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FACULTY OF ECONOMIC SCIENCES

REVISTA STUDENȚILOR ECONOMIȘTI SIBIENI

POST CRISIS ECONOMY: CHALLENGES AND OPPORTUNITIES

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NEPI: A SUCCESSFUL STORY OF A BET ON THE ROMANIAN REAL ESTATE MARKET DURING THE CRISIS

FIRST PLACE ON IECS 2013 - STUDENT PAPER CONTEST

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Abstract: *The current study analyses the effectiveness of investing in real estate investment and developing industry, taking into consideration different variables, methods and scenarios. The first part outlines basic theories about valuation. Based on theories about valuation, financial analysis, competitive positioning, then second part presents an in-depth case study on New Europe Property Investment, reflecting the investor's decision regarding its shares. The target price of 5.51 EUR compared to the listing price on JSE of 4.87 EUR suggests a strong BUY recommendation, with a potential absolute upside gain of 13%. Comparing NEPI's price multiples to the Real Estate Median on LSE, we conclude that NEPI has a weighted potential of growth of 81.01%.*

Keywords: *investment, valuation, real estate, stock exchange*

Introduction

Valuation is the estimation of an asset's value based on variables perceived to be related to future investment returns, on comparisons with similar assets, or, when relevant, on estimates of immediate liquidation proceeds. Skill in valuation is a very important element of success in investing. Several perspectives on value serve as the foundation for the variety of valuation models available to the equity analyst. Intrinsic value is the necessary starting point, but other concepts of value—going-concern value, liquidation value, and fair value—are also important. For an analyst valuing public equities, intrinsic value is typically the relevant concept of value. In other contexts, however, other definitions of value are relevant. Fair market value is the price at which an asset (or liability) would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell. Furthermore, the concept of fair market value generally includes an assumption that both buyer and seller are informed of all material aspects of the underlying investment. Fair market value has often been used in valuation related to assessing taxes. In a financial reporting context—for example, in valuing an asset for the purpose of impairment testing—financial reporting standards reference fair value, a related (but not identical) concept. (Pinto, Henry, Robinson, Stowe, CFA, 2010).

Business description

New Europe Property Investment PLC (NEPI, Company or Parent Company) is the holding company of a group of companies that forms a closed-ended property income fund and was registered on 23 July 2007 in the Isle of Man. The main activity of NEPI is to build and rent 3 types of real estate: retail, office and industrial.

The Company's objective is to provide shareholders with an opportunity to invest in a dividend paying, long term closed-ended property fund that could serve as a vehicle for investors seeking Central and Eastern European investment opportunities that yield stable absolute returns. NEPI is currently active on the Romanian and German market with all three types of real estate that offer strong rental flows, and aiming in the same time also to invest in the other Eastern European Countries. (NEPI, 2013)

The Group (NEPI) focuses more on investments in dominant or potentially dominant retail assets together with offices and industrial properties, the last 2 having a lower frequency. The main investment strategy is based towards long-term leases in euro with strong corporate covenants.

The internal management of the Group is based on combining property and asset management together with investment and development skills in order to have an integrated approach.

The Company is listed on the Main Board of the Johannesburg Stock Exchange (JSE- share code NEP), the regulated market of the Bucharest Stock Exchange (BVB-share code NEP) and the AIM market of the London Stock Exchange (LSE-share code NEPI), the transfer of shares being possible among all these three registers.

The main objective of NEPI is first of all to become a real estate leader on the Romanian market and to extend the business on the neighbors' market, showing a particular interest for Hungary and Bulgaria. More objectives that NEPI has settled are to reach a regional dominance in retail, to increase in scale, to increase the relationship between retained distributable earnings, cash holdings, property developments but also to increase the distribution growth per share. (NEPI, 2013)

The Company distributes at least 90% of its rental profits on a semi-annual basis in euro, while the dividends for the shareholders on the South African sub-register are converted to South African Rand. (NEPI, 2013)

Industry and market overview

When it comes to studying NEPI's activity it becomes necessary to draw a general picture of the real estate industry, not only in Romania and Germany, the countries where NEPI is currently activating, but also in Europe.

"A gradual recovery in economic performance and business confidence this year will set the European real estate market up for a stronger recovery in 2014", according to global real estate advisor, CBRE.

According to CBRE Corporate Commercial Real Estate Service Worldwide, when it comes to the first ten most liquid European Investments Markets, the situation is as shown in the next table:

	Turnover (€ mill)	Change 2011/ 2012	% of European Market
London	10,178	25%	20%
Paris	4,903	31%	10%
Stockholm	1,656	8%	3%
Oslo	1,618	111%	3%
Munich	1,580	104%	3%
Copenhagen	1,252	136%	3%
Moscow	1,000	-47%	2%
Berlin	951	5%	2%
Hamburg	787	-35%	2%
Frankfurt	748	-47%	2%

Figure 1: Ten most liquid European Investments Markets
Source: CBRE

From the table above it can be seen that four out of ten most liquid investment markets in Europe are cities from Germany. Even if Hamburg and Frankfurt have shown a decrease in turnover in 2012 compared to 2011, Germany is still a good choice for NEPI to extend their business.

NEPI is currently present on two markets: Romania and Germany and by its activity the company covers parts of industrial, retail and office sectors. Nevertheless, the main activity is developed in Romania.

Taking into consideration the structure of the portfolio it becomes necessary to study the current situation in each of the sectors, in both Romania and Germany.

Based on a study conducted by Cushman& Wakefield, real estate investors have made transactions of over 1.8 billion dollars in the last quarter of 2012 in countries like Poland, Czech Republic, Slovakia, Hungary and Romania. Even though Romania and Hungary faced a decrease in investments, Romania was ranked as the third country in matters of investments in the real estate sector, at the end of 2012. The same research revealed that the preferences of investors changed from retail to office spaces. In Romania and Germany 37% of the transactions were made in the retail sector, 45% in the office sector while the industrial sector faced an increase of 5.8% in the last year.

German investors regained their dominant position in Central Europe by realizing 30% of the transactions in the domain, even more than American and French investors.

When it comes to Romania and its macroeconomics it can be said that the increase of 2% in GDP was higher than expected. This increase was mainly supported by the increase of exports by 17.5%. Unemployment and inflation dropped, unemployment being estimated to 4.8% while inflation decreased to 3.3%, the lowest level in 20 years.

It is also interesting and necessary to compare the retail sector situation in Bucharest, the capital of Romania with the total stock of commercial centers in other capital cities. From the chart on the left and also from the research done by CBRE on Romanian retail market, it can be concluded that compared to other capital cities, Bucharest is still a city with development potential.

When it comes to the industrial sector in Romania a decrease in demand can be observed, this being a result of the internal political turmoil. During the last semester of 2012 Bucharest recorded the highest level of leasing activity. Regarding the rental level, for areas between 500 sq. m and 999 sq. m rents were situated between EUR 4 and 4.2 / sq. m. This encouraged the lease of small units which resulted in a percentage of 69 of transactions registered in the first semester of 2012 to be less than 999 sq. m. Given the current economic situation, the average rental levels are forecast to remain stable and in line with the previous four quarters.

Competitive positioning

NEPI grew to be a strong force in the Romanian and German markets and according to the company's financial director statement, the competition is almost not at all present, at least not strong enough to be considered a threat when it comes to the current markets where the company is activating.

Yet, there are companies activating in the same domain as NEPI and it is necessary for the competition aspect to be studied. Because currently NEPI activates mostly in Romania, matters of competition will be studied in this area.

When it comes to the Romanian real estate development market, among the top performing companies there can be identified the following companies: IMPACT Developer & Contractor S.A., AEW Europe and AIG Lincoln.

IMPACT Developer & Contractor S.A. is a privately-owned real estate developer, active in the integrated mixed development area. Starting with 1991, the company was incorporated by public subscription. Another important year in the development of the company is 1996 when IMPACT Developer & Contractor S.A was listed on the Bucharest Stock Exchange. In 2006, the company shares were moved to tier I on the Stock Exchange, thus becoming the first representative of the real estate and constructions area. 1995 was a moment of important changes in IMPACT Developer & Contractor S.A when the concept of "residential compound" was introduced on the Romanian market when it started the ALFA compound project. Until 1995 the company focused on leasing and providing maintenance for luxury villas in residential and central areas of Bucharest. (IMPACT Developer & Contractor S.A, 2013)

During its 20-year activity, the company has recorded numerous highlights:

- ❖ 16 residential compounds; over 2,000 Western quality housing units;
- ❖ an 8000 sqm class A business center (office spaces);
- ❖ over 100 awards obtained;
- ❖ national expansion in Bucharest, Constanța, Oradea, Ploiești.

AEW Europe is a leading European real estate investment manager activating in Europe through 9 offices. The group has over 270 employees who are responsible for over €17.5 billion of assets. AEW Europe manages a range of sector specific funds, club deal strategies and it is also the provider of a wide spectrum of real estate investment strategies from core to opportunistic. AEW Europe has been active in Romania since 2007, when one of the funds it manages purchased America House and a shopping mall in Tîrgu Mureș, central Transylvania. The perfect opportunity for the company to take an active approach was when Cosmote left America House and left empty a large space (3,900 sq. m of office and 700 sq. m of retail). Since then, however, AEW Europe has managed to attract new tenants whose quality has only served to increase the building's reputation. World Class – which operates fitness centers all over Europe - has also signed up for around 1,000 sq. m. (AEW Europe, 2013)

AIG/Lincoln offers its clients a full-service real estate solution covering all aspects of the development and acquisition process, as well as asset management, property management, and leasing services. As of 2012, AIG/Lincoln has developed, or is in the process of developing, over 50 projects, totaling over 2.5 million square meters (approx. 27 million sq. ft.) of real estate. It has developed a wide range of properties, including office, industrial, retail, and entertainment, as well as build-to-suit projects. (AIG/Lincoln, 2013) AIG/Lincoln has started its operation in Romania in 2006 and provides from the Bucharest office the following services:

- ❖ Development and Real Estate investment
- ❖ Project Management
- ❖ Property Management
- ❖ Facility Management

❖ Asset Management

In order to evaluate the position of NEPI in the real estate market, it is necessary to study the company through Porter's Five Forces Model. By this, the five most important forces that can affect NEPI in its development are measured and evaluated. In this graph, the most favorable situation for NEPI is considered to be when the values for all the five variables do not differ much from 0 (close to the origin), therefore the area of risk defined by the five points in the graph will be minimum.

Taking into consideration the structure of the market and NEPI's profile, the following situation can be described: the highest threat for NEPI is considered to be the bargaining power of customers because no matter how much will the company promote their services, it is the customers who will decide if the offer is good enough to get involved in business with NEPI or not. Another aspect is that the business area itself forces the contracts to be signed for a medium and long term and this is where the clients' choice becomes vital. The second high-threat for NEPI is the competitive rivalry within the industry. Even if NEPI is currently one of the few actors in the real estate industry which did good through the economic crisis (NEPI's CEO does not agree with the idea of real estate crisis, only with economic crisis) and even if the Financial Director stated that there is no competition for NEPI in the real estate Romanian and German market, the competitive rivalry within the industry is considered to be an important aspect because due to the current financial situation companies will be willing to make compromises in order to gain market share, this affecting NEPI. In direct relation with the competitive rivalry within the industry comes the bargaining power of suppliers who can opt for another company to sell land or buildings to. This factor is not ranked as a high-risk because NEPI's position in the market allows it to make better offers to land and buildings suppliers than other competitor companies. The last two factors in Porter's Model, which ranked as low-threats for NEPI are the threat of new entrants and the threat of substitute products. Taking into consideration the current financial situation in Europe, it is less likely for new companies to enter the real estate industry. Though, this threat is not considered to be inexistent because of the low saturation of the market which creates the possibility of new entrants in the future. The last factor, evaluated as very-low is the threat of substitute products which is almost inexistent taking into consideration the profile of the business.

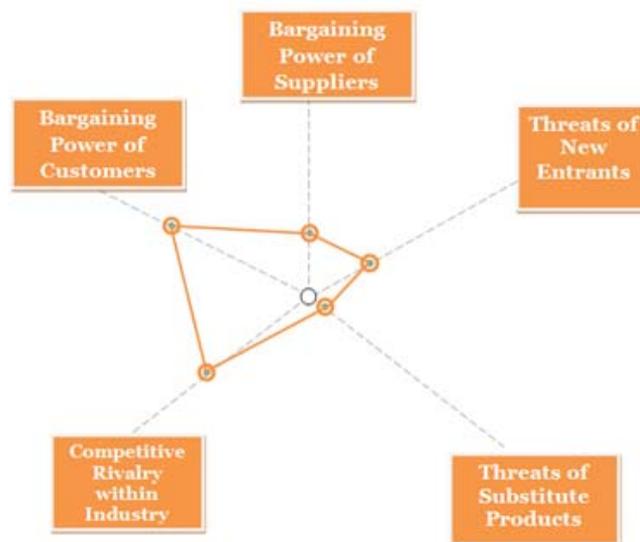


Figure 2: Porter's 5 Forces Model
Source: Team's analysis

Investment summary

A successful stock with a high growth opportunity. NEPI's mission is to establish itself as a strong player in the Romanian real estate development market. Although the other companies in the sector were affected by the negative outcome of the recent financial crisis, NEPI did not only manage to survive the crisis but also to increase its property portfolio and profitability.

Our market and financial valuation proves that investing in NEPI's shares is a smart choice. This remark is based on the analysis on the ground basis of the company, along with the estimated valuation of several methods (Gordon Growth Model, Discounted Dividend Model and the Net Asset Value).

The target price of 5,51 EUR compared to the listing price on JSE of 4, 87 EUR suggests a strong BUY recommendation, with a potential absolute upside gain of 13%.

Comparing NEPI’s price multiples to the Real Estate Median, we conclude that NEPI has a potential of growth of 29,30% regarding the PER, a potential of growth of 132,72% regarding Price/book value. We then recommend a strong BUY. Such a remarkable figure of the growth opportunity is entirely legitimate as it is derived from a strong balance sheet and outstanding operating performance that have transformed the company’s stock into a winning one.

Key financial indicators such as Self-Funding Capacity, Return on Equity, Patrimonial Solvency, Return on Assets and Gearing are showing a strong financial position of the company. These results represent a guarantee for potential investors that NEPI will be able to meet their expectations.

NEPI’s investments are reflected in properties with long term multinational leases in euro. What is interesting about its strategy, in contrast to the competitors, is that they contract well-known companies to rent space in order to attract customers, as anchors for other small firms. Therefore, the large spaces companies are usually charged less than the small, not so well-known ones, but they provide NEPI’s rentable area notoriety.

The group focuses on investment in dominant or potentially dominant retail assets but invest opportunistically in office and industrial properties as well. NEPI has an aggressive investment strategy. They hold a portfolio of 32 income producing properties and two developments. They have recently acquired a new office property in Bucharest (The Lake View) for 61.7 million euro. We can conclude that NEPI is embracing a long term thinking and strategy, by which, until now, they have managed to sustainably support its rapid growth.

