SOME ASPECTS REGARDING MEANING OF INTERMEDIATE MANAGEMENT BALANCES

ILIE RĂSCOLEAN, ALIN MONEA *

ABSTRACT: *This paper presents some aspects regarding intermediate management balances as a pay instrument of production factors and financing future activities. Paper debate intermediate management balances determination and interpretation.*

KEY WORDS: *income statement, intermediate management balances, profit, loss, commercial margin, gross operational surplus, net profit, income, expenses.*

JEL CLASSIFICATIONS: *D50, G32, M40.*

1. INTRODUCTION

IAS 1 does not force a model for income statement, but it is mentioned a minimal structure, as: income; expenses; finance costs; share of the profit or loss of associates and joint ventures accounted for using the equity method; tax expense; a single amount comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; profit or loss.

Than other IAS s requires or for better presentation of results additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.

Entities shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

* *Assoc.Prof., Ph.D., University of Petroşani, Romania, ilierascolean@yahoo.com*
Assoc.Prof., Ph.D., University of Petroşani, Romania, alinmonea@gmail.com

Entities shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.

Balance sheet presents performance trough 121"Loss and gain", but is necessary additional information regarding the ways performance are determined.

According OMFP 3055/2009 entities elaborate a list form of income statement.

The entities patrimony is dynamic because many and complex transformations of it`s had been. The goal of those transformations is financial result of entity.

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period, and the related amount per share.

Except when a standard or an interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.
In some cases, narrative information provided in the financial statements for the previous period continues to be relevant in the current period.

When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

- the nature of the reclassification;
- the amount of each item or class of items that is reclassified;
- the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- the reason for not reclassifying the amounts;
- the nature of the adjustments that would have been made if the amounts had been reclassified.

Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period in a way that allows reclassification, and it may not be practicable to recreate the information.

2. INTERMEDIATE MANAGEMENT BALANCES

The income revenue structure trough those three type of activities may permitted determination of intermediate management balances to finances future activities of entity.

This objective needs additional treatments of income revenue to determine: profitability as commercial margin, exercise productions, added value, gross operational surplus, operational result, current result and net result.

Table 1. Intermediate management balances

No.	Elements	IS position
1	Sell goods income (ac 707)	03
2	Goods expenses (ac 607)	14
3	**Commercial margin (1-2)**	
4	Sell production (ac 701 - 706 +708)	02
5	Stock production income (ac 711 +/-)	06/07
6	Tangible/intangible assets production (ac 721 + 722)	08
7	**Exercise productions (4 +5+6)**	
8	Third expenses (gr.60, exclusive 607, gr.61, gr.62, exclusive 621)	11+12+13+24
9	**Added value (3+7-8)**	
10	Grant revenue (7411)	05
11	Tax expenses (gr.63)	26
12	Wage expenses (gr 64 +621)	15
13	**Gross operational surplus (9+10-11-12)**	
14	Other operational revenue	09+20+23+31
15	Other operational expenses	24
16	Depreciation expenses	18+21+29
17	**Operational result (13+14-15-16)**	
18	Financial revenue	42
19	Financial expenses	49
20	**Current result (17+18-19)**	
21	Non-operational revenue	54
22	Non-operational expenses	55
23	**Non-operational result (21-22)**	
24	**Gross result (20+23)**	

25	Tax	62
26	**Net result (24-25)**	

Intermediate management balances are stage of results obtained.

These rates are a cascade construction begin from larger (commercial margin, exercise productions) to the synthetic (net result).

Each intermediate management balance presents results of each accumulation stages.

Commercial margin

This rate relate to commercial activity of entity, to distribution or commercial of production entity.

It is significant as information as detailed determined. It is called also gross margin and expressed in percent from turnover.

- Goods sell revenue
  - goods sell expenses
  = **Commercial margin**

Exercise productions

This rate relate to industrial activity of entity.

It is include goods and services made by entity to be sold, held or use.

It is include three elements: sell productions, stock production income and tangible/intangible assets production.

- Sell productions
  + Stock production income
  + Tangible/intangible assets production income
  = **Exercise productions**

Added value

This rate relate add value obtained from intermediate consumption from third.

It is permited intern product made and releaves vertical integration grade.

At micro level added value is a rate which relate economical strength of entity. There are two way to determine:

- as diference between exercise production and third expenses:

- Exercise production
  + comercial margin
  - third expenses
  = **Added value**

- by addition of added value components meaning production factors remuneration

- Wage expenses
  + tax
  + Interests
  + Depreciation
  + Dividendends
  + Refund profit

= **Added Value**

Gross operational surplus

There is a measurement of performance.

It is result determined by current operation, independently of financial, depreciation and provisions politics.

Gross operational surplus is an important gestion rate, used in comparative analisys.

