"THE NET MONETARY STATEMENT" AND "THE NET NON-MONETARY STATEMENT" – ASSESSMENT INDICATORS FOR THE FINANCIAL POSITION OF THE ENTITY

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ABSTRACT: *This paper examines two indicators, namely the net monetary statement and the net non-monetary statement. To determine and analyze them, we started with the classification of assets (monetary and non-monetary) and liabilities (monetary and non-monetary). The actual values of these elements were established on the basis of information supplied by the balance sheet, followed by the calculus of the net monetary statement and of the net non-monetary statement. These indicators provide relevant and reliable information to the users of financial statements and, in the future, they should be taken into account because they bring additional information about the financial position of the entity.*

KEY WORDS: *inflation; net monetary statement; net non-monetary statement; entity.*

JEL CLASSIFICATION: *M41; Q10 ; H30.*

1. INTRODUCTION

Inflation is considered a phenomenon that occurs globally, having particularities at the scale of each national economy and effects such as: the continuous and self-sustained growth of prices; the foreign trade deficit; the increase of the cash amount[(1)]; lower living standards; wage conflicts; the start of the bankruptcy procedure for certain enterprises that become insolvent, etc. The list with the effects of inflation shows that this phenomenon presents both advantages and especially disadvantages. The advantages are short term only and refer to the fact that prices of certain goods will grow and the production will record an upward trend. After a while, the reversal occurs because the demand will drop due to price increases and the production will show a

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downward trend, which is the major cause for the outbreak of this scourge called inflation[2].

We believe the judicial liquidation of enterprises could also be included in the category of advantages, which proves that they can't cope with competition and manufacture goods and provide services of low quality and with higher costs. This way, the economy will "purge" from certain "parasites" and the "patient" (the national economy) will become "healthier". In an inflationary period, an entity may record an earning or a loss due to this imbalance, an important role being the distinction between the monetary and non-monetary elements. These elements can be identified and calculated only at the level of the balance sheet.

2. THE NET MONETARY STATEMENT AND THE NET NON-MONETARY STATEMENT

Our approach starts with the definition of the concept of asset presented in the Order of the Ministry of Public Finance no. 3055/2009 as "a resource controlled by the entity as a result of past events, which is expected to generate future economic benefits for the entity". The same law provisions that financial statements must provide an accurate picture of assets, liabilities, **financial position**[3], and profit or loss recorded by the entity. Its financial position may be judged according to certain parameters, such as monetary assets, monetary liabilities, etc., just as performance is measured according to revenues, expenses and more.

Monetary assets are resources that may be used to buy goods and services. **Non-monetary assets** are goods involved in the production activity of the enterprise and they can be capitalized through sale. **Monetary liabilities** are sources that may be paid with a significant amount of monetary assets, and **non-monetary** liabilities are largely represented by equity capitals, which can be liquidated only if the enterprise will fall under Law no. 85/2006 regarding the insolvency procedure, published in Official Gazette no. 359/2006 or under the influence of other regulations in force.

One can say that the assets of an enterprise consist of monetary assets and liabilities, on one hand, and non-monetary assets and liabilities, on the other hand.

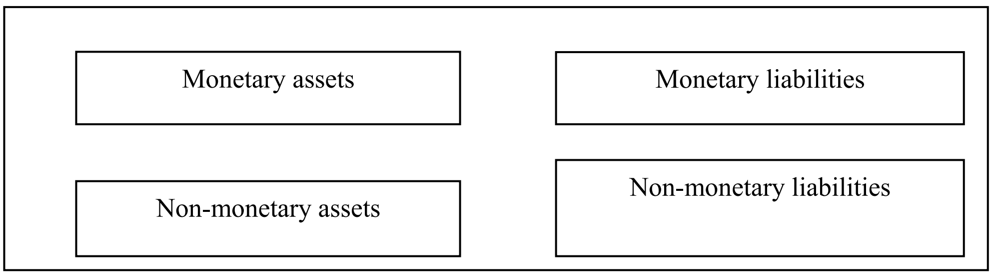

Figure 1. The assets of the entity

Although the accounting doctrine doesn't contain similar points of view in circumscribing the monetary from the non-monetary positions, the following taxonomies may be taken into consideration:

- ***Monetary assets:*** Long-term receivables; Claims; Cash assets and similar elements; Suspense account; Premium on redemption of bounds [(4)].
- ***Non-monetary assets:*** Intangible assets; Tangible assets; Long-term investments; Inventories; Accrued expenses.
- ***Monetary liabilities:*** Subsidies; Provisions; Commercial, financial, fiscal debts; Suspense account.
- ***Non-monetary liabilities:*** Equity capitals; Deferred income.