Valuation

Valuation of New Europe Property Investments PLC stems from the following models: **Capital Asset Pricing Model, Bulid-Up methods, Weighted Average Cost of Capital, Dividend Discount Model, Gordon Growth Model, and Price Earnings Ratio.** We are convinced that a proper and relevant valuation can only be made by using several methods that can give an investor an overall complete view of the true or real value of a company.

The build-up method

The required rate of return was calculated using a Romanian long-term euro government bond risk-free rate of 3,25% (BNR, 2013) (because NEPI’s debts are in euro and contracted in Romania) and a risk premium of 16,55%. The economic risk is the ratio between the profit from operating activities and the revenue and the financial risk is the ratio of the difference between the profit from operating activities and the financial expenses and the revenue.

The main advantage of this method is that it also takes into consideration qualitative aspects when calculating the return rate (the required rate of return that investors should demand when buying an asset), such as: country risks, sectorial risks, company risks. By using this method, we reached a required rate of return of 19,8% in 2012 (Figure 3).

Risk-free rate	3,25%
Country risk	4,4%
Market risk	6,5%
Sectorial risk (real estate risk)	1,47%
Interest rate risk	2%
Economic risk	1,27%
Financial risk	0,91%
Risk premium	16,55%
Reurn rate	19,8%

Figure 3: The Build-Up Method
Source: Team’s Estimates

2012	JSE
Risk-free rate	6,3%
Raw β	0,1906
Adjusted β	0,4603
Market return	32,97%
Cost of equity	18,54%

Figure 4: CAPM
Source: Team’s Estimates

The Capital Asset Pricing Model

The cost of equity was calculated by the CAPM model for Johannesburg Stock Exchange, because we consider it the most liquid and relevant for NEPI’s stocks. We took into consideration the long term bond risk-free rate in South Africa and we have calculated the expected market return and the adjusted beta for 2012. (Figure 14)

In calculating β , we have considered the entire listing period on JSE, and for the market return we have taken into account only the common period of listing on the three markets (June 2011-february 2013).

The Weighted Average Cost of Capital

When calculating the company's cost of capital, we have taken into consideration the weight of the equity in the total available capital (equity + debts) of 59,77% and the weight of the debts in total available capital of 40,23%. We have considered the cost of equity resulted from the CAPM for JSE (18,54%) and a cost of debt obtained by calculating the weighted average of the interest rates of the company's loans. We calculated this indicator only for Romania, where according to the Romanian Fiscal Law all the companies that have a permanent establishment have to pay a 16% income tax, because NEPI contracts its loans from the Romanian banking market. (Figure 5)

2012	Romania
Weight of equity in total capital	59,77%
Weight of debts in total capital	40,23%
Cost of equity (CAPM)	18,54%
Cost of debt	3,30%
Tax rate (α)	16%
WACC	12,2%

Figure 5: WACC

Source: Company's reports, AIM Admission for trading, www.euribor-ebf.eu, www.euribor-rates.eu

Gordon Growth Model

Using this method, we reached a present value of the share of 6,58 euro. We took into consideration the annual dividend paid by the company (9,77 + 10,48 euro cents), the growth rate of the dividends declared by the company of 15% and the required rate of return resulted from the CAPM on JSE of 18,54%. (Figure 6)

Dividend 2011	9,77 + 10,48 = 20,25 euro cents
Growth rate	15%
Dividend 2012	23,28 euro cents
Rate of return	18,54%
Present value of share	6,58 EUR

Figure 6: Gordon Growth Model

Source: Team's estimates

Dividend Discount Model

We have calculated a present value of the shares using the both the rate of return resulted from de CAPM (18,54%) and the rate of return resulted from the build-up model, the growth rate of 15% and 2012 as the reference year.

Net Asset Value

Discounting the incomes generated by each property from NEPI's portfolio from 2011, by using a rental yield of 8,5% for the Romanian market and a 6,2% rental yield for Germany (Immo Finance, 2012), we have reached a market value of the investment property of 315.956.080,99 euro, compared to the book value of 316.393.495 euro (we did not take into consideration the developments, because they don't generate any income or rental). We also calculated the market value of NEPI's loans, comparing the weighted average of the company's interests with the actual market interest rate. We reached to an actual value of 167.951.403,8 euro for the company's loans. (Figure 8)

For the year ended 31.12.2011	
Investment property at market price	315.956.080,99
Goodwill	13.351.499
Other long term assets	6.213.458
Financial assets	1.036.575
Trade and other receivables	7.751.441

Cash and cash equivalents	55.065.100
TOTAL ASSETS (at market price)	399.374.153,99
Long-term liabilities	167.951.403,8
Current liabilities	15.863.754
Total liabilities (at market price)	183.815.157,8
Equity (at market price)	215.558.996,19
Present value of shares	1,5 EUR

Figure 8: NAV

Source: Team's estimates

Market based valuation: price multiples

Using price multiples, such as PER and Price/book value, we have compared NEPI's value with others' listed on London Stock Exchange. We have taken into consideration the companies from FTSE 350 Real Estate Index (guideline companies or comparables) and we have calculated the median of each price multiple and then we compared NEPI's price multiples with the median. (Figure 9)

Comparing NEPI's price multiples to the Real Estate Median, we conclude that NEPI has a potential of growth of 29,30% regarding the PER, a potential of growth of 132,72% regarding Price/book value. We then recommend a strong BUY. (Figure 10)

	Potential of growth	Weight
PER	29,30%	50%
Price/book value	132,72%	50%
Potential of growth		81,01%

	NEPI	Real Estate Median
PER	19,62	25,37
Price/ book value	1,65	3,84

Figure 10: Weighted potential of growth

Source: Team's estimates,

Figure 9: Market based valuation

Source: Team's estimates and London Stock Exchange

Weighted value of shares

For determining the final target price, we have equally weighted the prices obtained through the different valuation models that we used (Gordon Growth Model, Discounted Dividend Model and Net Asset Value). We reached a target price of 5,86 EUR, which compared to the listing price on JSE of 4,87 EUR suggests a strong BUY recommendation, with a potential absolute upside gain of 20%. (Figure 11)

	Weight	Price (EUR)	W x P
GGM	25%	6,85	1,7125
DDM – CAPM	25%	7,49	1,8725
DDM – Build-up	25%	7,58	1,895
NAV	25%	1,5	0,375
Target price			5,86

Figure 11: Weighted value of shares

Source: Team's estimates

Financial analysis

By determining the Self-funding Capacity it can be observed that the value of this indicator has been stable and positive among all years that have been analyzed (2010, 2011 and 2012) and continues to register an ascendant trend every year. This way it can be observed that operating activity was able to generate the necessary resources for Self-funding. Being an performance indicator, the Self-funding capacity, it is considered to be the key term for return appreciation but also for financial balance.

The rate of return in the core activity of the company is raising, achieving 7.79% in 2010 compared to only 6.96% in 2009 and indicates the assets contribution in obtaining results from exploitation activity. Furthermore, the equity rate of return has registered as well a significant growth from 4.46% in 2010 to 7.9% in 2011, growth that has been determined from exploitation results that have risen but also from raising the equity.

NEPI is holding a high weight of non-current assets and specially the current assets (over 60%), due to property investments that were made in order to further leasing but also due to the investment policy they are conducting. The non-current assets weight has declined from 91.34% in 2010 to 85.22% in 2011 and further to 67.5% in 2012 in the total assets registered, managing to position this way to the maximum accepted level.

Although it can be observed that there has been a slight decline of the trade and other receivables in the last 3 years, the cash and cash equivalents have an important weight in the total assets registered. This ratio is being held between 87.66% in 2011 and 47.25% in 2011. This decline is arrear to the company policy to use the cash and cash equivalents for short term financial investments (European Real Estate Investment Trusts shares).

The registered level of equity and liabilities in the analyzed years is general adequate. The dynamic analysis for financial stability ratio reaches the conclusion that this indicator registers a slightly decline tendency in 2012 having 82.12% compared to 96, 27% the company had in 2011, but maintaining the same good level as the previous year.

Holding rather a lower volume of non-current liabilities than a positive level of equities, the financial independence ratio has registered a growth in 2012 compared to 2011, from 55.33% to 59.77%. Global borrowing ratio is reduced from one year to another as following: 59.64% in 2010, 44.57% in 2011 and 40.22% in 2012.

It can be observed that nowadays the value of the current liquidity indicator is above one (1.57%), while the current liabilities value is fully covered by the current assets value. It can be observed that cash liquidity ratio has registered sub unit values for the current period, which means that NEPI was not able to pay its current liabilities from cash and cash equivalents obtained by collecting the payments from internal and external clients. Thus, this deficit can be financed by the current liquidity redundancy.

By registering a higher volume of assets than liabilities, in the entire analyzed period, the general solvency level is agreeable, the payment risk of the company being maintained at a low level. Patrimonial solvency ratio has registered a slightly growth among the analyzed years, having a medium value of 50%.

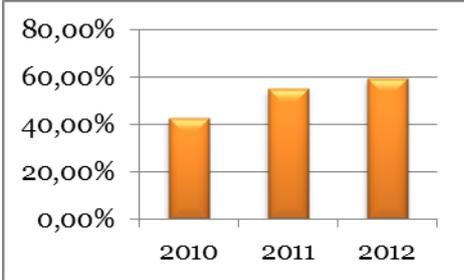


Figure 12: Patrimonial solvency
Source: Company's reports and Team's estimates

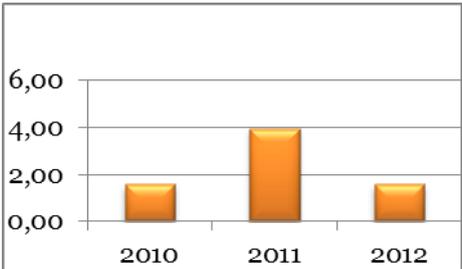


Figure 13: Current liquidity ratio
Source: Company's reports and Team's estimates

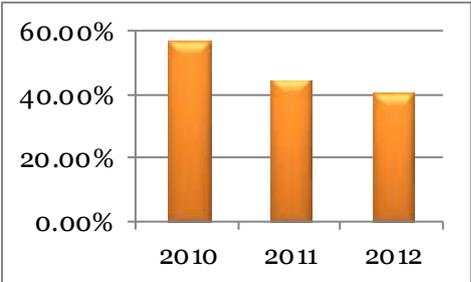


Figure 14: Gearing
Source: Company's reports and Team's estimates

Other headings: NEPI's strategy

Taking into consideration the fact that more than half of NEPI's properties are part of the retail market, it is useful to study the company's strategy in attracting clients in order to understand its approach over the whole market. NEPI is administrating eleven retail areas, six in Romania and five in Germany. NEPI has 100% ownership over the Romanian assets, while only 50% for the German ones. The company has organized the retail areas as regular malls or street malls. NEPI's strategy for each retail area is to contract with well-known companies to rent spaces in the shopping area, as anchor shops around which other small firms can establish their shops. In other words, NEPI contracts with brands like Altex, Bershka, H&M, Lee Cooper, Massimo Dutti, New Yorker, Office Shoes, Orsay, Oysho, Pull and Bear, Reserved, Stradivarius, Vodafone or Zara, well-known brands that will attract customers and automatically draw clients to other small, not so well known areas from the mall. Other anchor points of

each mall is the food court and cinema, which are present in each retail area NEPI administrates and which are considered points of interest for the visitors.

Regarding the rent NEPI applies for its spaces, the well-known shops presented before are usually charged less than small, not so well-known firms that rent spaces in the retail area. Therefore, the large spaces that companies like H&M or Zara rent, are bringing NEPI less profit than the small surfaces rented by unknown companies but well-known brand provide NEPI's retail areas notoriety.

Nepi's expansion

The market in **Hungary** showed stability and balance in the investment activities but kept at a relatively low level. Rents and supply were both stable during 2012, having quite an important improvement at the end of the year. (Colliers International, 2013). The total transaction made in investment was around 650 million euro at the end of 2012. The investment transactions were made up both of local and international deals. Prime Yields for quality office and retail are expected to be the same as in the last year, somewhere between 7,5- 9,5%. (Figure 15)

The volume of investment in real estate market has decreased with 80% from the previous year. In spite of that, more and more investors are turning their attention on this market, having a great potential. More and more companies want to create subsidiaries and bring their business in Hungary, which will request a very good location for their activity. (Colliers International, 2013)

Key investment figures - Hungary	
Investment turnover	650 million euro
Prime Office Yields	7.5%
Prime Retail Yields	7.5%
Prime Industrial Yields	9%

Figure 15: Key investment figures in Hungary

Source: Colliers International

The market in **Bulgaria** has suffered a hit after the contraction they had for Euro zone. Bulgaria has set some prudent financial policies which have improved the stability of the country and the investment market. (Colliers International, 2013)

At the end of 2012, the real estate investment transactions in Bulgaria have reached more than 186 million euro, registering the higher level since 2009. Prime Yields for quality office and retail are expected to be the same as in the last year, somewhere between 9%- 11%. (Figure 16)

The Bulgarian market it is considered to be frozen now, but in spite that the number of potential investors is increasing considerably. The potential of Bulgarian market is increasing, but it should be taken into consideration the space that is becoming less and less. Moreover, the competition is high and the tenants are looking rather for a profitable position than the money they have to spend for leasing or purchasing. (Colliers International, 2013)

Key Investment Figures –Bulgaria	
Investment Turnover	€186 million
Prime Office Yields	9%
Prime Retail Yields	9%
Prime Industrial Yields	11%

Figure 16: Key investment figures in Bulgaria

Source: Colliers International

Monte Carlo simulation

The purpose of the following Monte Carlo simulation is to detect a confidence interval for the growth rate of the NEPI stock values that can guide the investor's decision to buy, sell or hold his NEPI stock.

The data we have used are secondary data taken from the Johannesburg Stock Exchange on which the NEPI stocks are sold/bought under the symbol NEPI in the ZAR currency (South-African Rand). The stock values are displayed on a time series which varies from the 1st January 2013 to the 15th February 2013.

The first step of our analysis was to compute the growth rates (%) of the NEPI stocks for each successive period beginning with the 1st January 2012 and ending with the 15th February 2013. The results indicated 45 growth rates, from which 24 had different percentages. By analyzing the descriptive statistics

of the growth rate variable we spotted an outlier (growth rate for the period 2nd January 2012/1st January 2012 of -6.422%) which we have excluded from future analysis. The new descriptive statistics show a mean growth rate of 0.421% with a standard deviation of 0.896% and a standard error of the mean of 0.135%. The values of the distribution indicators (Skewness = 1.445 and Kurtosis = 2.23) denote that the growth rate distribution of the NEPI stock is left skewed and leptokurtic from a normal distribution. The asymmetry and peakness of the distribution are due to the high frequency of the 0% growth rate (21 appearances). We admit these empirical limitations of our distribution and consider it a normal one (Figure).

