

The Annex to the Annual Financial Statements in the Context of the European Directives

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Abstract. The annex is a constitutive part of the annual accounts, being a conceptual product mentioned in the art.2 of the CEE 4th Directive. This synthetic accounting document has the role to explain or to complete the element given by the balance sheet and the profit and loss account. The annex represents a valuable instrument of informing and analysis for all the users of accounting information. The informative dimension of the annex is not limited, but the information presentation must respect the principle of true and fair view and that of the significant importance.

Keywords: annex, annual accounts, true and fair view, Notes, synthetic accounting documents

A dimension of international accounting standardization is the process of accounting harmonization taking place within the European Union.

This process, initiated in the `70, targets especially the harmonization of the member states' accounting systems, in this sense being elaborated directives that must be incorporated in the national legislation of each of the member states.

The 4th Directive has the specific objective of solving the differences regarding the structure and format of the annual synthetic documents in the conditions in which more options that might be reiterated by the national accounting norms are stipulated.

This directive, as document, is made out of 61 articles, grouped in 12 sections, from which **Section nr.8**, titled "*Notes to the annual accounts*", mentions the minimal information the annex must give as the synthetic accounting document.

The globalization and the insufficiency of the information given by the balance sheet and the profit and loss account do not permit the achievement of the enterprise's true and fair view of the patrimony, financial situation and result. For this reason the existence of the annex as synthetic accounting document is an **informational necessity**.

The position of the annex within the assembly of the synthetic documents has generated many opinions in the specialized literature.

For some authors, „*the annex is a constitutive part of the financial statements*”¹, for others, **the annex represents an analytical approach in the conditions in which the balance sheet and the profit and loss account represent authentic synthetic documents.**

But, we subscribe to the opinion that considers “*The annex is a conceptual product, its presence being the consequence of the putting in practice of the accounting principles, especially the principle of the true and fair view and the principle of the significant importance (or the significance threshold)*”².

The elaboration of an annex of quality means to select the information of significant importance **either for explaining or completing the elements offered by the balance sheet and the profit and loss account.**

Within the financial statements assembly, as the opinion unanimously accepted by the specialized literature states that **the annex has a double role:**

¹ Ristea m., Olimid L., Calu D.A. – *Sisteme contabile comparate*, Editura CECCAR, București, 2006.

² Doinea O. – *Situații financiare anuale- teorie și metodologie națională*, Editura Universitaria, Craiova, 2005.

1. An **explicative role**, because it allows a better understanding of the balance sheet and the profit and loss account;
2. The **role of complementary instrument** to the balance sheet and the profit and loss account.

In this context, **certain characteristics** can be attributed to this statement:

- **The annex is a complementary document** to the balance sheet and the results' account.
- **The annex explains and comments** the information given by the balance sheet and the profit and loss account;
- **The annex includes a type list of accounting information**, information representing its **standardized contents**, that varies from one country to another, depending on the accounting tradition and the economic, juridical, social and fiscal environment specific to each country;
- **The annex is an open accounting document** because it includes any information that might contribute to the reflection of the entity's reality, respectively to offer an accurate image of the entity's patrimony, financial statement and result;
- **The annex contains only information of significant importance**, implicitly or explicitly sanctioning this notion;
- **The annex is a heterogeneous product**, being partially accountably but also extra accounting since a part of the information is extract directly from the accounts and others are taken from the entity's statistics.

In order to be useful, the annex must not be schematic, but neither an informational encyclopedia, being necessary for furnishing only the information of significant importance to the users.

Considering the information mentioned above, in our opinion, **the annex represents a valuable informing and analyzing instrument for all the users of accounting information, since it brings clarifications to the policies promoted by the entity in the domains of investments, financing, fiscality and patrimony's evaluation.**

In the communitarian accounting law, The 4th Directive underlines „ the importance of the annex by the fact that it offers the explanations necessary for a better understanding of the other synthetic documents and completes the information in certain limits or presents the information in another form”.³

The most part of the information that must be presented in the annex are stipulated in the Directive's article 43, completed however by other articles, pointing out that certain information from the balance sheet and the profit and loss account must be detailed in the annex if they are of significance.

So, it must be presented information in the annex regarding:

- The evaluation methods applied to the different positions in the financial statements as well as the calculus methods for value corrections (amortizations and provisions);
- Information concerning the interests held, for at least 20% from the capital of the issuer companies;
- The number and nominal values of the various categories of shares that compose the capital;
- The number and size of the beneficiaries' rights, of the transferable bonds and other similar securities;
- The debts' dimensions, especially for the ones older than five years;
- The size of the financial engagements besides the balance sheet;
- The turnover's structure on categories of activities and geographical markets;
- The average number and structure of the employees, during the budgetary year;
- The incidence of the derogative fiscal evaluations on the net result of the budgetary year;
- The dimension of the postponed taxes;
- The size of the remunerations for the administrative, management and control personnel;
- The dimensions of the advances and credits given to the administrative, management and control organs as well as the engagements in their account, based on some guarantee.
- In the art. 44, the 4th Directive mentions the national accounting systems of the member states of E.U. can establish an abbreviated annex for the small and middle enterprises.

³ Ionescu C.- *Informarea financiară în contextul internaționalizării contabilității*, Editura Economică, București, 2003.

In the opinion of the Romanian standardization organism, the **annex** is substituted by the Explanatory **Notes** to the financial statements containing supplementary information, relevant for the users' necessity regarding the financial position and the results obtained.

The 10 Explanatory Notes present in a systematic manner each significant element of the balance sheet, of the profit and loss account, of the treasury and the shareholders' equity.

The information's that must be presented by the annex (explanatory notes) in the national financial reporting system are referring to:

- Presentation of the accounting policies adopted by the enterprise for the evaluation of elements from the balance sheet, the results account, the cash flows and the shareholders' equity variations;
- Details regarding intangible assets and provisions for liabilities and charges;
- The manner in which the profit gained is allocated;
- Information concerning the analysis of the operating incomes;
- Information about the debentures and debts' situation;
- Number and value of the shares and securities that compose the capital;
- Information concerning the employees and the members of the administrative, management and supervision structures' remunerations;
- Information regarding the alternative accounting policies applied in the enterprise;
- Examples of calculus and analysis of the principal economic-financial indicators;
- other information concerning the presentation of the enterprise, its relations with other branches or enterprises, the size of postponed taxes and of the turnover on economic sector and markets, the remunerations paid to the auditors, the engagements given and received etc.

The 4th Directive gives no indication for the financing methods.

We point out the fact the contents of the annex as stipulated in art. 43 of the directive are also to be found in the contents of the Explanatory Notes from the national financial reporting system.

But the informational value of the Explanatory notes is higher than that of the annex, because they have a larger opening towards the financial analysis, underlining the Note 9 „**Examples of calculus and analysis of the principal economic-financial indicators**” characteristic for the activity of an enterprise.

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