Next, we will present a balance sheet (table 1) drawn up by a large entity that applies the provisions of Order no. 3055/2009 on the approval of accounting regulations in line with European regulations, in order to identify the monetary and non-monetary elements.

Table 1. Extract from the Balance sheet drawn up at 31.12.N according to OMPF no. 3055/2009 (lei)

ELEMENTS		Balance at: The beginning of the year	Balance at: The end of the year
I INTANGIBLE ASSETS			298.610
II. TANGIBLE ASSETS		141.672.648	192.767.101
III. FINANCIAL ASSETS		0	0
FIXED ASSETS - TOTAL		141.672.648	193.065.711
I. INVENTORIES		25.453.060	23.017.958
II. CLAIMS		15.158.744	26.986.930
III. SHORT-TERM FINANCIAL INVESTMENTS		0	0
IV. PETTY CASH AND BANK ACCOUNTS		33.554.176	27.984.412
CURRENT ASSETS - TOTAL		74.165.980	77.989.300
C. ACCRUED EXPENSES		7.751	
D. DEBTS TO BE PAID WITHIN 1 YEAR		(39.905.581)	(77.557.453)
E. NET CURRENT ASSETS/CURRENT LIABILITIES		28.532.300	(4.824.907)
F. TOTAL ASSETS MINUS CURRENT LIABILITIES		170.204.948	188.240.804
G. DEBTS TO BE PAID IN A PERIOD LONGER THAN 1 YEAR		(16.662.834)	(25.611.474)
H. PROVISIONS		219.418	4.729.801
I. DEFERRED INCOME		(5.735.850)	(5.256.754)
J. CAPITAL AND RESERVES			
I CAPITAL		506.158.958	547.911.994
II. PREMIUM RELATED TO CAPITAL			
III. REVALUATION RESERVES	BALANCE C		
	BALANCE D	(328.789.672)	(328.789.672)
IV. RESERVES			
1. Legal reserves		350.812	350.812
2. Statutory or contractual capital reserve			
3. Reserves representing the revaluation reserve surplus			

4. Other reserves		9.580.831	14.259.988
Own shares(5)			
TOTAL		9.931.643	14.610.800
V. THE REPORTED PROFIT OR LOSS	BALANCE C		
	BALANCE D	(28.064.291)	(38.657.390)
VI. THE PROFIT OR LOSS OF THE FINANCIAL YEAR	BALANCE C		
	BALANCE D	(5.913.942)	(37.176.203)
Distribution of profit			
EQUITY CAPITALS - TOTAL		153.322.696	157.899.529

The balance sheet above highlights a few pieces of reasoning:

- A group of assets includes both monetary assets and non-monetary assets. For example, fixed assets include intangible assets (298.610 lei at the end of the year) and tangible assets (192.767.101 lei at the end of year N), which fall under the category of non-monetary assets, but there are also financial assets, which represent monetary assets;
- The first balance sheet items include non-monetary assets, and the last balance sheet items consist of non-monetary assets;
- Unlike the items of monetary assets, which are interposed with the items of non-monetary assets, the items of monetary and non-monetary liabilities can be identified "en bloc";
- The balance sheet presents monetary liabilities before non-monetary liabilities.

Based on the data in the balance sheet, we will calculate the net monetary statements and the net non-monetary statement, both at the beginning and at the end of the year.

Table 2. Net monetary statement (lei)

Indicators	**Balance at:**		**Differences**
	The beginning of the year	**The end of the year**	
1. Claims	15.158.744	26.986.930	11.828.186
2. Petty cash and bank accounts	33.554.176	27.984.412	- 5.569.764
3. Monetary assets (1+2)	*48.712.920*	*54.971.342*	*6.258.422*
4. Debts to be paid within 1 year	39.905.581	77.557.453	37.651.872
5. Debts to be paid within a period longer than 1 year	16.662.834	25.611.474	8.948.640
6. Provisions	219.418	4.729.801	4.510.383
7. Monetary liabilities (4 to 6)	*56.787.833*	*107.898.728*	*51.110.895*
8. Net monetary statement (3-7)	**- 8.074.913**	**- 52.927.386**	**- 44.852.473**

Table 3. Net non-monetary statement (lei)