Within the second step of our analysis we have used a random number simulator to forecast a mean growth rate of the NEPI stock and a confidence interval around it. 24 different growth rates and their occurrence probabilities have been the input for our simulator. Based on this, 9000 runs were undertaken which have resulted in a mean growth rate of 0.426%.

The third and last step of our analysis contained the computation of the confidence interval around the mean growth and recommendations for the investor. Our assumptions that the growth rate variable is normally distributed and that there are no statistical meaningful differences between the estimated (0.426%) and the computed (0.421%) growth rate mean, have resulted in computing the following confidence interval for the considered growth rate variable: **(0.1614 0.6906)** with a 95% confidence level.

Based on the computed interval we generate the following recommendations:

- If the time-nearest growth rate of the NEPI stocks exceeds the 0.6906% rate, our recommendation for the investor is to sell
- If the time-nearest growth rate of the NEPI stocks does not exceed the 0.1614% rate, our recommendation for the investor is to buy.
- If the time-nearest growth rate of the NEPI stocks is within the interval (0.1614 0.6906), our recommendation for the investor is to hold.
- If the time-nearest growth rate is lower than the minimum growth rate of – 1.21%, our recommendation for the investor is to sell its stock for minimizing its future lost.

Risks. As any other business, NEPI has its risks. The main risks that the Group is facing nowadays are mainly related to finance and property. Furthermore, the fluctuations in the value of assets, development activities, volatility and vacancies are an important part of the risks that should be considered.

Strategy. The risks related to strategy are mostly related to the failure of executing property investments and developments strategies. This has a huge impact on the net asset value, income, capital and shareholders earnings. To overcome this risk, NEPI has considered some measures such as: a defined investment strategy, a defined asset appraisal process, set pre-determined criteria in order to review all opportunities and started monitoring the macroeconomic factor and the property market trends. (NEPI, 2013)

Development. The development risk includes a construction risk but also the contractor solvency and availability. These risks have an impact mostly on a reduced development returns, an overrun cost, programme delays, potential loss of occupier revenue and failure to secure planning permission. In order to minimize this risk, NEPI has created a closer supply chain relationship that facilitates assessments and monitoring but also prioritize the appointments with the contractors. (NEPI, 2013)

Investor demand. Another risk that NEPI is facing is a potential decrease in demand by the investors in real estate. The impact falls mostly on the net asset value and a potential pressure on the banking covenants. In order to avoid this, NEPI has built an active asset management but also focusing on strong occupier financial covenants. (NEPI, 2013)

Office occupier market. This is probably one of the most significant risks because it refers to a weakened occupier demand for office developments, oversupply, vacancies and economic uncertainty. The risks mentioned before have a huge impact on the rental income and cash flow, cost of occupier incentives for new lettings, empty unit costs, net asset value but also reducing the strength of occupier covenant and increasing bad debts. For this, NEPI took some measures such as focusing on long lease profiles, managing a high occupancy and having quality assets that are easier to re-let. (NEPI, 2013)

Retail occupier market. This risk refers to a reduced retail occupier demand for space, an increased supply and more occupier defaults. All these have a huge impact on the rental income and cash flow, void costs and on the net asset value. In order to prevent this, NEPI has created a diversified occupier base, promoted long leases and strong financial covenants, created a prime portfolio which is

easier to re-let, regularly review the consumer trends and monitoring the retail occupiers at risk. (NEPI, 2013)

Financing availability. This risk is based on a shortage of financing or refinancing the business at a profitable cost. This issue concerns the inability to fund property investments or developments but also the increased cost of finance. Financing is extremely important for NEPI, which is why measures were taken. These measures consist in spreading sources and maturity the facilities, maintaining the committed facilities and improving the extensive capital market and the bank relationship management. (NEPI, 2013)

Cost of finance. This refers to adverse interest rate movements which increase the costs of borrowing and hedging. In order to minimize this, NEPI has created a new policy related to interest hedging but also monitoring on a regular base the hedging effectiveness. (NEPI, 2013)

Credit risk. The credit risk is dangerous because it leads to a loss of hedge, loss of deposits, a high cost for rearranging facilities but also changes in financing rate. In order to overcome this risk, NEPI undertook measures such as: reviewing monthly the summary of exposures by bank and credit ratings, spreading sources, having mature facilities, placing the cash across a range of deposit accounts but also assessing the credit.

Conclusion

NEPI's mission is to establish itself as a strong player in the Romanian real estate development market. It focuses on investment in dominant or potentially dominant retail assets but invest opportunistically in office and industrial properties as well.

The target price of 5,86 we have obtained through the valuation process, compared to the listing price on JSE of 4,87 EUR suggests a strong BUY recommendation, with a potential absolute upside gain of 20%. Comparing NEPI's price multiples to the Real Estate Median on LSE, we conclude that NEPI has a weighted potential of growth of 81,01%. This figure is entirely legitimate, as it is derived from a strong balance sheet and outstanding operating performance.

This recommendation is strengthened by the key financial indicators which are showing a strong financial position of the company that represent a guarantee for potential investors that NEPI will be able to meet their expectations.

NEPI is a successful story of a bet on the Romanian real estate market during the crisis. In a period in which most of the real estate Romanian investors are trying to sell the properties acquired before the crisis, only one investment trust has managed to buy properties of over 370 million euro, which represents 30% of transactions' volume in the last four years. (Wall – Street, 2013)

The South-African real estate investor and developer –NEPI has conquered the Romanian market, holding the first four positions in the top real-estate transactions made during the crisis. The secret might lay in its long term thinking and strategy that sustainably support the rapid growth of the company.

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STUDY REGARDING THE ANALYSIS OF FINANCIAL PERFORMANCES OF A LISTED COMPANY ON THE STOCK EXCHANGE MARKET

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Abstract

The financial accounting information is used mainly with the aim of predicting the profitability of companies. The used instrument for this purpose is the fundamental analysis which seeks to determine the intrinsic value at some point of an asset, submitting for analysis determinant factors of performance (such as earning, expenses and profits). Depending on the intrinsic value obtained also by the comparison to the market price, the investor has to take a rational decision. The analysis oriented to the study of performances, their evolution and perspectives, offers useful information not only to internal managers, but also to external partners interested in future results of a firm. Mainly, the holders of securities or potential investors are interested in knowing the present or future beneficiary capacity of a firm which guarantees the distribution of dividends and achieving plus value of capital. The study made on the evolution on the capital market of the company S.C. Compa S.A. for the period 2008-2012, discloses the importance of combined analysis of the indicators specific to the listed companies, so that the image on the performance of the entity is complete and according to reality.

Keywords: *profit and loss account, financial performance, stock growth ratios, dividend ratios, financial profitability*

1. The profit and loss account – the image of the financial performance of an economic entity

Annual financial statements represent a set of accounting documents of synthesis which have to offer an accurate image regarding the financial position and firm performances as well as relevant and credible information related to users' needs. They represent a very important instrument in the process of management, being necessary both for the substantiation of decisions regarding allocation, financing and recovering of funds, as well as for the evaluation of results of taken decisions, establishing of some rights, obligations, responsibilities and interests resulted from the entity's activity.

The accounting regulations according to European accounting directives prevail compulsory for enterprises to make annual financial statements comprising: balance sheet, profit and loss account, situation of changes in equity, situation of cash flow and explaining notes to annual financial statements. At the same time, companies are encouraged to also present a financial analysis issued by the management to describe the causes and determinant factors of the financial performance and position in connection with the uncertainties faced.

„The profit and loss account represents the financial statement which makes a synthesis of obtained earnings and not taken expenses by the enterprise, so which measures its performances on a specified period of time.”¹ This is the most important and transparent financial report, because it shows if the firm has achieved its objective: obtaining profit. Therefore the profit and loss account presents earnings and expenses in various ways, so that presented information is useful for the decisional process making a synthesis of flows on a micro level, presenting the value flows that contributed to the increase or decrease of the enterprise patrimony.

The appreciation of a company's performances based on the profit and loss account and on the elements of the balance sheet helps building a global image of the society. The balance sheet expresses the patrimonial estate at the end of the year, and the results account discloses the way this has been reached. The elements comprised in the profit and loss account are: expenses and earnings related to the

¹ Ciuhureanu, Alina – Teodora „Management financiar”, Ed. Universității „Lucian Blaga”, Sibiu, 2009, page 77

exploitation, financial and extraordinary activity, as well as those resulted from adjusting elements from the accounting balance sheet.

National regulations do not deal in a specific way with the concept of accurate image, but it is associated to credibility: „Information is credible when it does not contain significant errors, it is not partial, and its users can trust that it represents correctly what it should represent, or what it is expected to reasonably represent.”² „The general frame for the preparation and presentation of financial situations” issued by IASB, mentions that „financial situations must present a real and accurate image or they should present the precise financial position, results an changes of the financial position of an enterprise” and „in order to be reliable, information must represent correctly the transactions and other represented events, either it is reasonably expected to be represented”.

Therefore the objective is drawing accounting synthesis documents to present a real and correct image both by construction as well as by reflecting in good faith the economic events. In order for the financial situations to be accurate they need to satisfy the criteria of: completeness, reality, fairness, evaluation, imputation and correct takeover of data.

The main aim to use the financial-accounting information is prevailing the profitability of firms. „Annual accounts seem to be the most important source used in taking decisions with investment character, the profit and loss account being considered the most influent document in this respect”³. Through the fundamental analysis it is tried to determine the intrinsic value of an asset at some particular point of time, analyzing factors such as up to date and future earnings and profits, interest rate on short and long term, and the risks associated to that particular asset. Depending on the intrinsic value obtained and its comparison to market price, the investor must take a rational decision.

The analysis of annual accounts involves the study of the relationship between information at a specific point of time and their evolutionary trend in a specific period of time. The aim of this analysis approach is represented by the obtaining of a pertinent image of companies statements reflected in the level of profitability, risk and efficiency, image essential in adopting best decisions for investments.

According to approaches given by IAS/IFRS through financial performances we understand earnings, expenses and financial results of an economic entity. Information related to these financial structures is offered mainly by the profit and loss account but some of the explaining notes can complete the information regarding the economic entity’s performances.

Therefore, in a narrow sense, the financial performance is defined through the profit or loss of the organization. Information related to the performance of a society is necessary for the evaluation of potential changes of the economic resources which the firm can control in the future. In this respect, information on financial performance variation is thoroughly important. Its utility consists of the anticipation of the firm’s capacity to generate cash flows using the existent resources as well as of formulating solid opinions on the effectiveness of the management in utilizing new resources.

The analysis oriented to the study of performances, their evolution and perspectives offers useful information not only to internal managers but also to some external partners interested in future results of the firm. Mainly, the shareholders and potential investors are interested in the present or future beneficiary capacity of a company, which guarantees future dividends and achieving plus value of capital.

2. Performance indicators specific to listed companies

Specific indicators of quoted companies on stock exchange market combine elements established on the capital market with accounting information, generating results regarding the company’s performance relevant to an investor (profitableness from the perspective of remuneration of shareholders). „Market rates or rates of profitableness of capital investments are the most comprising measures of performance of a firm because they reflect the influence corroborated of financial rates of risk and profitableness.”⁴

The major shareholders generally make an investment on the long run and do not seek an immediate profitableness through considerable dividends, but satisfactory financial orientation. His reasoning is that most part of the earning should be used for development and consolidation with direct impact on value increase of share market price. For the major shareholder an evolution in appreciation of

² OMFP 3.055/2009, point 23 (4)

³ Duțescu Adriana „Informația contabilă și piețele de capital”, Ed. Economică, București, 2000, page 57

⁴ Borlea Nicolae Sorin „Analiza performanței financiare și a riscului întreprinderii”, Camera de Comerț și Industrie a județului Sălaj, page 28

net profitability for a share is a sign of profitability, and the favorite indicator of this is EPS. On the contrary, a minor shareholder is interested in obtaining profitability on a short term taking the form of a dividend.

2.1. Share growth ratios provide information regarding annual financial results, punctual and in evolution, with direct impact on the company's value on the market. The most used indicators are:

- a. Earnings per share (EPS) reflect the way in which the company evolution can affect the interest of the shareholders. The investment efficiency in movable assets grows to a growing trend of EPS, so that its growing rate is likewise important in analyzing the share market value. EPS evolution is determined by the company's mix of decisions regarding the investments, the dividend policy and the financing policy.⁵ The result „offers useful information on appreciating the enterprise performance, indicator pursued by most investors. Therefore, the determining of this indicator is made both for enterprises whose (...) shares are listed on the stock exchange as well as for enterprises that do not have quoted shares.”⁶

EPS = Net result for the year / Number of issued shares

- b. Profit capitalization ratio (Pcr) reflects the net profit generated by the invested capital in a share. There are two ways of default calculations for this indicator:

Pcr = EPS / Share market price = Net result / Market Capitalization

- c. Market capitalization (MC) is the first indicator to analyze regarding the size of a market, representing the value market amount of all listed companies. The way of calculation is the following:

MC = Share market price x Number of issued shares

Market capitalization represents the market value of a quoted company and it also indicates the public opinion regarding the net value of the company, thus being a determinant factor in evaluating listed shares. Therefore it can be said that one objective to follow is a high value and growing of market capitalization. „Market capitalization is one of the best indicators of liquidities, disclosing the easiness with which company's securities can be traded, especially from the investors' perspective, who have immobilized big amounts of money and want to know how easily they can find counterparties in case they want to sell shares. This feature becomes very important in selecting securities from the structure of a portfolio based on their market capitalization. From this point of view companies are divided in three main categories: large capitalization (large caps), middle capitalization (midcaps) and small capitalization (small caps)”⁷.

- d. Price-to-Earnings Ratio (PER) takes the reverse form of profit capitalization rate. Reporting the share market price to earnings per share helps reflect the risk of the investment based on the evolution of the company. This shows how many times investors are willing to pay the level of net profit on a share.

PER = Share market price / EPS

Combined with the forecasted earnings of the company, PER makes possible the estimation whether shares are over or under evaluated. The indicator estimates in how many years the investment can be recovered, if the whole profit would be distributed to all shareholders as dividends. At the same time it shows how much it is necessary to invest in order to obtain a monetary unit from the company's profits. A high value of the indicator represents an over evaluated action. An action with a small PER is preferable to one with a high PER. In addition, there must be analyzed the comparison with the mean level of this ratio per industry. In developed economies the PER mean per industry is situated at 12.5 but the value of this indicator suffers a great variety from one country to another because of the policies applied to profit determination (conservatory or relaxed). PER is used to a large scale for the listed

⁵ Dragotă Victor (Coord.), „Management financiar”, Vol. II „Politici financiare de întreprindere”, Ed. Economică, București, 2003, pages 26-38

⁶ Balteș Nicolae (Coord.) „Analiza economico-financiară a întreprinderii”, Ed. Universității „Lucian Blaga” din Sibiu, Sibiu, 2010, page 40

⁷ Borlea Nicolae Sorin „Analiza performanței financiare și a riscului întreprinderii”, Camera de Comerț și Industrie a județului Sălaj, page 29

companies and it is considered the best sign on the individual (non-systemic) risk and on the companies evolution forecasts.

