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THE ACCOUNTING OF THE RESULT OF THE FINANCIAL YEAR AND ITS COMPONENTS

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ABSTRACT

The performance that companies achieve is valuable information for most users and is essential in a market economy, while the provision of this information on the results achieved by the company as a result of carrying out activities to accomplish the set objectives is based on the data and information presented in the company's annual financial statements.

The scientific approach aims to present the role and importance of the profit and loss account, as well as of the main elements that generate it, in accordance with current legal provisions and accounting standards. The main aim was to summarize the basic principles and the manner in which they are documented in the accounting records to calculate profit or loss and profit redistribution.

KEYWORDS: result of the year, income, expenditure, profit, loss

1. Introduction

Accounting of the result of the financial year, also known as profit and loss accounting or income accounting, is an important component of financial accounting, the purpose of which is to record and present information about the financial performance of an organisation or entity over a specified period of time, usually a fiscal year, quarter or other specific time period. Thus, the primary purpose of the accounting of the result of the financial year is to provide essential information to stakeholders, such as investors, creditors, government, management and shareholders, in order to assess the profitability and financial effectiveness of the entity in question. Thus, on the basis of this information, investors assess purchase, selling or share holding possibilities in a company; employees receive information about the stability and profitability of the company and may consider other career opportunities or job changes; suppliers and other trade creditors assess the creditworthiness of the company by deciding whether to start a new business relationship, grant or cancel a trade facility.

Key performance information is summarised in the income statement (profit or loss account), which is the difference between the results achieved (total revenue realised) and the resources consumed (total expenses incurred) during the period. If revenues exceed expenses, the organisation makes a net profit, and if expenses exceed revenues, the organisationrecords a net loss.

In conclusion, the accounting of the result of the financial year is of crucial importance for the management of the organisation as it provides a clear picture of its financial health. Furthermore, it is vital for stakeholders, who use accounting information to make investment and lending decisions. In addition, in the financial regulatory environment, this branch of accounting is governed by

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specific accounting regulations and standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), which ensure transparency and comparability of financial information.

2. Conceptual Delimitations of the Income Statement and its Components

2.1. Objectives of the Result of the Financial Year

The accounting of the result of the financial year has several key objectives:

- *Financial Performance Measurement*: The main purpose is to provide stakeholders, such as investors, creditors, shareholders, management or regulators, with a detailed understanding of how the entity has earned and spent money in the course of its activities. This assessment can determine the effectiveness and profitability of the business (Străoanu, 2016).
- *Financial Reporting*: Accounting for the result of the financial year is essential for the preparation of the financial reports, such as the "Profit and Loss Account" or "Performance Report", which are used to communicate the entity's financial position to stakeholders and to ensure compliance with accounting and legal requirements.
- *Decision Making*: Management relies on the information in the Profit and Loss Account to make strategic decisions. Based on the profit or loss, actions may be taken to improve financial performance, such as reducing expenses or increasing revenues.
- *Planning and Budgeting*: Accounting for the outcome of the financial exercise is crucial to the planning and budgeting process. Organisations use past information to set realistic financial goals for the future.
- *Evaluating Employee and Personal Performance*: Within the organisation, accounting of the result of the financial year can be used to evaluate employee performance and to establish reward or motivation schemes based on financial performance.

In conclusion, accounting of the result of the financial year is an essential tool for assessing and managing an entity's financial performance. It involves the detailed recording and analysis of income, expenses and other financial items, thereby contributing to informed financial decisions and transparency in financial reporting.