Indicators	Balance at:		Differences
	The beginning of the year	The end of the year	
1. Intangible assets	-	298.610	298.610
2. Tangible assets	141.672.648	192.767.101	51.094.453
3. Inventories	25.453.060	23.017.958	-2.435.102
4. Accrued expenses	7.751	-	- 7.751
5. Non-monetary assets (1 to 4)	*167.133.459*	*216.083.669*	*48.950.210*
6. Deferred income	5.735.850	5.256.754	- 479.096
7. Equity capitals	153.322.696	157.899.529	4.576.833
8. Non-monetary liabilities (6+ 7)	*159.058.546*	*163.156.283*	*4.097.737*
8. Net non-monetary statement (5-8)	**8.074.913**	**52.927.386**	**44.852.473**

Next, we will summarize in a table the synthetic procedure of determining the two indicators that are the subject of this article.

Table 4. Summarizing table of monetary and non-monatary assets and liabilities according to the balance sheet aproved by OMPF no. 3055/2009 (lei)

Indicators	Year	
	N-1	N
1. Monetary assets	48.712.920	54.971.342
2. Monetary liabilities	56.787.833	107.898.728
3. Net monetary statement (1-2)	***- 8.074.913***	***- 52.927.386***
4. Non-monetary assets	167.133.459	216.083.669
5. Non-monetary liabilities	159.058.546	163.156.283
6. Net non-monetary statement (4-5)	***8.074.913***	***52.927.386***

The net monetary statement is negative at the beginning of the year (-8.074.913 lei), as well as at the end of the accounting period (-52.927.386 lei). At first glance, one could say that this indicator has negative repercussions on business. In reality, things are completely different, because the enterprise operates in a highly inflationary environment [(6)]. The negative amounts were obtained due to the monetary liabilities, which are superior to monetary assets, leading to an advantage for the company. This advantage is attributed to two factors:

- Monetary assets lose their purchasing power in inflationary conditions because they are under valuated when using a type of accounting based on historical costs. In our example, monetary assets consist of claims that have registered an increase of 11.828.186 lei and of cash values that diminished by 5.569.764 lei during the year;
- Monetary liabilities produce a gain for the enterprise because on the background of a diminishing purchasing power, the debts accumulated during the previous accounting periods will be paid based on a certain part of the monetary assets existent in the patrimony of the company.

Let's analyze the following example for a better understanding: We assume that an entity has a debt to an external supplier of raw materials, namely 2.000 euro, which is evaluated at an exchange rate of 4.36 lei/euro. The debt to the supplier is paid at an exchange rate of 4.25 lei/euro[7].

The booking entry for this operation is:

401 „Suppliers”	=	%	8.720
		5124 „Cash at bank in foreign currencies”	8.500
		765 „Foreign exchange gains”	220

It is noted that the payment of the debt leads to an advantage for the enterprise compensating for the diminishing purchasing power of the monetary assets. Also, in this case, the enterprise recorded an income for which it will have to pay an income tax (except the case when the Romanian accountant doesn't "artificially increase the deductible expenses", so that the enterprise will record a loss), in this sense, the inflation is considered a particular form of taxation (Feleagă & Ionaşcu, 1998, p. 535).

The net non-monetary statement was determined by comparing non-monetary assets with non-monetary liabilities. There is something interesting in terms of this indicator, in the sense that it has the same values of the net monetary statement at the beginning of the year (8.074.913 lei) as the end of the year (52.927.386 lei), but with the opposite sign. Meaning the net monetary statements records negative values, while the net non-monetary statement records the same value, but positive. But the converse is also true: if the net monetary statement has positive values, the net non-monetary statement will have the same value, but negative.

The positive value of the net monetary statement emphasizes the following aspects:

- Non-monetary assets are mainly financed by equity capitals, which recorded the value 153.322.696 lei at the beginning of the year and 157.899.529 lei at the end of the period;
- A small part of monetary assets are funded by deferred incomes, which diminished by 479.096 lei during the year. This decrease was more than compensated by the increase of equity capitals by 4.576.833 lei;
- The advantage of this indicator that records positive values comes from the fact that non-monetary assets are funded due to net assets and not due to debts. We are dealing with a precise demarcation in terms of asset funding compared with the indicator "working capital", for example, which supports frozen assets, together with equity capitals and long-term debts.

Next, we will present a few correlations that exist between the indicators calculated above and the information learnt from the balance sheet presented previously.