- e. Net assets per share reflect the way in which the current value of shares is sustained by the company's assets. When the accounting value is bigger than the market share price, the company can become the object of speculations and the target of its competition.

$$\text{Net Assets per share} = \text{Net assets} / \text{Number of issued shares}$$

- f. Price-to-Book Ratio (PBR, P/B) indicates the value given by the capital market to the management of one company. Based on this indicator there can be identified companies with low prices, but neglected by the investors. It is determined as follows:

$$\text{PBR} = \text{Share market price} / \text{Accounting value of a share}$$

A well-managed company and with sufficient increasing possibilities should have a higher market value or at least equal to its accounting value. The exception occurs during recession times. Organizations with increased profitability and a high growth rate of profit and turnover have a raised PBR.

„From the analyst's perspective, the shares of a company with a lower PBR are a sure investment because of the fact that the market value is leaning on the accounting value. The accounting value is considered the level beyond which the market price will not decrease because the company has always the option to liquidate or to sell its assets, at their accounting value. Many analysts avoid stock with high PBR in the process of constituting a portfolio. They base their decision on the fact that when other indicators remain identical, for two stock holdings, the one with lower PBR or safer.”⁸ If PBR is subunit then the market considers that the assets are over evaluated or that their profitability is small. This indicator equally depends on general economic factors as well as on individual ones. The average value of PBR in developed economies, in industrial field is of 1.7.

- g. Price-to-Sales Ratio (PSR, P/S) is the ratio between market price of a share and the net business figures corresponding to one stock. This indicator is useful in identifying unprofitable investments when the PER level proves to be irrelevant.

$$\text{PSR} = \text{Share market price} / \text{Net turnover per share} = \text{MC} / \text{Turnover}$$

2.2.Dividend ratios offer information regarding the dividend policy adopted by a company and it is important for all categories of shareholders.

- a. The dividend ratio expresses the immediate remuneration of shareholders. It is calculated as a percentage ratio between the level of dividends and the joint stock.

$$\text{Dividend Ratio} = (\text{Dividends} / \text{Joint stock}) * 100$$

- b. The dividend distribution ratio represents the way in which the annual result is distributed as dividends for the remuneration of shareholders.

$$\text{Dividend distribution ratio} = (\text{Annual dividends} / \text{Net result}) * 100$$

- c. The dividend per share is the dividend that corresponds to a stock holding.

$$\text{Dividend per share} = \text{Annual dividends} / \text{Number of issued shares}$$

- d. The dividend yield reflects the way in which the forecasts of earnings of shareholders correspond to reality. A high value of this indicator does not necessarily denote an efficient investment. An exception is made when a reduction of the share market price can signal a decrease of future dividends.

$$\text{Dividend efficiency} = \text{Gross dividend per share} / \text{Share market price}$$

- e. The capacity of covering dividends uses only accounting information and measures the proportion of the net profit distributed to shareholders as dividends. The indicator is relevant to the safety of dividends payment and the company's possibility to honor its obligations towards shareholders, using the profit obtained in the current year. A high level denotes a diminished self-financing policy, as a result of big distribution of dividends. Even if a great value of this indicator is attractive on the long run the future development of the company is compromised.

$$\text{Capacity of covering dividends} = \text{Net result} / \text{Dividends}$$

⁸ Borlea Nicolae Sorin „Analiza performanței financiare și a riscului întreprinderii”, Camera de Comerț și Industrie a județului Sălaj, pages 32-33

3. Study on the analysis of the financial performance of S.C. Compa S.A. between 2008 to 2012

S.C. Compa S.A. is a listed company on the Bucharest stock exchange since 12.06.1997, to the BVB II-nd category section. The company activates in the industry of auto parts, being specialized in manufacturing other parts and accessories for vehicles and for vehicle engines. It exports 80% from the business figures in over 23 states from 3 continents.

If we take a look to a prime centre of interest for investors on the capital market, financial the return on equity, we will see the favorable evolution of this indicator, growing from year to year with a maximum of growth for the year 2010. For all this analyzed period, the cause of growth is generated by the dynamics of increasing the net result which outruns considerably the growth of equity. Therefore, in 2010 we assist to an increase of net profit with 1.650,45% versus previous year. Because this indicator reveals the level of profit brought by the equity, its evolution is a favorable one.

Indicator	2008	2009	2010	2011	2012
Net Result	439.638	543.622	9.515.839	19.632.602	22.473.705
Equity	264.869.809	265.413.431	275.193.053	299.835.076	286.483.979
Financial profitability	0,17%	0,20%	3,46%	6,55%	7,84%

Table no. 1. Determination of financial profitability

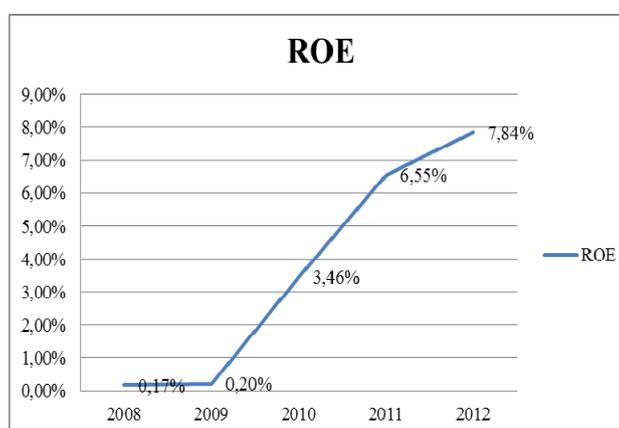


Figure no. 1. Financial profitability evolution between 2008 and 2012

At the same time the earnings per share also reflect an increasing evolution with maximum level achieved in 2012. Because the number of issued shares has remained steady during the analyzed period (218.821.038 shares), the whole change is the result of increasing the net result of the company (evolution presented in table no. 1). Therefore we can affirm that the efficiency of investment in the society assets is in considerable increase from one period to another.

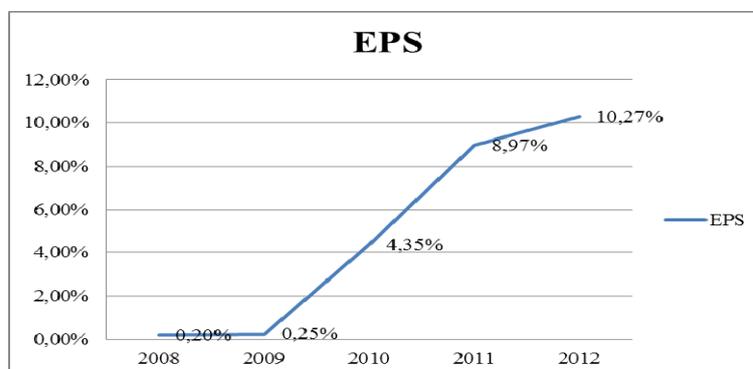


Figure no. 2. The evolution of EPS during 2008-2012

The profit capitalization ratio, an also increasing indicator (except for year 2009), is the expression of net profit generated by the capital invested in one share. The year of maximum level is 2011 (22,40%), in spite of the decrease in the market value (with 24,44%), aspect that has been deadened by the considerable increase of EPS. The way of calculation is presented in table no.2.

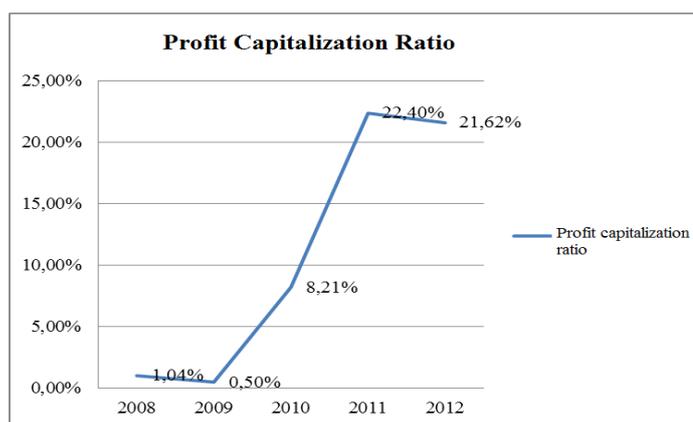


Figure no. 3. Evolution of profit capitalization ratio 2008-2012

Indicator	2008	2009	2010	2011	2012
EPS	0,20%	0,25%	4,35%	8,97%	10,27%
Share price	0,1940	0,4920	0,5300	0,4005	0,4750
Pcr	1,04%	0,50%	8,21%	22,40%	21,62%

Table no. 2. Determination of profit capitalization ratio

Market capitalization of the company faced an increasing period between 2008 and 2010, followed by a decrease in 2011 and then a considerable recovery again in 2012. This fact is exclusively due to the changes in share market value, since the number of issued shares remained steady for the analyzed period. On a holistic view, the investors' opinion reflected in the market capitalization is a favorable one and of trust in the company's performances.



Figure no. 4. Evolution of market capitalization 2008-2012

Indicator	2008	2009	2010	2011	2012
Share price	0,1940	0,4920	0,5300	0,4005	0,4750
Number of issued shares	218.821.038,00	218.821.038,00	218.821.038,00	218.821.038,00	218.821.038,00
MC	42.451.281,37	107.659.950,70	115.975.150,14	87.637.825,72	103.939.993,05
Evolution of MC	-	153,61%	7,72%	-24,43%	18,60%

Table no. 3. Determination of market capitalization and its increasing.

The price-to-earnings ratio, determines how many monetary units the investors are willing to pay for a unit of profit and also the necessary period for an investor to retrieve the invested capital. PER achieves the maximum level in 2009, not being equaled until the ending period of the analysis, 2012. After that moment the indicator keeps decreasing until 2011, with a slight recovery in 2012.

At the same time, in its evolution, the PER maintains over unitary values - favorable aspect. In 2008 and 2009, the shares were over evaluated in relation with the payback period of the investment.

However, it is possible that the investors foresee a speedy increase of profits for the future, fact confirmed by the reality of future years. For the following years the market value of securities is strongly correlated with the evolution of net profit per share and returns in the last period (2012) with an beneficial increase.

Indicator	2008	2009	2010	2011	2012
Share price	0,1940	0,4920	0,5300	0,4005	0,4750
EPS	0,0020	0,0025	0,0435	0,0897	0,1027
PER	96,56	198,04	12,19	4,46	4,62

Table no. 4. Determination of the price-to-earnings ratio.

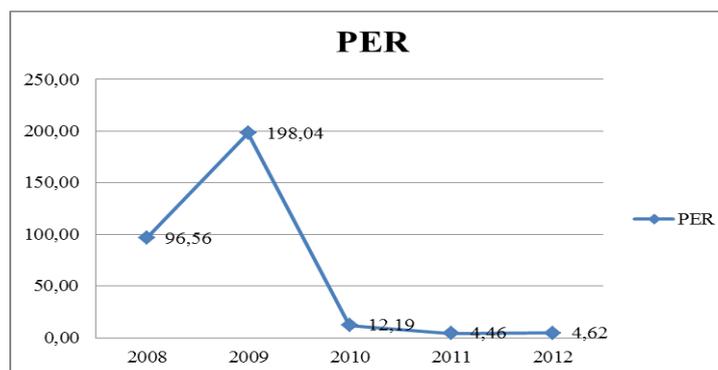


Figure no. 5. Evolution of the price-to-earnings ratio during 2008-2012

Net assets per share reflect a firm sustaining of current value of stock by the entity's assets. This indicator is in slight but steady increase during 2008 until 2011, with a slight decrease in 2012. It is a direct reflection of the evolution of the company's assets, without being influenced by the change of issued number of shares (they remained constant for the whole period of time analyzed).

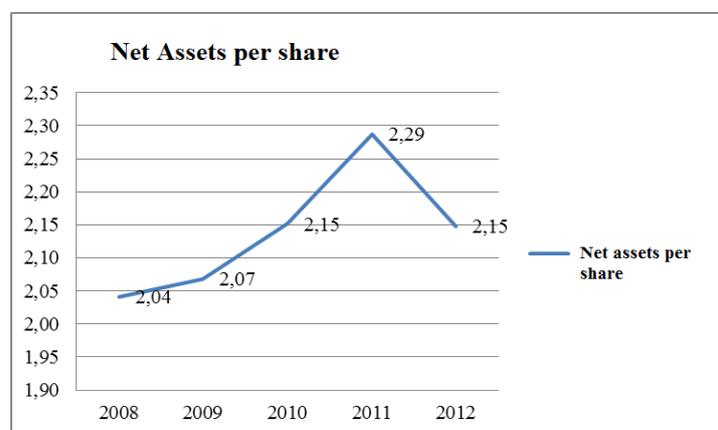


Figure no. 6. Net assets per share 2008-2012

Indicator	2008	2009	2010	2011	2012
Net Assets	446.611.413	452.425.442	470.747.217	500.565.304	469.891.142
Number of issued shares	218.821.038	218.821.038	218.821.038	218.821.038	218.821.038
Net assets per share	2,04	2,07	2,15	2,29	2,15

Table no. 5. Determination of net assets per share for the period 2008-2012

It is noticed that, the price-to-book ratio is a direct consequence of the high probability in relation with the company's equity and at the same time of the high growth rhythm of profit and business turnover. Therefore, even in an economic crisis time the company succeeds to maintain a level of trust through the indicators that reflect its performances and the investors repay this fact by being willing to pay a superior price per stock than the accounting value of security (0,10 lei/share).

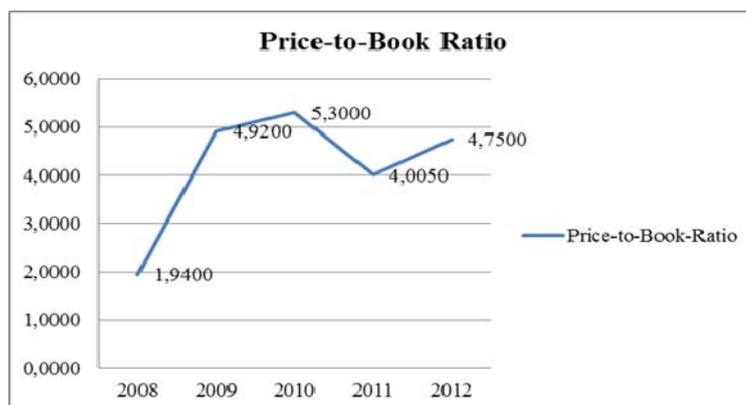


Figure no. 7. Evolution of PBR during the period 2008-2012

The minimum level of indicator is achieved in 2008, when also the price per share is at a minimum level, and the maximum level is achieved in 2010 from the same reason. Therefore, since during the period analyzed there were no changes in the joint stock, the evolution of PBR is generated exclusively by the changes in the share's market value. Consequently, given the information emerged from the analysis of this ratio, there has also emerged another sign of trust from the investors, but this time in the management of the company. The ratio registered over unitary values during the whole period.