2.2. Elements of the Profit and Loss Account

Accounting of the result of the financial year (Toma, 2018) is structured around several essential components, each with its own role in assessing the financial performance of an entity. In order to present the financial results achieved by any company, it is necessary to record and present in detail all income and expenses that affect the financial performance of the organization in a given time frame. In other words, accounting of the result of the financial year explains:

- ✓ ***Expenses***: Expenses cover all costs associated with carrying out the organisation's activities. These can include expenses for employee salaries, supplies, marketing, taxes and more. In order to calculate net profit or loss, expenses are deducted from revenue.
- ✓ ***Revenue***: This includes all sources of income to the organization, such as income from sales of products or services, interest, rent or other sources of income. Revenue is the total amount of money earned during the reporting period.
- ✓ ***Other elements***: In addition to revenue and expenses, accounting for profit or loss may include other items such as income taxes, depreciation, reserves or other accounting adjustments specific to each organisation or accounting regulation.

These items represent the basis of accounting for the result for the financial year and provide a complete picture of an entity's financial performance in a given period. Proper assessment and management of these items are essential for making informed financial decisions and ensuring the transparency of the financial reporting.

2.3. Classification of Expenses and Revenue

2.3.1. Types of Expenses:

Expenditure can be grouped into several categories, depending on their nature, namely: ***operating expenses and financial expenses*** (Țegledi, 2016).

a. Operating expenses: are carried out in a company as part of the current activity and are the following (Balteș & Ciuhureanu, 2016):

– *Consumption expenses*: this expenditure refers to the direct costs associated with the production or purchase of goods and services sold. They include the cost of raw materials, production costs, purchase costs and any other direct expenses related to production or purchase.

– *Expenses on work and services carried out by third parties*: this expenditure relates to costs of maintenance, management rentals and leases, royalties, advertising, staff training and other expenses carried out by third parties.

– *Expenses on taxes, duties and similar charges*: building and land taxes, taxes on means of transportation, etc.

– *Staff expenses*: these include all costs related to employees, such as salaries, health insurance contributions, pension contributions, paid leave costs and others. These expenses can represent a significant part of an organization's total costs.

– *Other operating expenses*: they cover expenditure on environmental protection, revaluation of fixed assets, expenditure on losses on receivables and sundry debtors, expenditure on disasters and other extraordinary events, on sold assets and capital operations, etc.

b. Financial expenses: these include costs related to financing the organisation, such as:

– losses on claims relating to participations;
– financial investments disposed of;
– exchange differences;
– interest expenses;
– losses on financial claims.

c. Expenses on depreciation, provisions and adjustments for impairment or loss of value: this expense reflects the decrease in value of certain assets over time, such as equipment or buildings. It does not involve actual cash flow, but is recorded in the accounts to reflect wear and tear and depreciation of assets.

d. Expenses on income tax and other taxes: refers to expenditure on calculated income/profit tax and budget debts by the economic entity, as well as other taxes according to legal regulations.

2.3.2. Types of Revenue

Income can come from a variety of sources and can be divided into several categories, including:

a. Operating revenue comprising:

– *Income from the sale of products and goods as well as from services rendered:* is the most common category of income for most businesses. Together they form the net turnover.

– *Income related to the cost of production*: this refers to the increase or reduction in the actual cost of production of stocks of products and services.

– *Income from the production of fixed assets*: represents the production cost of tangible and intangible fixed assets produced on own account.

– *Income from operating subsidies:* income representing government subsidies received by entities or from other sources.

– *Other operating income*: income from reactivated receivables from the

revaluation of fixed assets, from indemnities, from premium donations, etc. Other sources: this category may include a variety of other sources of income, such as government grants, gains from asset transactions or unusual income.

b. Financial revenue: is the income resulting from the financial activity of the company and generally comprise***:***

– *Income from financial fixed assets;*

– *Income from financial investments;*

– *Income from favourable exchange rate differences;*

– *Interest income;*

– *Other financial income.*

c. Income from provisions and depreciation or loss of value adjustments: is realised when provisions or adjustments for depreciation or loss of value are reversed or reduced.

