. 11) or company.

Through the general framework IASB from 1989 (approved in 2001), par 49 defines an asset as *"a resource controlled by the entity as result of some past events from which is expects to generate future economic benefits for the entity"* (Stolowy, Lebas, & Langlois, 2006)[1].

From a structural point of view the asset is a component of the balance sheet (*situation of the financial position)* of an economic entity.

For our approach, it becomes very interesting to take into account the important role given to the assets both in defining the study subject of accounting, and the economic conception as and the financial one (Horomnea, 2008, pp. 120-123). By economic concept on the subject of accounting, supported by leading representative among such as J.F. Schar, R.P. Coffy, E. Leautey, A. Guilbaut, I. Evian, I.C. Pantu, is considered that the subject of accounting is the capital, which leads to the relations below:

Economic goods = Own equity + Obligations (2.2)

or

a. After the materiality criterion

Fixed Capital + Working Capital = Capital (2.3)

As seen in economic optic, the use of the concepts of fixed capital and working capital correspond to the concepts of fixed and circulating assets. Consequently, the second criterion highlights the structure of economic goods from the relation 2.2, which lead for the economic goods at the relation 2.4

Economic goods = Fixed assets + Circulating assets (2.4)

Similarly, the financial concept of defining the object of accounting puts in the center of discussion the economic resources that cover from financial point of view all the assets of the economic entity. Thus, is reached at the relation 2.5, which will impose to group the economic goods in sustainable use , ie fixed assets and temporary uses, ie circulating assets, as shows in relation 2.6.

Economic goods = Permanent Resources + Temporary resources (2.5)

Economic goods = Sustainable uses + Temporary uses (2.6)

Accordingly, within the assets we delimit two categories namely: fixed assets and current or circulating assets.

Important for the structure of the financial position is the ***recognition in a entity's balance sheet*** of an asset which is realized when it is likely the achievement of an economic benefit by the economic entity and when for that asset is reliably identified a cost or a value after an spefici operation of assessment.

Thus, finding the asset in the balance sheet assume either the occurrence in counterpart of a debt in the balance sheet, or finding an income in the profit and loss account in counterweight with the occasional costs by the consumptions of value required to obtain it.

To include them in the balance sheet the General Framework of IASB (par. 100) refers to the following assessment bases:

[1] *** General Framework for Preparing and Presenting the Financial Statements, in the *Interrnational Standards of Financial Reporting (IFRSs)*, IASB and CECCAR, CECCAR Publishing Hiysem Bucharest, 2007, p. 44.

a. *historical cost*, which assumes for the assets the registration at “amount of cash or cash equivalents paid at the time of their purchase or at fair value of the amount paid when it was purchased:;
b. *the current cost*, which means that the assets to register “amount of cash or cash equivalents that should be paid if the same asset or a similar one would be bough currently”;
c. *the achievable value*, which means that the assets are registered at the “amount of cash or cash equivalents that could be obtained currently through normal sale”;
d. *actualized value*, which for the assets consists in using for registering the actualized value of the future net cash inflows, which will be obtained in the normal course of business.

By reference to IAS 1 “Presentation of the financial statements” the assets are grouped in current assets and fixed assets. In the financial position reflected by the balance sheet will be found in the category of current assets for which are verified any of the following conditions (para. 57):

a. is expected to be completed or is held with the intention of being sold or consumed in normal course of exploitation cycle of the entity;
b. is held, mainly, for the purpose of trading;
c. is expected to be realized within twelve months from the balance sheet date;
d. is cash or cash equivalents (as they are defined in IAS 7), except the case in which is prohibited its use or change to extinguish a debt for a period of at least twelve months from the balance sheet date.

According to IAS 1, in the fixed assets category are included all the others assets that do not fulfill any of the above conditions, that there aren’t currently assets.

Thus, are entering in the category of the **fixed assets** or of the **sustainable uses** the non-currently *tangible, intangible* and *financial* assets on a term exceeding twelve months, while in the category of the current assets we delimit the *stocks*, *commercial claims* and *liquid assets*, including the *investments securities* that are expected to be made in twelve months after the balance sheet date.

Regarding the fixed assets, the literature in the field (Stolowy, Lebas, & Langlois, 2006, p. 134) holds the following synthetic definitions:

a. intangible fixed assets refers to rights without physical substance from where the entity expects long – term economic benefits…. From where we start to influences on the financial position
b. tangible fixed assets include goods used by the economic entity for the production or supply of goods and provision of services, or to be leased to third parties, or for administrative activities, that the entity expect to use them during the exercise;
c. financial fixed assets which refers to participation titles in subsidiaries or loans granted to its subsidiaries or to its employees.