Indicator	2008	2009	2010	2011	2012
Share price	0,1940	0,4920	0,5300	0,4005	0,4750
Accounting value of one share	0,10	0,10	0,10	0,10	0,10
PBR	1,9400	4,9200	5,3000	4,0050	4,7500

Table no. 6. Determination of PBR for the period 2008-2012

Price-to-Sales ratio is an indicator less volatile in time in comparison with the price-to-earnings or price-to-book ratio because the business turnover is an element with a positive level and difficult to manipulate from an accounting point of view. Following the decrease of business turnover at the same time with increasing of market capitalization, PSR achieved the maximum level in 2009. The minimum level from 2011 is explained through decreasing of market capitalization which overlaps the increasing of business turnover from the same period. The way of determination of PSR is presented in table no. 7, and the evolution of the indicator is represented in figure no. 8.

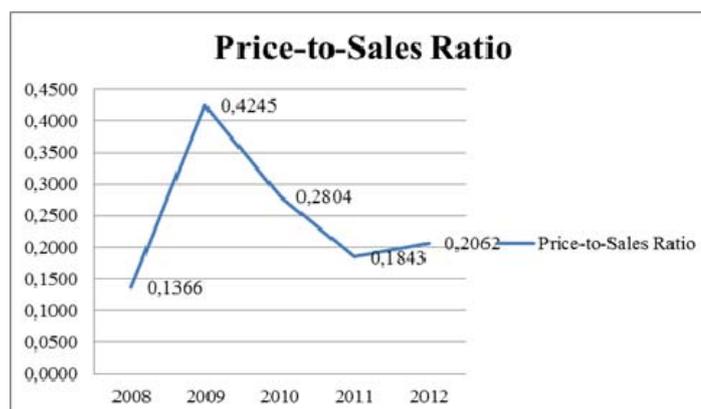


Figure no. 8. Evolution of price-to-sales ratio between 2008-2012

Indicator	2008	2009	2010	2011	2012
MC	42.451.281,37	107.659.950,70	115.975.150,14	87.637.825,72	103.939.993,05
Turnover	310.818.158,00	253.632.827,00	413.637.752,00	475.420.369,00	504.094.872,00
PSR	0,1366	0,4245	0,2804	0,1843	0,2062

Table no.7. Determination of PSB during 2008 until 2012

Since during the period subjected for analysis 2008-2012, the entity did not grant dividends, the analysis of the dividend ratio is nor relevant, nor possible in this case. Therefore, we can assert that in this case the investors on the capital market were attracted by the company's performances, fact reflected by the information emerged from the financial statements and analyzed through the share growth ratios.

Conclusions

All things considered, we can see the importance of a detailed analysis of each indicator's significance and of each piece of information used in their determination. The information resulted from the analysis of the ratios specific to the listed companies are complementary, without being relevant if they are analyzed isolated from each other. Market ratios are the most comprising instruments to measure the performances of a listed company because they are generated by the cumulated influence of risk ratios and financial profitability.

Broadly, it can be noticed that the investors from the capital market consider S.C. Compa S.A. a trust worthy organization, fact sustained by the evolution of the market capitalization, in spite of the fact that the analyzed period is one of economical-financial crisis. At the same time, another type of trust towards the entity is for the management of the company, aspect stressed by the evolution of the price-to-book ratio, over unitary all through the whole period, so that the investors are willing to pay a superior price per share than the accounting value of the security.

The central tendency of performance ratios is an increasing one: financial profitability ratio, earnings per share, profit capitalization ratio, fact that denotes a sustaining of evolution from the capital market through strong economic and financial fundamentals. The evolutions of these ratios do not show any anomalies, being an expression of these healthy fundamentals.

The price-to-earnings ratio reaches the maximum level 2009, decreases until 2011 and increases slightly in 2012. In 2008 and 2009, shares were over evaluated in comparison with the payback period of the investment, but it is possible that investors might have seen the perspective that profits grow significantly in the future, fact that really happened. Still, during the following years the market value of securities is correlated with the evolution of net profit evolution per share.

Because during the analyzed period, 2008-2012, the entity did not granted any dividends, the analysis of the dividend ratios does not show relevance in this case. Therefore, one can affirm that in this case the investors on the capital market were attracted by the performances of the company. This performance has been reflected through the information from the financial statements, passed through the filter of analysis by share growth ratios.

In conclusion, we observe that the analyzed ratios do not contradict, but they complete each other in order to create a complete image of the company's financial performance: that the company is attractive from a financial point of view, fact proved by the investors' interest in its shares.

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- *** www.compa.ro accessed on 02.05.2013, 13:50
- ***<http://www.insse.ro/cms/rw/pages/ipc.ro.do?jsessionid=0a02458c30d550d7fda54cdc43fab67a95095cf660cf.e38QbxoSahyTbi0Se0> accessed on 10.05.2013, 15:10
- *** www.kmarket.ro/actiuni/afisare_actiune.php?simbol=cmp accesat la date de 10.05.2013, 21:29
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THE POLITICAL INFLUENCE IN SOLVING ECONOMIC CRISIS - THE CASE OF CHINA AND U.S. IN 1972

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Abstract:

The literature agrees with the fact that politics has a high influence in solving economic crisis. Yet the literature seems to disagree about how politics influence economics. In most of the cases, political stability is a primary source of economic stability reverse political instability is a source of economic instability. The aim of the article is to explore a case where politics had an efficient influence in solving economic crisis and improve the national economy. Moreover, after a state pass an economic crisis, the article offers an insight of the economic evolution.

Key words: *politics, economy, influence, China, U.S.*

1. Introduction

The literature agrees with the fact that politics has a high influence in solving economic crisis. Yet the literature seems to disagree about how politics influence economics. In most of the cases, political stability is a primary source of economic stability reverse political instability is a source of economic instability, especially in communist countries. This pattern, however, is not only in communism, but also in democracies, for example in weak democracies or countries that are in process of passing from a regime to another. The main argument of the economist is that a state with political assassinations, social revolts, governmental crisis and anti-government demonstration, cannot assure economic security, thus foreign investments is put at risk. Back at the political and economic influence, I must say that literature acknowledge that there are situation in which politics does not influence the evolution of the national economy.

The aim of the article is to explore a case where politics had an efficient influence in solving economic crisis and improve the national economy. Moreover, after a state pass the economic crisis, the article offers an insight of the economic evolution. The article will take into consideration only a case where politics helped to solve economic crisis, not how economics influence politics in solving economic crisis. In order to achieve my goal, I will go further than the present economic crisis (2008 – 2012) addressing example of economic crisis from the past of our history. The hypothesis of the article is that the economic crisis, exist already and the political influence helps to solve a national economic crisis and more, the politics is able to influence a state to change its economic system. With this in mind, let's begin.

2. The political influence helps to solve a national economic crisis and more, is able to influence a state to change its economic system. The example: China and US in 1972

2.1 China before the political influence

After the end of the Second World War, China was reorganized politically and economically. At first, the social and economic situation of the country was beneath criticism. The inflation was between 100% and 500% per month. But over time, due to reforms constructed and imposed by the regime of Mao Zedong, China began recording growth. Over time, however, political and economic reforms have failed. An example is the program "The Great Leap Forward". The goal is to continue the agricultural collectivization and building an industry that, according to literature, to emulate the economy of Great Britain! To support the ideas of Mao, many farmers decide to move to the city, where they built factories. The peasants were those who gave up of the metals iron found in their household. The matter was taken to the molten iron where to develop tools and machines work. Initiative in terms of propaganda was a great success, but in practice it has proved a failure. The steel and iron products were of inferior quality. Continuing the idea, "The Great Leap Forward" failed in agriculture, too. In 1959, the agricultural efficiency decreased by 25% compared to 1958, but regional political officials decided on the ground that

will not disappoint the government, as a result they decided to change the data, replacing production with extra digits. In some regions was passed by 10% more. In other regions by 30% and, in some cases, even 100% more! As a result, the government decided to take tax money from citizens and agricultural products according to the data received from regional officials. For example, if a collective record ten sacks of wheat and twenty sacks was passed, the state get 10% of production, i.e. four bags of wheat instead of two bags. During winter, people did not have enough food, as a result, between 20 and 40 million people died of starvation.

Following the failure of “The Great Leap Forward” Mao began to fall in the polls. Mao was no popular among the public, and he was aware of the situation. To a large extent encouraged the formation of a cult of personality. Hoping to regain its prestige, Mao, at the beginning of 1966, has started what he called the Cultural Revolution. In May of 1966, all universities, schools and many companies were closed. Millions of students were invited to participate in the protection of Mao from revisionist. The slogan used during the Cultural Revolution was “Rebellion is justified” and youth groups that were involved in the revolution were called Red Guards. Instead, different professionals, managers, teachers and thinkers of China, who disagreed with Mao, were fired and forced to stay home. By this hostile attitude, Mao, like Marx, believes that socialism can replace capitalism.

The Cultural Revolution was a time of massacre and violent crime among Chinese. Mao triggered a war between present and future generations. Red Guards took control arms so, during the revolution, thousands of innocent people were killed. The first two years of the Cultural Revolution, 1966-1968, was a period of suffering. Negative effects of the revolution reached the ears of Mao. Unhappy with the progress of the revolution, he decides to use deadly force to calm the spirits of young people, as a result, the Cultural Revolution ended officially in 1969.

The evolution of China’s national economy, in 1952 it registered a GDP of 67.9 billion Chinese yuan and in 1972 it was over 70 billion Chinese yuan. This low increase, in Chinese economy, is given by the inappropriate political and social reforms. Also, by the time of Cultural Revolution, the government paid a lot of money in maintaining the national cultural propaganda.

As a short conclusion, China from 1949 to 1972 was in political, social and economic crisis.

2.2 China after the political influence

In the early 1970s, China's economy, relative to the needs of national economic market, was underdeveloped. To the surprise of the international community, President Richard Nixon decided to make a step forward in the cold relations with China. In 1972, U.S. President Richard Nixon, along with his advisor Henry Kissinger, a specialist in world politics, visits China. Following a meeting between the two presidents, both the U.S. and China, agreed to sign a treaty of economic cooperation between them. The purpose, as Alexander Eckstein noted, was „to facilitate the progressive development of trade between their two countries.” This agreement is important for US and China. For the former it helps improving social, political and economic life, and for U.S., China is a new strategic partner in war against USSR.

2.2.1 The result of the political influence

If in 1971 the trade in millions of dollars, between China and US, was \$0, in 1972 is \$63.5 million, and in 1974 – \$749.7 million. Interestingly, in 1975 the trade decreased to \$250 million. In the above case, politics manage to solve the economic crisis in China. The political influence helped China to make a step forward in achieving economic growth. Moreover, after the death of Mao Zedong (1976) and coming to Deng Xiaoping's leadership (1979 – 1992), the latter was noting the benefits of international trade with capitalist market on China's economy. As a result, Deng decided to address and to implement the capitalist market economic system in China. In other words, the strong political influence on solving the economic crisis led to the change of the economic market.

Deng Xiaoping turns to be an innovative and creative leader. Due to Deng's reforms, China made the transition from a communist market to the capitalist market with socialist characteristics, i.e. free market, of course, keeping the Five Years Plan. As a result of Deng's reforms, China is beginning to achieve substantial economic growth. First, Deng proposes to abolish the collective system of the agriculture by replacing private system. Each collective system was free to experiment with all methods of economic improvement. Also, each individual has the right to build a private company. In agriculture Deng decided to increase price of wheat sold to the state peasants, so peasants became small entrepreneurs.

Other reforms have 1. Increase foreign investment. All the companies from the world could come to China to invest freely. State companies have achieved autonomy in domestic and foreign affairs. 2.

Administrative decentralization. Local political authorities have received green light to explore agriculture and businesses freely. In other words, Deng created what Hunter said in 2008, a communist-capitalist hybrid. The political system will be communist but the economy will be capitalist. It was a good decision.

2.2.2 An insight of the economic evolution

1. In 1994 William H. Overholt noted: „China’s exports climbed from a \$14,8 millions in 1979 to \$85 billion in 1992.”
2. In 2012 new evidence showed that China, from 1980 to present, has recorded a higher level of GDP than U.S. Layne noted: „in 1980’s is 2%, 1995 – 6% and 2014 (est.) – 15%”. Comparing with the USA „in 1980 is 22%, in 1995 – 23% and by 2014 will decrease to 18%.” China is growing and U.S. is decreasing.
3. And final data, in 2012, China's GDP reached \$8227 billion, in 2013 - \$9020 billion and it is speculated that in 2018, China will reach \$14.941 billion, an amount appropriated by the U.S.

3. Conclusions

The present article showed that the political influence in China’s economy had a real and very efficient impact. Since 1972 to present, with the help of the U.S., and with Deng’s reforms 1979, China’s economy has been increased over the last thirteen years. The political influence not only solved a national economic crisis, but also helped in creating a capitalist market, keeping socialist characteristics untouched.

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ACCOUNTING AND TAX TREATMENT ON THE RESULT OF CURRENT FINANCIAL YEAR

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Abstract

In accounting, the result of the current financial year is the purpose of current operations, resulted in a surplus of revenue, designating a profit, or revenue deficit, designating a loss. The result of the financial year is calculated as the difference between revenues and expenses.

The result of the current financial year and its distribution is realized by the three synthetic accounts, like the 121 "Profit or loss for the period" account referring to the outcome of exercise, 129 "Profit appropriation" referring to profits distributed according to the law and the 117 "Retained earnings" account referring to retained earnings or uncovered loss.

The income tax is the state's right to collect resources for development, applied to the taxable profit of the entity, calculated as the difference between revenues and expenditures minus nontaxable revenue and non-deductible expenses added.

The tax payers are Romanian legal persons, foreign legal persons, natural and legal persons non-residents in Romania and legal persons established in Romania, established according to European legislation, making payment and declaring it quarterly by the 25th of the first month after the first three quarters.

Keywords: *revenue, expenses, result, tax, profit.*

1. Accounting treatments for financial year result

The purpose of current operations in accounting is following by calculating the result of the current financial year, sharing it or coverage of loss.⁹ The financial result it may be materialized in a surplus of revenue, respectively profit, when revenues from all sources are greater than costs, or a negative value, respectively loss, when revenues are less than expenses.

YEAR RESULT	=	REVENUE FROM ANY SOURCE	-	COSTS INCURRED FOR THE REVENUE
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Article 27 paragraph (1) of the Accounting Law no. 82/1991, republished, stipulates that "The financial year is the period for which financial statements are annual and usually coincides with the calendar year." The profit or loss is determined as management needs in the financial year until its conclusion, being called the International Financial Reporting Standards (IAS 34 "Interim Financial Reporting") as the intermediate result.