The role of Gross operational surplus may be studied in three different ways:

- as a measurement of performamce gross operational surplus big enough will permit enterprisese refund assets used depreciations, cover risks from provisions and financing;
- as an independent instrument of financial, refund, dividend, fiscal and non-current (without profit tax) politics;
- it is a major financial resource for entity.

Gross operational surplus is first level of global finance, first step in cash flow determination.

There is two determination methods:

- substractiv method:

- Added Value
  + Current grants
  - Tax
  - Wage expenses
  = **Gross operational surplus**

- additive method:

- Current result
  + Depreciation and provision expenses
  + Other operational expenses
  - Provisions revenue
  = **Gross operational surplus**

Operational result

Evaluate rentability of an entity and include past financial year transactions eligible.

It is not significant for financial an non-operational activity.

This rate may permit comparation between different entities financial politics.

There is two determination methods:

- as difference between general operational revenues and general operational expenses

- Operational revenue
  - Operational expenses
  = Operational result

This ratio reveals information for management to improve the result of entity.

This is basis for strategies and politics at entity level.

The possible ways are: revenue increase or expenses decrease, increase revenue and expenses in a different rhythm (revenue increase rhythm bigger than expenses increase rhythm)

- start at Gross operational surplus

- Gross operational surplus
  + Other operational revenue
  - Other provision revenue
  - Depreciation and provision expenses
  - Other operational expenses
  = **Operational result**

Current result

Current result is sum of current, normal activity of entity compose from operational and financial components.

This rate apreciate financial politics over rentability.

- Operational result
  + Financial income
  - Financial expenses
  = **Current result**

Non-operational result

This rate determin gain or loss specific non-operational activity of entity.

These transactions are not specific to a normal activity of entity.

- Non operational revenue
  - Non-operational expenses
  = **Non-operational result**

Level of non-operational results is a valuable information special for future investors.

Nett results

This rate reveal nett profit or nett loss after determin profit tax.

It is level of entity`s performance.

- Current result (+/-)
- Non-operational result
  - Tax profit expenses (ac. 691)
  = Nett result (+/-)

Nett result must be repartised by General investors comitee to specific destination.

3. CASE STUDY

In this paper we determine intermediate management balances using Alpha Construct information.

Table 2. Intermediate management balances

No	Elements	2012	2013
1	Sell goods income (ac 707)	45000	67000
2	Goods expenses (ac 607)	42000	59000
3	**Commercial margin (1-2)**	3000	8000
4	Sell production (ac 701 - 706 +708)	24000	22000
5	Stock production income (ac 711 +/-)	500	750
6	Tangible/intangible assets production (ac 721 + 722)	0	0
7	**Exercise productions (4 +5+6)**	24500	22750
8	Third expenses (gr.60, excludind 607, gr.61, gr.62, excluding 621)	11800	13500
9	**Added value (3+7-8)**	12.700	17250
10	Grant revenue (7411)	2300	0
11	Tax expenses (gr.63)	300	500
12	Wage expenses (gr 64 +621)	1500	2200
13	**Gross operational surplus (9+10-11-12)**	13200	14550
14	Other operational revenue	0	0
15	Other operational expenses	0	0
16	Depreciation expenses	8900	9300
17	**Operational result (13+14-15-16)**	4300	5250
18	Financial revenue	250	380
19	Financial expenses	380	430
20	**Current result (17+18-19)**	4170	5200
21	Non-operational revenue	0	0
22	Non-operational expenses	0	0
23	**Non-operational result (21-22)**	0	0
24	**Gross result (20+23)**	4170	5200
25	Tax	667	832
26	**Net result (24-25)**	3503	4368

After we determine the intermediate management balances, provide it to general manager to analyzed and decision. All rates are positive that means a good activity of entity and the trend is in crease.

4. CONCLUSIONS

Intermediate management balances provide information necessary to retreat income statement.

There is base for management decisions.

The main goal of intermediate management balances are:

- appreciate of entity`s growth;
- understood net result determination;
- profitability analysis;
- analysis of entities activity structure helped by specific rate.

In presented case study commercial margin is bigger in 2014 than 2013 with 2.66 times that means entity sell activities are very good.

Exercise productions are smaller in 2014 than 2013 with 7.14 % because production is decreased. Added value is bigger in 2014 than 2013 with 26.38 % in spite of productions decrease. Gross operational surplus is bigger in 2014 than 2013 with 9.27 %. Operational result is bigger in 2014 than 2013 with 18.09% that is a sign of good administration. Current result is bigger in 2014 than 2013 with 19.80% remaining the same trend as operational result. There is no non-operational result. Gross results are bigger in 2014 than 2013 with 19.80%. Nett result is bigger in 2014 than 2013 with 19.80%. We appreciate entity activities as good and suggest increasing exercise production next year.

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