The indicator "total assets" in the amount of 215.846.379 lei was calculated in two ways:

- Adding up monetary assets (48.712.920 lei) with non-monetary assets (167.133.459 lei);
- Adding up the value of frozen assets (141.672.648 lei) with the value of current assets (74.165.980 lei) and of accrued expenses (7.751 lei).

Table 5. Calculating the indicator “total asset” (lei)

Indicators	Amounts
Monetary assets	48.712.920
Non-monetary assets	167.133.459
Total assets	**215.846.379**

Indicators	Amounts
Frozen assets	141.672.648
Current assets	74.165.980
Accrued expenses	7.751
Total assets	**215.846.379**

Table 6. Calculating the indicator “total liability” (lei)

Indicators	Amounts
Monetary liabilities	56.787.833
Non-monetary liabilities	159.058.546
Total liabilities	**215.846.379**

Indicators	Amounts
Debts < 1 year	39.905.581
Debts > 1year	16.662.834
Provisions	219.418
Deferred incomes	5.735.850
Equity capitals	153.322.696
Total liabilities	**215.846.379**

The indicator “total liabilities” in the amount of 215.846.379 lei (which coincides with “total assets”) was also determined in two ways:

- By adding up monetary liabilities (56.787.833 lei) with non-monetary liabilities (159.058.546 lei);
- By adding up debts (56.568.415 lei), provisions (219.418 lei), deferred incomes (5.735.850 lei) and equity capitals (153.322.696 lei).

These correlations can be made by the users of financial statements if there are different entries into the balance sheet for: total assets, total liabilities, monetary assets, non-monetary assets, monetary liabilities, non-monetary liabilities, net monetary statements and net non-monetary statement. These indicators, correlated with the working capital (which is currently included in the balance sheet model), could lead to a deeper analysis of the activity performed by an entity.

4. CONCLUSIONS

Although the balance sheet model developed by Romanian regulators no longer includes the indicators “total assets” and “total liabilities”, we believe it is useful to insert separate entries for these elements. We also propose to regulators to introduce in the balance sheet model items for the indicators: monetary assets, monetary liabilities, non-monetary assets and non-monetary liabilities. These balance sheet items (which are determined on the basis of other items) could provide information needed by users of financial statements regarding: the ability of the entity to honour its obligations at maturity; the ability of the entity to invest in assets in order to consolidate the market position against competitors. Most users of financial statements are interested in the indicator “the result of the year” included in the equity capitals’ category. We believe that this indicator is insufficient for assessing the activity of the company if it isn’t correlated with the indicators presented previously, especially in inflationary periods.

Another conclusion that emerges from our study refers to the fact that in the case of the balance sheet approved by OMPF no. 3055/2009, the net monetary statement has the same value with the net non-monetary statement, but with opposite signs. This equation is also a way to verify the correctness of the balance sheet.

NOTES:

(1) The cash amount refers to folding money, coins as well as money in accounts, knowing that a significant portion of money lies in the accounts of various banking companies.
(2) In literature, when referring to inflation, the emphasis is on the generalized increase of prices. We believe that this is the effect of inflation and the attention should be focused on the cause, namely the decrease in production, which currently is the main problem in Romania. We mention that only the increase of production that is intended for sale within the country may finally lead to an increase in living standards. Currently, there is a type of production called lohn that doesn't help to lower the consumer price index, because this production is exported.
(3) The concept of financial position is not defined by the Romanian lawmaker in Order 3055/2009, leaving to the broader understanding that it refers to assets, liabilities, debts and equity capitals presented in the balance sheet and in the notes.
(4) We believe that this element, "Premium on redemption of bounds", represents a fictional asset for the entities that issue bonds and have no future benefits. We believe this happens because the difference between the nominal value and the issue value will generate an output of resources instead of an input of resources within the entity when the bonds are reimbursed.
(5) It is noted that the company's own shares are presented within equity capitals with a negative sign and are highlighted with the help of account 109. This solution, proposed by the Line Ministry, is questionable because own shares can't be a part of capitals according to Law no. 31/1990 regarding trading companies, republished.
(6) The entities that operate in an inflationary environment should consider its direct targeting, as well as conduct its own impact studies on elements of assets. In the paper "Testing the impact of inflation targeting on inflation", George B. Tawadros stated that the impact of inflation targeting on inflation is positive in 18 countries after conducting a study that involved 27 countries.
(7) In conditions of inflation, the exchange rate usually manifests an upward trend, but it may also show an involution.

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