The profit or loss of an entity is established cumulative from the beginning of the financial year. Closing the revenue and expenditure accounts is performed at the end of the financial year and the final result is determined at its closure (Accounting Law no. 82/1991, republished and Order no. 3055/2009). So, in accounting, profit or loss is established every month, every quarter and every year using data acquired during a financial year.

Results are equity structure in the form of profit or loss and in relation with the period to which it relates are: retained earnings and current year results. The results are distributed and, therefore, their presence in the equity structure is provisional (once constituted and until distributed, respectively the registration until the loss cover decision).¹⁰

Result of the financial year accounting and profit distribution is made using three synthetic accounts:

⁹ Dr. Dumitru Vișan, Dr. Corneliu Burada, "Contabilitatea rezultatului exercițiului și rezultatului reportat", revista "Gestiunea și contabilitatea firmei", Nr. 10(166), Anul XIV, Octombrie 2011, pag. 35

¹⁰ Mihai Ristea, "Contabilitate financiară", Ed. Universitară București, 2005, pag. 72

- 121 “Profit or loss for the period”;
- 129 ” Profit appropriation”;
- 117 “Retained earnings”.

121 “Profit or loss” account illustrates the result of the financial year.

After the economic content, account 121 "Profit or loss" is an income statement, with a bifunctional accounting function. When operating as a liability account, means that the entity has profit, and when it operates as an asset account, the entity has lost.

In the credit side of the account, at the end of the period, are recorded all revenue incorporated into result, and the accounting loss from the ended financial year, being transferred to the following year at retained earnings.¹¹

In the debit side of the account, at the end of the period, are recorded all expenses reimbursed, net profit from the ended financial year, revealed early next year into retained earnings and the net profit from the ended financial year, which was allocated to reserves as required by law.¹²

The final balance can be a credit balance, meaning the profit obtained by the entity, or a debit balance, representing the loss realized by the entity.

129 " Profit appropriation" account keeps track about the allocation of profit in the current financial year on direction provided by law. After the economic content, 129 “Profit appropriation” account is a regularization account, with asset accounting function. In the debit side of the account are recorded reserves from profits in the current financial year and in the credit side of the account, the net profit for the ended financial year, which was assigned to the reserve according the law.¹³ The final balance of the account has a debit balance, describing the distributed profit for the financial year ended.

117 “Retained earnings” account illustrates the retained earnings of the entity, respectively the uncovered losses from previous financial years. According to the General shareholders or members, the profit will be distributed to destinations in the following financial years and the loss will be covered by profits following the next financial exercises from reserves or capital. After accounting function, 117 “Retained earnings” account is bifunctional and is detailed on four synthetic accounts: 1171 “Profit/loss carried forward”, 1172 “Retained earnings due to the adoption of IAS for the first time, with the exception of IAS 29”, 1174 “Retained earnings due to the correction of accounting errors” and 1176 “Retained earnings due to the switch to adoption of Accounting Regulations according to the Fourth Directive of the European Economic Communities”. In the credit side of the 117 “Retained earnings” account shall be recorded: net profit in the ended financial year, recorded at the beginning of next year in retained earnings, losses covered by premium related to capital, book losses covered by share capital, losses covered by reserves, favorable result from the error corrections founded, canceled values representing debts to associates/ hareholders, sundry creditors, suppliers, canceled values representing debts to the state budget.¹⁴

In the debit side of the account are recorded: book losses realized in the ended financial year , recorded at the beginning of next year in retained earnings, net profit realized in earlier years, used to increase the share capital, dividends and payments to the state, the unfavorable result from the correction of errors founded, unfavorable result from the error corrections from previous financial year and recorded in the current financial year, canceled values representing amounts receivable from associates / shareholders, sundry debtors, customers.¹⁵ The final credit balance is the retained profit, resulted from correcting the accounting errors and the final debit balance means the book loss retained and uncovered, resulted from the correction of accounting errors.

¹¹ Nicolae Balteș, Alina T. Ciuhureanu, ”Bazele contabilității: fundamente teoretice și practice”, Ed. Universității ”Lucian Blaga” Sibiu, 2010, pag. 305

¹² Idem

¹³ Iacob Petru Pântea, Gheorghe Bodea, ”Contabilitate financiară”, Ed. Intelcredo Deva, 2011, pag. 407

¹⁴ OMFP 3055/2009 Capitolul VII – Funcțiunea conturilor, Clasa 1 ”Conturi de capitaluri”, Grupa 11 ”Rezultatul reportat”

¹⁵ OMFP 3055/2009 Capitolul VII – Funcțiunea conturilor, Clasa 1 ”Conturi de capitaluri”, Grupa 11 ”Rezultatul reportat”

2. Tax treatments for financial year result

Taxable profit, also called fiscal result is determined as the difference between revenues from any source and the expenses incurred in order to achieve this revenues (the accounting result) in a fiscal year, minus nontaxable revenue and deductible expenses added. In determining the taxable income is taken also, into account other similar revenue under the rules of application.¹⁶ The fiscal result, is calculated based on the amount of taxes payable or refundable and the one that takes the form of fiscal profit or tax loss.¹⁷ According to International Accounting Standards, respectively IAS 12 “Income Taxes”, the tax result is:

Fiscal Result	=	Accounting Result	±	Permanent Differences	±	Temporary Differences
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Where:¹⁸

Permanent differences are reinstated items to the taxable profit for the year (non-deductible) or permanently deducted (tax deductions).

Temporary differences are nonintegrated elements in the taxable profit for the year, but which will be deducted later, or items that are deducted from the taxable profit for the year, but which will be taxed later (nontaxable revenues). Therefore, taxable profit is determined by adjusting the gross accounting result with nontaxable revenue and deductible expenses.¹⁹

Fiscal Result	=	Accounting Result	-	Non-taxable Revenue	+	Non-deductible Expenses
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According to the Methodological Norms for the application of the Tax Code, paragraph (20) “are considered nontaxable revenue, revenue which recovers costs for which no deduction was allowed at the time they were made, such as tax on profit refunds paid, repayment of interest and / or late payment, revenue from cancellation of provisions that were considered non-deductible expenses on their constitution.”²⁰ Effect of nontaxable revenue is to minimize the taxable income.

The revenues that are **non-taxable** are: dividends received from a Romanian legal person,²¹ favorable value differences for investments in associates, registered as a result of incorporation of reserves, benefits or Share premium from legal persons that holds investments in associates;²² revenues from canceled expenses for which no deduction was granted, revenues from deductions or canceled provisions for which no deduction was allowed and revenues from non-deductible expenses recovery;²³ untaxable revenues, stipulated in agreements and memoranda approved by laws;²⁴ revenues from investments in associates transactions on authorized and supervised by the National Securities Commission;²⁵ revenues from deferred tax income, determined and recorded by taxpayers who applies the accounting regulations according with International Financial Reporting Standards;²⁶ revenues representing the fair value of real estate investments, as a result of further evaluation, using the fair value model by taxpayers who applies the accounting regulations according to International Financial Reporting Standards.²⁷

¹⁶Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 19, Alin. (1)

¹⁷ Dumitru Vișan, ”Contabilitatea decontării impozitului pe profit și a taxei pe valoare adăugată”, revista ”Gestiunea și contabilitatea firmei”, Nr. 6(162), Anul XVI, Iunie 2011, pag. 6

¹⁸ Idem

¹⁹ Lucian Cernușcă, ”Tratatamentul contabil și fiscal privind impozitul pe profit”, revista ”Gestiunea și contabilitatea firmei”, Nr. 1(157), Anul XVI, Ianuarie 2011, pag. 5

²⁰ Lucian Popescu, ”Contabilitatea și gestiunea fiscală a impozitului pe profit în perioada 2010-2011”, revista ”Gestiunea și contabilitatea firmei”, Nr. 2(170), Anul XV, Februarie 2012, pag 21

²¹ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 20, lit. a)

²² Ilie Popovici, ”Impozitul pe profit”, revista ”Tribuna Economica”, Nr. 45, 2012, pag. 36

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²⁴ Dumitru Matîș, Atanasiu Pop, ”Contabilitate financiară: reglementări contabile conforme cu directivele europene aprobate prin OMFP nr. 3055 din 29 octombrie 2009”, Ed. Casa cărții de știință Cluj-Napoca, 2010, pag. 422

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²⁶ Ibidem, pag. 37

²⁷ Idem

After Romania joined the European Union, are considered as nontaxable income: dividends received by a Romanian legal person, parent-entity, from its subsidiary located in a member state, if the legal person fulfill all legal requirements (pays income tax without the possibility of an option of being exempt; minimum 10% of share capital of the legal person located in a member state, which distributes dividends; at date of dividend revenue registration, to hold the minimum participation, for a continuous period at least 2 years) and dividends received by permanent establishment in Romania for foreign legal persons from other member states, parent-entity, that are distributed by their subsidiaries located in member states, if the foreign legal person fulfills the above conditions.¹

Non-deductible expenses are those expenses which do not entail the obtaining of taxable revenue. Also, non-deductible expenses are added, determined by the tax legislation.² The non-deductible deductible expenses can not be deducted from revenues when calculating the income tax. They are the costs that are not fully involve in obtaining revenues and those that the law does not accept it.³ In the non-deductible expenses category are included: taxpayer's own expenses with the income tax due, income or revenue taxes paid abroad, unrestrained tax expenses at source on behalf of nonresidential, natural and legal persons, for revenues realized in Romania, deferred income tax expenses recorded by taxpayers who applies the accounting regulations according to International Financial Reporting Standards⁴ and interests, delay penalties, fines, forfeitures and late payment rate⁵, but also goods discovered as missing or damaged, not imputable, which were not concluded insurance contracts, value added tax of them, benefits in-kind goods or services, if their value has not been taxed by withholding granted to employees.⁶

Expenditures made in favor of the shareholders or associates without consideration, expenses recorded in accounting, that are not based on a supporting document which prove the operation or the entrance in goods administration⁷ and expenses with paid contributions over limits or not covered by legislation, sponsorship and/or patronage agreement, private scholarships granted by law, if the total expenses fulfill the following conditions: are within 3% of turnover and not exceed more than 20% of income tax owed⁸ belong from non-deductible expenses category, but also expenses with management services, consultancy, support or other service provision, unjustified, expenses with insurance premiums which are not on the assets of the taxpayer and those that are not related to the activity object, except those assets representing bank guarantee for loans used in activity development for which the taxpayer is authorized or used under rental or leasing contract terms.⁹

Expenditure recorded in accounting, which are based on a document issued by an inactive business enterprise¹⁰, expenses recorded by agricultural societies, established by law, for the right to use the agricultural land from associate members, over the share distribution of its achieved production, provided in the partnership agreement¹¹ are also non-deductible expenses.

Losses recorded from doubtful customers or customers involved in litigation, unpaid, for the uncovered part from provisions, according to art. 22, losses registered from doubtful customers or customers involved in litigation, unpaid, in other situations than those referred into art. 21 paragraph (2)

¹ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 20[^]1

² Dumitru Mătiș, Atanasiu Pop, "Contabilitate financiară: reglementări contabile conforme cu directivele europene aprobate prin OMFP nr. 3055 din 29 octombrie 2009", Ed. Casa cărții de știință Cluj-Napoca, 2010, pag. 415

³ Ibidem, pag. 419

⁴ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 21, Alin. (4), lit. a)

⁵ Adrian Țăran Moroșan, "Costurile – componente, sferă de cuprindere, metode și procedee de calculație", Ed. Psihopedia, Sibiu, 2009, pag. 50

⁶ Ibidem, pag. 51

⁷ Idem

⁸ Nicolae Balteș, Alina T. Ciuhureanu, "Bazele contabilității: fundamente teoretice și practice", Ed. Universității "Lucian Blaga" Sibiu, 2010, pag. 303

⁹ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 21, Alin. (4), lit. n),m)

¹⁰ Adrian Țăran Moroșan, "Costurile – componente, sferă de cuprindere, metode și procedee de calculație", Ed. Psihopedia, Sibiu, 2009, pag. 53

¹¹ Dumitru Mătiș, Atanasiu Pop, "Contabilitate financiară: reglementări contabile conforme cu directivele europene aprobate prin OMFP nr. 3055 din 29 octombrie 2009", Ed. Casa cărții de știință Cluj-Napoca, 2010, pag. 419

n)¹ and tax expenditures, contributions to non-governmental organizations or associations, related to taxpayers activity and which exceeding the equivalent in RON of 4000 Euro annually, other than those referred into paragraph (2) g) and m) from the Tax Code² are also included in the non-deductible expenses.

According to its right to constitute taxes to acquire the resources needed for developing, state requires income tax from the entity. Pursuant to Tax Code, the **income tax** is payable by: legal, Romanian and foreign persons, legal and natural persons nonresidential in Romania and legal person established in Romania according to European legislation.³

From paying income tax are exempt taxpayers such as: state treasury; public institutions for public funds, including revenues and cash, made and used according to law; Romanian foundations formed as a result of a legacy; religious cults for incomes obtained from production and use of objects and products necessary for worship, incomes from rents, other incomes from economic activities, incomes from compensation in cash, obtained due to the remedial measures provided by laws for reconstitution of the property rights, provided that the amounts will be used in the current and/or next years, for maintenance and operation of the cult units, for constructions, building and repairing of churches and ecclesiastical buildings, for education, for providing in their own behalf and/or in partnership, social services, accredited under the law, for specific actions and other non-profit activity; private education institutions accredited and authorized, for used incomes in the current or next years; company owners constituted as legal persons and tenants associations recognized as owners associations, for revenues obtained from economic activities that are or will be used to improve the utility and efficiency of the building, for maintenance and repair of the common property; deposit guarantee fund in the banking system, established by law; the investor compensation fund, established by law; the National Bank of Romania; private pension fund set up by law.⁴

The fiscal year tax is the calendar year. When a taxpayer is established to exist during a fiscal year, the taxable period is the period of the calendar year which the taxpayer existed.⁵

The taxable period of a fiscal year begins after the registration date in the Commercial Register, if it has this obligation, at the date of registration in the register kept by the competent courts, at the closing date or implementation of association agreements, for associations that do not give rise to a new legal entity.⁶

Under tax rules, currently the corporate tax rate applicable is 16%, except the minimum tax and Article 38 from Tax Code.