2.4. Importance and Role of Expenses and Revenue

Expenses are an essential part of assessing the financial performance of an organisation. They have multiple purposes and implications, such as:

– expenses can indicate how effectively the organisation manages its financial resources. Reducing unnecessary expenses can help increase profitability;

– knowing and managing past expenditure are essential for future planning and budgeting;

– expenses influence net profit and reducing them can help increase profitability;

– management uses expense information to make decisions on resource allocation and business strategies;

– expenses are reported within the "Profit and Loss Account" and are essential for informing stakeholders about the organisation's costs and profitability;

– certain expenses may be regulated or required by tax legislation and government regulations.

In summary, expenses are an essential aspect of the accounting of the result of the financial year and provide critical information for assessing and managing an entity's financial performance. Effective expense management can have a significant impact on the profitability and financial success of an organisation.

Revenue is the value expression of stored or delivered output (Muller, 2013) and is a key indicator of an organisation's financial success. It serves several key purposes:

– it reflects the organisation's ability to generate income from its activities and is key to assessing financial performance;

– past revenue can be used to set realistic financial targets for the future and to develop budgets;

– it influences strategic decisions related to expansion, investment, growth or restructuring;

– itis a key component in financial reports, such as the "Profit and Loss Account", and provides essential information to stakeholders;

– steady revenue growth can be a sign of financial health, while declining revenue can indicate potential problems.

In summary, revenue is a crucial element of the accounting for the year's results and provides insight into the financial performance and success of an entity. Proper measurement and management of revenue is essential for decision making and for ensuring stable and sustainable cash flow.

2.5. Interdependence between Expenses and Revenue

2.5.1. The Influence of Expenditure on Revenue

– *Product/Service Quality*: Investing in quality raw materials, skilled people and technology can improve the quality of products or services, which can attract more customers and generate higher revenues.

– *Marketing and Sales*: Spending on advertising, promotions and the sales force is key to generating awareness and attracting customers, leading to increased revenue.

– *Operational Efficiency*: Spending on improving internal processes and operational efficiency can reduce long-term costs and help increase profit margins.

2.5.2. The Influence of Revenue on Expenditure

– *Investment*: Higher revenues allow the company to invest in resources, technology and people, which can lead to increased efficiency and lower costs in the long run.

– *Risk and Innovation*: With higher revenues, companies may be more willing to take risks and invest in innovation, which can lead to the development of new products or services and ultimately increase revenues.

2.5.3. The Balance between Expenses and Revenue

– *Breakeven Point*: is the level of revenue at which total expenses equal total revenue, resulting in a net profit of zero. Calculating this point is vital for understanding how vulnerable a company is to fluctuations in revenue.

– *Profit Margin:* This is the ratio of net profit to revenue. A higher profit margin indicates more effective management of expenses relative to revenues.

– *Cash Flow*: Excessive or poorly managed expenses can lead to cash flow problems, even with high revenues. Ensuring positive cash flow is essential to the day-to-day operation of the business and meeting financial obligations.

2.6. Directions for the Development of the Profit and Loss Account

We believe that in order to obtain more information and insight into the financial performance of an entity, the income statement can be developed in the following directions:

– *Segmentation of Income and Expenses*: Breaking down income and expenses into more detailed categories can provide a clearer picture of performance. For example, you can segment incomeby product or geographic region, and expenses by department or project.

– *Trend Analysis over Time*: Comparing profit and loss accounts from multiple periods (previous years or previous quarters) can reveal significant trends or changes in the entity's financial performance.

– *Calculating Financial Indicators*: Adding relevant financial indicators, such as gross margin, net profit margin, return on equity and so on, can provide a deeper understanding of performance.

– *Cumulative Profit and Loss Statement*: This is a profit and loss account that shows financial performance over several periods, for instance from the beginning of the year or from the beginning of operations. It can help track profitability in the long run.

– *Cost-Benefit Analysis of Projects or Divisions*: You can add a section that compares costs to benefits for individual projects or divisions of the entity to assess their effectiveness.