2.2. Debts as Structures of the Financial Position

The debts are current obligations of the economic entity that arise from past events and for the offset of which is expected to result in an outflow of resources that embodies economic benefits.

Thus, the **recognition in the balance sheet of a debt** is made when it is probable that an outflow of resources embodying economic benefits will result from the offset of a current obligation and when the value at which it will be made this offset it can be reliably assessed.

Extinguishing the debt within the balance sheet is made by cash payment, through transfer of other assets, by provision of services, by replacing with another obligation, by the conversion in the element of capital or eve giving up from the creditor’s side. The French accounting plan defines a debt as being a certain liability whose maturity and amount are set in a precise manner[1].

To include them in the balance sheet, the General Framework of IASB (par. 100) refers to the following assessment basses:

[1] *** Plan comptable general francais, art. 212-2, apud (Stolowy, Lebas, & Langlois, 2006, p. 68).

a. *historical cost*, which includes for debts registering at *"the value of the obtained equivalents for the purpose of obligation or at the value that is expected to be paid in cash or cash equivalents to extinguish the debts, in the ordinary course of the business"*;
b. *The current cost*, which means that the debts are recorded at *"the undiscounted amount of the cash or cash equivalents needed to discount in present the obligation"*
c. *The achievable value*, which assumes that the debts are recorded at their value of offset, ie "*the outdated in cash or cash equivalents that must be paid to pay off the debts in the ordinary course business"*;
d. *The actualized value*, that for debts is in using for registering the actualized value of the future cash outflows which is expected to be necessary to offset the debts in the ordinary course of business".

As in the case of the assets, IAS 1 "Presentation of financial statements"[1] groups the debts in current and on long term. Thus, from para. 60 in the financial position reflected in the balance sheet there will be found at the category current debts those debts for which are verified any of the following conditions:

a. is expected to be discounted during the normal course of exploitation cycle of the entity;
b. is held primarily to be traded;
c. is eligible within twelve months from the balance sheet date;
d. the entity has no unconditional right to delay the payment of debt for at least twelve months after the balance sheet date.

By completeness, according to IAS 1, in the debts that aren't current are classified as long-term debts.

Thus, in the category of short-term debts are included:

- financial debts with maturity exceeding one year;
- debts suppliers with term of maturity exceeding one year;

At the same time in the category of the short-term debts are included:

- financial debts with term of maturity below 1 year;
- account overdrafts;
- debts suppliers with maturity under one year

2.3. Own Equities as Structures of the Financial Position

As part of the financial position, within the General Framework of IASB, para. 49, the ***own equities*** reflect the residual interest in the assets of an entity, after deducting all its debts. In other words, the own equities (Stolowy, Lebas, & Langlois, 2006, p. 69) are the funds and goods brought as contribution or left to the entity's disposition by its owners (shareholders). Thus, they include: the capital (capital social), reserves and result of the exercise.

The capital refers to the original contribution of the owners reflected in the financial position at the historical costs from since the subscription, resulted in cash or in goods.

The reserves are a part of the exploitation, financial and extraordinary results of the entity over which the owners of the capital decide to be left to the entity's disposition every year, as well as the favorable and/or unfavorable differences that arise as a result of the assessment operation of the assets and debts, of the special operation related to capital and of other similar operations. The reserves have a fluctuating character from year to year compared with the capital (equity) which is relatively constant.

[1] *** IAS 1 „Presentation of Financial Statements" in *the International Standards of Financial Reporting (IFRSs)*, IASB and CECCAR, CECAR, Bucharest, 2007, p. 820.

3. Conclusions

The balance sheet is a system that represents the correlation between the economic means and resources of formation of them, in a relation of balance between asset and liability, provided by financial results – profit or loss – obtained in the reference period.

In the market or competitive conditions, the data contained in the balance sheet can provide a comprehensive and effective picture on the economic and financial situation of each economic agent. Such information is equally useful both for the company itself, as and for third parties (represented by suppliers, clients, banks, investors, competitors and state administration).

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*** Plan comptable general francais/ French general accounting, art. 212-2.

*** IAS 1 Presentation of Financial Statements (2007). *The International Standards of Financial Reporting (IFRSs),* Bucharest: IASB and CECCAR, CECAR.