The minimum tax is granted to taxpayers that performs night activities like night bars, nightclubs, discos, casinos or sports betting, including legal persons which achieved this revenue under a contract association, and where the tax due for activities provided is less than 5% of those revenues, are obligated to pay a tax of 5% applied to these revenue.⁷

The payment and declaring the income tax is performed quarterly, until the 25th of the first month following the end of the first three quarters. Declaration and payment of income tax for the current fiscal year, shall be made by the deadline for declaration, provided from Article 35 of the Tax Code.⁸

Taxpayers are required to submit an annual declaration of income tax until 25th March of the following year, except taxpayers referred to Article 34 paragraph (5) a) and b), paragraph (14) and (15) from Tax Code filling the annual statement until the deadlines provided in these paragraph.⁹

3. Study on the determination of the financial year result and the distribution across destinations

¹ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 21, Alin. (4), lit. o)

² Lucian Cernușcă, "Tratatamentul contabil și fiscal privind impozitul pe profit", revista "Gestiunea și contabilitatea firmei", Nr. 1(157), Anul XVI, Ianuarie 2011, pag. 9

³ Lucian Țățu, "Fiscalitate: De la lege la practică", Ed. C.H. Beck București, 2010, pag. 110

⁴ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 15, lit. a) – l)

⁵ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 16

⁶ Ilie Popovici, "Impozitul pe profit", revista "Tribuna Economica", Nr. 45, 2012, pag. 28

⁷ Legea 571/2003 coroborată cu HG 44/2004 privind Codul Fiscal cu normele metodologice de aplicare 2013, Art. 18

⁸ Ilie Popovici, "Impozitul pe profit (III)", revista "Tribuna Economica", Nr. 47, 2012, pag. 30

⁹ Ibidem, pag. 33

A company has a share capital of 4,000 RON and legal reserve up to date about 300 RON. During X year, the entity obtains 200,000 RON income and recorded expenses about 160,000 RON. The non-deductible expenses amounted to 10,000 RON. The profit after repartitions is distributed as dividends in year X +1, after approval of the financial statements. What are the year-end accounting records?

In year X shall be recorded:

Completing the legal reserves, until it reaches the fifth part of subscribed and paid share capital:

1/5 of the share capital = $1/5 * 4,000 \text{ RON} = 800 \text{ RON}$

Legal and deducted maximum reserve that can be constituted in the year X = $5\% * (200,000 \text{ RON} - 160,000 \text{ RON} + 10,000 \text{ RON}) = 2.500 \text{ RON}$

Therefore, the legal reserve may be completed during the year X with 500 RON to 600 RON level.

Note book:

129 "Profit appropriation" = 1061 "Legal reserve" 500 RON

Registration of tax:

Income tax = (revenues - expenses + non-deductible expenses - legal reserves) * 16% = $(200,000 \text{ RON} - 160,000 \text{ RON} + 10,000 \text{ RON} - 500 \text{ RON}) * 16\% = 7,920 \text{ RON}$

According to art. 22 of the Tax Code:

"A) the legal reserve is deductible in the limit of 5% applied on the accounting profit, before determining the income tax, minus nontaxable incomes and adding the expenses for this incomes, until it reaches the fifth part from the subscribed and paid share capital or patrimony, under the laws of organization and operation."

691 "Income tax" = 4411 "Current income tax" 7,920 RON

Closing the revenue and expenses:

121 "Profit or loss for the period" =	%	
		167,920 RON
		6xx "Expense accounts" 160,000 RON
		4411 "Current income tax" 7,920 RON

7xx "Income accounts" = 121 "Profit or loss for the period" 200,000 RON

In the year X +1:

Clearance 121 and 129 accounts:

121 "Profit or loss of the period" =	%	
		32,080 RON
		129 "Profit appropriation" 500 RON
		1171 "Profit/loss carried forward" 31,580 RON

Dividends distribution:

1171 "Profit/loss carried forward" = 457 "Dividends payable" 31.580 RON

Withholding tax on dividends: $16\% * 31.580 = 5.053 \text{ RON}$

457 "Dividends payable" = 446 "Other taxes and similar liabilities" 5053 RON

4. Conclusions

In the first two parts of the research were treated the theory of accounting and tax treatments of the financial year result, and in the third part was conducted a case study on taxing incomes.

The income tax is an important measure for a better society development. Therefore, the company accomplish an accounting profit of 40,000 RON and a taxable profit of 49,500 RON, so a tax income value about 7,920 RON. The total profit of the company was 32,080, which was supplemented with 500 RON legal reserves, and the rest was retained for the dividend to be distributed.

In conclusion, determining the financial year result involves both accounting and treatments tax treatments. All this was described in the case study elaborated.

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DEFENCE RESOURCES MANAGEMENT - POSITION OF THE ARMY OF CZECH REPUBLIC ON LABOUR MARKET

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Abstract

This work is focused on the position of the ACR in the labour market and is resorting to the principal defined task. There is a brief analysis of the factors (whether in a large or small extent) affect the competitiveness of ACR in the labour market. It summarizes the advantages and disadvantages of each ACR to other employers in the Czech Republic and in the very end is further defined position of ACR on the labour market. It could be useful for the students of the University of Defence or for candidates for a place in the Czech army.

Keywords: *ACR, factor, company, competition, labour market*

1. ACR as the demander on the labour market

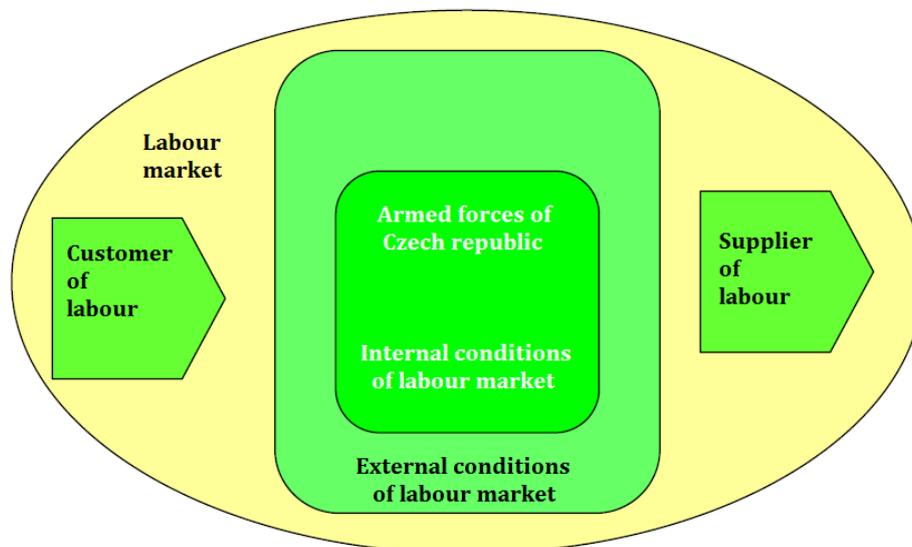
The process of recruitment and selection of military professionals ensures the addition of new soldiers for institutions as the Armed Forces, Ministry of Defence, Military Police and Military Intelligence.

Czech Army forms about 95% of the armed forces. Like any other organization of employers armed forces (state) monitoring internal and external labour market conditions. In relation to the labour market, the Armed Forces are both the customer and the contractor of workforce. The procurement of human resources from the labour market (or the recruitment and selection of new military professionals) provides recruitment policy, which is focused on the acquisition and selection of human resources - applicants and candidates which meet statutory requirements for service in military. To reach the most potential customers using personal marketing tool.

Internal labour market conditions, which are linked to systemized job places, provide Armed Forces (the state) as an employers' organization. They reflect the character of work, position in the hierarchy of functions, required qualifications, duties and responsibilities under the functions, organization of work, place of work, working conditions. Arising from it also conditions related with organisation (such as prestige, reputation of the organization, the level and employee care, the possibility of personal development, interpersonal and social relations).

The external labour market conditions are e.g. demographic limits, such as the numbers of the target population, the health status of the population and other criteria for level of education, the development of spatial mobility and labour supply.

Figure 1: Armed forces on labour market (Davidová Monika, 2008)



2. Factors affecting the competitiveness of ACR in the labour market

From the preceding pages of this text results, that at the beginning of the 21 century we notice from the perspective of seeing the labour market (especially in the context of globalization and technological advances) these the following trends:

A) Migration. Increased migration causes an increase in competition of cheap labor from developing or from underdeveloped countries.

B) Growth of international competition. The growth of international competition in the context of the globalization of the economy is causing pressure on the economy. In tough competition often wins the one who has less employees on payrolls (downsizing).

C) Shift of production. There is a shift of production to many countries with cheaper labour and favourable legislation. Enterprises exporting job places. In developed countries is often cancelled various workplaces or whole labour-intensive industry.

D) Reduction of jobs. There is a reduction in the number of jobs in some sectors. In some professions, the labor market is shrinking. New technologies are causing more job losses in industry, construction, transport and services. New technologies on the contrary create new jobs, but usually with the requirements for higher qualifications. We see the possibility of loss of the traditional relationship "employer - employee".

3. Advantages and disadvantages by comparison with civil companies

Also ACR is in the labor market influenced by some of these trends. But not as much as other civilian companies that are exhibited tough international competition and face different changes caused by globalization and technological progress. What advantages and disadvantages has the Army in the labor market compared to some other civilian companies is clearly shown in the following table:

Tab 1: Advantages and disadvantages of the Army in comparison with civilian firms in the labor market

Advantages

Advantages	Disadvantages
Salary belongings and security of persons	Limitations of soldier's civil rights
Recruitment contributions	Unstable working hours
Career progression (career growth)	Uncertainty in the place of employment
Travel and other reimbursement	Uncertainty of permanent employment
Commissary, clothing and travel reimbursement	Service readiness
Health backup	Problems with retrieving off
Study and language courses in employment	Services on holidays and weekends
Retirement reimbursement	
Care for military veterans and retirees	

Salary belongings and security of persons: Soldier salary is provided under special laws. Soldier can claim salary at the time of service, for which they may be also the time of annual leave, short leave, special leave, duration of the temporary waiver of service, hours of daily study time sabbatical to study the performance of services, duration of preventive rehabilitation, retraining time, time continuous service leave for military training and service time leave on grounds of public interest and for important personal obstacles in service with the exception of additional service time off for important personal obstacles in the service or other serious reasons.

Recruitment contributions: Soldier can be at the service professions admit recruitment contributions, if completed other than military or police colleges and universities or perform an obligation to reimburse costs for the study of military or police schools graduated. Recruitment contribution may be granted, ranging from 30 000 to 130 000 CZK by education and periods of service. Soldier recruitment contributions can be admitted if undertake to return the paid recruiting contributions or aliquot part before expiration of the period of service.

Career progression (career growth): Every soldier in the army has a relatively high assurance for career growth. Higher education is still in an ACR highly prized value and guarantee a successful career.

Travel and other reimbursement: Each soldier is entitled to compensate a costs spent for business trips and detached, reimbursement for meals during business travel, reimbursement of travel

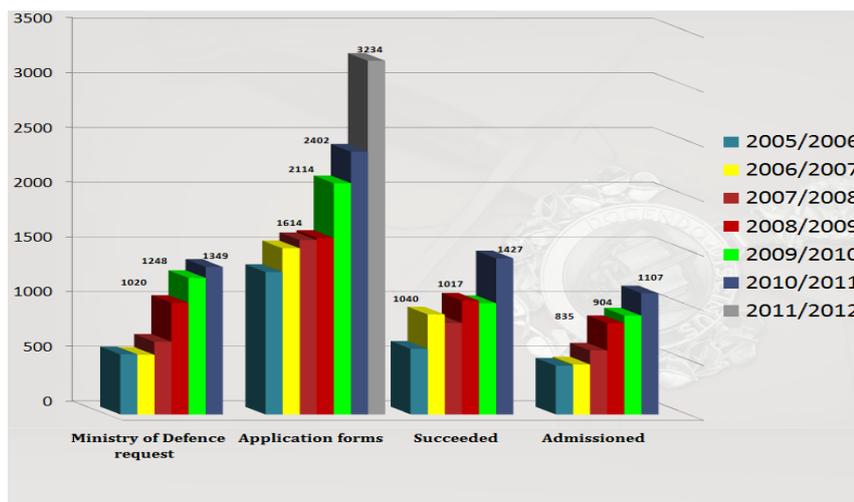
expenses documented, proven accommodation expenses, expenses for the use of road motor vehicles for business trips, compensation for occupational up duty, on transfer and relocation services in the important interest.

Commissary, clothing and travel reimbursement: Soldier in the continuous service that lasts at least 24 hours, or in the exercise of specific professions and activities eligible for free meals. If you can not provide free meals, a soldier is entitled to compensation in money. Commissary necessities to which the soldier has a right, means the military equipment and services that are provided free of charge to secure the obligations of the soldier on duty to wear a military uniform. If you can not provide the essentials outfit in the first sentence, the soldier is entitled to compensation in money. The Ministry also provides free transportation soldier on his way to rehabilitation and preventive to curative care when moving in an important interest of the service, even for members of households who move along with him, and for moving household furnishings, once each calendar year on the way to annual leave and common recreation or leisure stay as well as his wife and dependent children.

Health backup: In order to protect human health and military communities, the Ministry may impose extraordinary preventive examinations and infection control measures, including vaccination, diagnostic testing and treatment of communicable or otherwise socially important diseases, isolation and quarantine measures. Soldier is insured with health insurance under a special legal regulation. Is also entitled to receive preventive rehabilitation of 14 calendar days in a calendar year to strengthen health, insisted to his service with at least 10 years, or after reaching the age of 35 or with the level of classification, which must last at least one year.

Study and language courses in employment: During duly paid working time a soldier is entitled to independently improve their physical fitness. He is entitled to four hours of individual physical training a week. And further (as agreed with the supervisor) to study or attend a language course.

Graph 1: Armed forces as a producer of high-educated manpower (Brázda Alois, 2012)



Retirement reimbursement: Soldier whose service has lapsed job is entitled to a service pension, if his service relationship lasted for at least 15 years. The basic amount of the allowance per 15 years of service is 5% of the average monthly gross salary. This amount is increased for the sixteenth and each subsequent year of service by 6.2% for the twenty-first and each subsequent year of service by 2.5% and for the twenty-seventh and each subsequent year of service on 1% of the average monthly gross salary.

Care for military veterans and retirees: Department for Veterans has also coordinated its care for pensioners who have served in the military or were civilian employees of the Department of Defence, regardless of whether or not they have veteran status.

Disadvantages

Limitations of soldier's civil rights: A soldier in the military facilities may not hold political rallies or carry out political agitation. Must not be a member of a political party, political movements and trade unions. He is not allowed to hold religious ceremonies and worship and participate in, if it prevents an important interest of the service, the service is held by minister. Soldier may exceptionally make

gainful activity only with the written consent of the service authority, if this does not affect the performance of its service activities or other important interests of the armed forces.

Unstable working hours: The weekly service is 42.5 hours. The basic layout of weekly services business decision authority. It sets the start and end of the period of service in each day, the length of continuous service may not exceed 30 hours. If it requires an important interest of the service, the soldier is obliged to do the work over the basic weekly service. Service over the basic weekly service may be held only by order of a superior or with his consent.

Uncertainty in the place of employment: One of the major drawbacks of soldier's career is considerable limitations of choice for place of employment. Soldiers are usually placed on current vacancies, which often may not meet their expectations and sometimes even "CVO" (number of military branch). From where already some time working can be also unexpectedly reassigned.

Uncertainty of permanent employment: Certainty of employment was once the most important asset of the military, as demanding entity in the labor market. Due to various changes in the army (the largest impact is probably financial shortage) ACR has no such guarantee for this. In recent years, the army was forced to lay off large numbers of both civilian employees and soldiers, whom was cancelled tabular jobs virtually from day to day.