– *Budgeting and Financial Projections*: Integrating budgeting and financial projections into the income statement can help monitor actual performance against plans and identify significant deviations.

– *Tax Impact*: You can include a section highlighting the tax impact on net income to provide a more complete picture of the financial result available for distribution or reinvestment.

– *Shareholder and Investor Summary*: Develop a special section or separate document that summarizes financial performance for shareholders and investors, including information relevant to making investment decisions.

– *Industry and Competitive Comparison*: provide an analysis of the entity's financial performance compared to other industry players or direct competitors.

– *Non-Financial Indicators*: In addition to financial indicators, you can also include non-financial indicators, such as customer or employee satisfaction, to highlight issues relevant to the overall performance of the organisation.

The choice of development directions depends on the specific objectives of the entity and of the stakeholders involved. Developing a more detailed and informative income statement can help make more informed decisions and manage financial performance more effectively.

2.7. ***Main Operations Concerning the Statement of the Financial Performance***

Before being taxed, the accounting result is calculated as the difference between the income resulting from the sale of real estate, the provision of services, the delivery of movable goods, the execution of works or any other source of gain and the expenses that were incurred to obtain this income (Pântea & Bodea, 2013).

In order to determine the result of the financial yearfrom an accounting point of view, the revenue and expense accounts must be closed:

– the expense accounts for debit balances shall be closed as follows

121 Profit or loss = Class 6 accounts reflecting expenses

– revenue accounts for credit balances are closed as follows

Class 7 accounts reflecting revenue = 121 Profit or loss

As a result of the above operations, the final debit balance of the Profit or Loss account will reflect the losses and the final credit balance of the Profit or Loss account will reflect the profit that will be taxed (Munteanu, 2022).

Gross profit = total revenues – total expenses

According to the legal regulations, taxable profit is calculated as the difference between the assimilated income from the sale of immovable property, the provision of services, the delivery of movable property, the execution of works or any other source of gain and the expenses that have been incurred to obtain this income during a tax year, to which non-deductible expenses and non-taxable income will be added.

Once the distribution of profits is approved by the general meeting of shareholders or associates, the accounting of profits takes place by recording the amounts constituting reserves, dividends and other allocations, which are due to the associates or shareholders, in accordance with the law. At this point, companies no longer have the ability to go back when it comes to the entries made when distributing profits.

The accounts used are the following:

– **Accounts 6xx** – expense accounts, which are asset accounts according to their accounting function;

– **Accounts 7xx** – income accounts, which are liability accounts according to their accounting function;

– ***Account 121 "Profit or loss"*** – is an own capital account, according to itsenonomic content and a bifunctional one according to its accounting function.

– ***Account 129 "Profit distribution"*** – which is an asset accountaccording to its accounting function.

3. Conclusions

Accounting of the result of the financial year is a key aspect of financial accounting, providing a clear picture of an organisation's financial performance over a specific period. Its elements, such as income, expenses, profit or loss, are fundamental to the assessment of financial performance and decision making within the organisation. Understanding and properly managing these elements is critical to the long-term financial success of an entity.

Furthermore, accounting of the result of the financial year is a detailed and objective picture of an entity's financial performance. Knowledge and proper application of accounting principles are essential to ensure the sustainability and financial success of organisations in today's dynamic business environment.

The accounting of the result of the financial year plays a central role in assessing and managing an entity's financial performance. Financial reports based on this accounting provide stakeholders with crucial information for decision making and monitoring financial health.

The accounting of the result of the financial year plays a crucial role in decision-making, planning, and budgeting. The management of organisations uses financial information to set strategies, allocate resources, and evaluate the effectiveness of operations.

The accounting of the result of the financial is essential for ensuring financial transparency and compliance with legal requirements and accounting regulations.

The article detailed the key elements of accounting of the result of the financial year, including income, expenses, profit or loss, income taxes, depreciation and others. These elements are the key components in assessing financial performance.

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