Service readiness: If required by important interest of the service, the superior can order service availability. Service readiness means the presence of a soldier in military facilities or other locations determined by superior and even off-duty time.

Problems with retrieving off: Onset of annual leave is determined by supervisor and taking into account the important interests of the service and legitimate requirement of a soldier. Starting day of annual leave to be announced to soldier at the minimum of 15 calendar days in advance. The onset of annual leave shall supervisor order in specific way to soldier could be able to run out of leave to the end of the calendar year. If a soldier due to the service or to important personal obstacles in the service could not run out of annual leave per calendar year, the supervisor is required to provide it to the soldier by the end of the following calendar year.

Services on holidays and weekends: Another problem, which is closely connected with the promptness and unstable working hours, is the soldiers' services on holidays and weekends. In the army there are countless features that require emergency soldier's service on days when other civilian employees are entitled to time off.

Current ACR position in the labour market

Political changes in Czech state in 1989 and the subsequent disintegration of the Czechoslovak Federative Republic started the process of change, there was a need to bring military products to market economy. The top management of defence are increasingly aware of the need to succeed in a competitive of labour market. Immediately after the establishment of the independent Czech Republic (in 1993) was the concept of recruitment and selection of personnel in the Armed Forces elaborated in detail - in the personnel office of Ministry of Defece was established only personal marketing department, which was responsible for the professional management of the process.

In the period from 1994 to 1996 were made standard marketing analysis and researches, which focused on the identification of the interests of the military jobs and labor market segmentation. Their results have contributed to the effective personal marketing orientation. In cooperation with the Military Academy Brno communication programs have been developed with key target groups and equipment issued for the information of those interested in the service of a professional soldier and study at military schools.

The armed forces are well aware of inflexibility communication between the elements of personal marketing. Given this state in 1996 was prepared project '*Construction of personnel marketing*', whose implementation should be started as early as 1997, they were even started preparatory work on the project. Unfortunately due to lack of funding, the project was suspended. This has led to disruption of the functioning of personal marketing.

The year 2002 brings a substantial change, Centre of personal marketing was ending its activities with pilot project *Recruitment and professionalization* - the main objective was to create optimal conditions for obtaining the required number of new professionals in the required quality. In this pilot project the completing of the *Directorate for recruitment and professionalization of the armed forces* has been solved as the successor of the process, as well as legislation and implementation of recruiting goals. In this period, the Ministry of Defence on the basis of political negotiations decides to accelerate the reform and opening full professionalization in 1st January 2005.

Establishment *Directorate for recruitment and professionalization of the armed forces* secured the target structure for 2004. *Directorate of Personnel Support* built organizational core *Centre of Personnel Selection* in Olomouc, Pilsen, Prague and thirteen recruiting centres (Prague, Czech Budejovice, Brno, Ostrava, Plzen, Usti n / L, Jihlava, Olomouc, Hradec Kralove, Karlovy Vary, Liberec, Pardubice, Zlín).

4. Conclusion

Based on the initial characteristics of the labour market and the concept of ACR, as one of the buying entities in this market, it has managed to successfully determine the significance of its role in this area and summarize the most important advantages and disadvantages, which the army as a competitor to other firms in the civilian labor market has.

Factors such as migration, international competition, globalization and technological advances that greatly affect civilian firms, on the Army of the Czech Republic have almost no effect. ACR is a special kind of monopoly in the country, demanded by labor force (soldiers) and offers production good - defence. Establishes its own criteria for admission workforce and an organization can not receive citizens of another state nationality than Czech. It is therefore not affected by the problem of migration and foreign competition.

To potential candidates for the jobs army offers a number of advantages that make it very competitive in the unforgiving labor market. However, it should be noted that currently the army somewhat loses its former credibility and prestige. Numerous and annoying changes and problems that the Army currently faces is mainly caused by lack of finance. Due to problems the army now losing one of the most important value in a competitive labor market before, namely the "certainty of permanent employment." The public leads discussions not only about if the reason of the financial deficit in the army is really low source framework or just mismanagement, but also increasingly on whether it is in our environment really necessary.

In this analysis, I managed to deduce more positive aspects, which the Army still proudly fights in the labor market. In my opinion, the Czech army with all the benefits that offers to potential applicants, is still very strong "contender" for other employers in the Czech Republic

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NAVIGATING THE WATERS OF CHANGES - STRATEGIC ART

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Abstract

In a turbulent economic environment, where the only constant that managers can rely on is change, it is required, more urgent than ever, strategic management approach. And as if, the normal approach which implies the strategic analysis of environmental and of the company, accompanied by strategic planning, as a superior product of the analytical approach, seems an unfinished painting, we propose specialized approach of the past and the future (even by resorting to historians and futurologists) as elements that add to the overall image of the painting. Advancing into the strategic art, as a winning element in navigating through these troubled waters characterized by change, we propose managers to anchor themselves on the laws of human nature, to discover and explore their brain duality, taking into account the possibility of obtaining competitive advantage by releasing the right hemisphere, creative side of man, embodying strategies in mobilizing and winning visual projections.

Keywords: *change, strategic art, strategic planning, visual projections*

1. The context and nature of change

Near past, present, and especially future are found together in one constant, we could say one of our times: change. When time seems to no longer cover our activities, its possible compression brings along a galloping flow of new information and conditions that are succeeding each other at a rate much faster than that man has been accustomed to. The tendency of acceleration of the external world is reflected in a corresponding acceleration of adaptation to individual – efforts of the confrontation neurons, integration and restructuring of the information in fantastic rhythms of informational explosion.. The only viable alternative that is contemporary managers are thinking creating some springs profiled afraid of the future, strategic mapped and translated into real plan tactical means. The only instrument able to face change becomes the strategic art.

Change is now an umbrella term which houses turbulency, transformation, discontinuity, dynamics. Change can occur at both at the individual level and at the level of organizations or companies. At organizational level, change can target strategies, human resources, technology, culture.¹ Whatever their nature, economic, social, political and moral turbulencies can turn the current situation of the world into a dramatic part of history.

Winston Churchill's statement: "The further you look into the past the farther you can see into the future" falls progressively lower on the levels of considerations which are the foundation of the development of strategic projections. Economic fluctuations in recent years they no longer identify themselves with the previous ones, and as a result, the foundation of corporate strategies, national and even global ones are forced to counterbalance the roots of the past with the uncertain branches of the future, by appealing to futurologists and with an increasing flexibility to allow continuous adaptability to change.

However, Allan Greenspan confirms the possibility of forecasting in the current economic climate. "Most legal and economic institutions change slowly enough to facilitate future results with some reasonable degree of probability. Nevertheless, there is a vast amount of theoretical works which question the people's success in the forecast future financial results".² Thus, any manager or leader of the present can, or, more precisely, should appeal to strategic art to combat the effects of the disruptive changes.

2. Strategic planning - the first line to meet changing

It is not coincidental that businesses were associated with war. In the global context in which companies, small companies and leading international corporations, compete with each other for an as

¹ Reiß, Michael. *Change Management*. BoD–Books on Demand, 2012, p. 1

² Alan Greenspan, *Era turbulentelor*, Publica, 2008, p. 467

generous market share as possible, those in leadership need to develop strategies firstly for survival and secondly for winning. Thus, if basic strategy meant "The most important military art, dealing with the preparation and directing of the war on the whole"³ "the art of skillfully usage of all means available to ensure victory in battle"⁴ or "all actions coordinated in order to achieve a goal"⁵, today the term is found in the economic literature as the key determinant of success on the market: strategic management.

Chris Jeffs suggests an accumulation of items which strategic management needs to studied: strategic analysis of environment and industry, strategic analysis of the organization, evaluation of the market and competition mechanisms of growth and development of the organization, internationalization and strategies of penetration of the markets, evaluation of the strategic alternatives, implementation of the strategy and other strategic issues which managers believe should pay special attention to, depending on the case⁶. Thus, strategic art must be developed in the context of studying these determinants of strategic management.

As experts in the field advise us, Kotler and Keller, through the strategic planning process we must succeed in creating and maintaining "a viable adequacy ratio among the objectives, powers and resources of the company, on the one hand and market opportunities in the eternal change, on the other hand"⁷ since the final goal of strategic planning is getting profits and growth rates expected by modelling the activities and products of the firm. This means adapting the company to the objective conditions imposed by the market conditions acquiring and maintaining a sustainable competitive advantage.

3. Strategic Art - means of navigation through the waters of change

In the reconfigured terms that any change requires, we consider that the leaders of these times, regardless of their operating professional side - organizational managers, leaders of state institutions or political leaders - should prove to be good strategist to deal with turbulencies.

The fundamental law of economic success remains competitiveness, whether we are talking about a company, a country or group of countries. Competition has reached extremely high levels in the countries with enhanced and dynamic market economy and, as a result, one can notice and a maturity of strategic art practiced by managers. In these uncertain and changing times, reputable companies in these markets glanced in the past to be able to look further into the future. They hire historians offering them large sums of money, asking them to bring out the past victories and culture in order to gain extra confidence in the market in these unstable times. And this is just due to the fact that reputation and image in the market continue to be one of the most important assets of a company.

The project carried out as a result of a strategic diagnostic analysis is an essential tool and should represent the basis for a manager in developing strategies. Here comes the real challenge: how does the strategist manager turn the stage of developing strategies into art? Developing directions for future action, although grounded on concrete results, must meet the tact and creativity of the manager in the stage of formulating the strategies. The fundamental importance of this process lies precisely in the direct reflection of the company's future results.

Porter defines strategy as "the creation of a unique and valuable position, which requires a different set of activities." A company can claim to have a strategy only when "it deals with activities other than those of its rivals or, if they have the same activities, they operate them in different approaches."⁸

4. Suggestions: Contemporary ways to approach strategic art

The winning card in the hand of the contemporary managers is the strategic art. Playing this card must be approached according to the three temporal coordinates: past, present, future. And for the manager's strategy to reach the status of art, it must be the result of the activity of the two hemispheres of his brain: the right, with the role of creativity, imagination and visualization and the left one with the role of correlation of analysis and the drawing out of the strategies.

³ Ciobanu E. și colectiv *Dicționar de neologisme* editura Floarea Darurilor editura Roteh Pro, București 2000

⁴ Marcu F, Manecă C. *Dicționar de neologisme*, Editura Academiei Republicii Socialiste Romania, București 1978

⁵ Ciobanu E. și colectiv *Dicționar de neologisme* editura Floarea Darurilor editura Roteh Pro, București 2000

⁶ Chris Jeffs, *Strategic management*, Sage Publications (CA), 2008, pp.8-9

⁷ Philip Kotler, Kevin Lane Keller, *Managementul Marketingului*, Editia V, Teora, 2008, p.98

⁸ Michael E. Porter, „What Is Strategy?“, *Harvard Business Review*, noiembrie-decembrie 1996, pp. 61-78.

Figure 1 – Necessary guidelines to ground strategic art

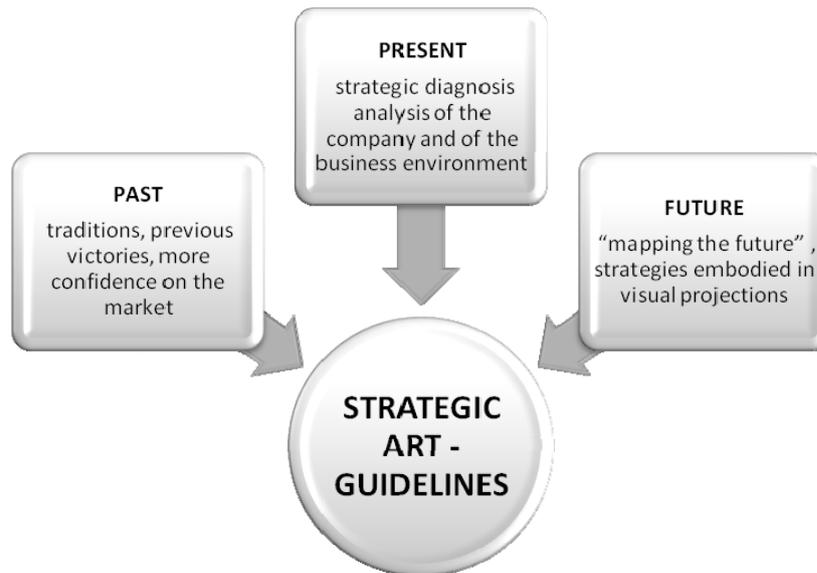
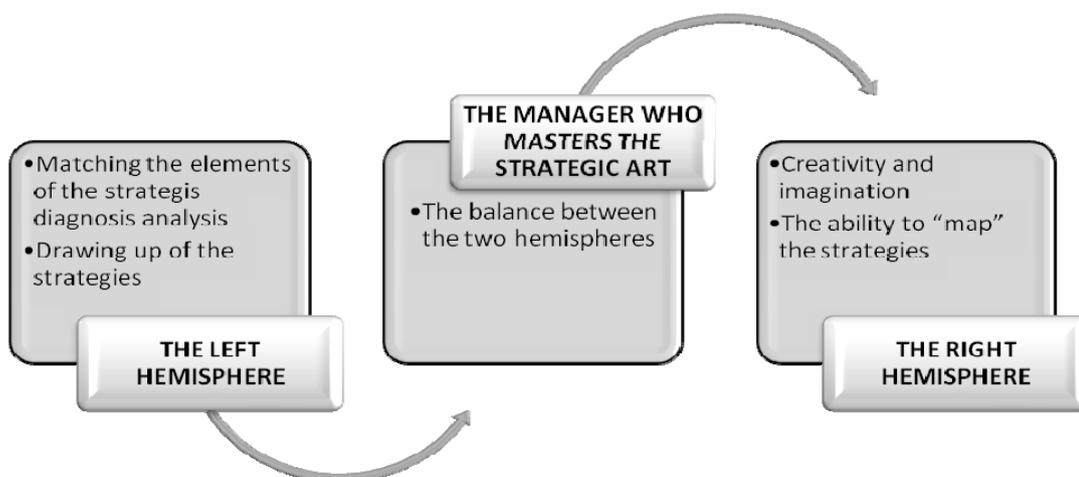


Figure 1 defines the guidelines of the strategic art:

1. The orientation in the past times of a company represents analyzing the results obtained in the history of the company, emphasizing on traditions and previous victories. It adds the company more confidence in the market during these turbulent times.
2. This current orientation is characterized by strategic diagnosis analysis both of the company and of the business environment/society, and of the relationships among them.
3. Future strategic orientation corresponding to the strategic art has its basis in a process described by James Canton, renowned futurist of our times. He describes "mapping the future", which basically means imagining and designing the future in visual terms. The process might imply creation/designing of maps, simple drawings or even three-dimensional projects made with modern technology and the internet. It can thus reveal the opportunities of individuals, organizations, industries, markets or even civilizations.⁹

Figure 2: The key of strategic art



⁹ James Canton, *Provocarile viitorului*, Polirom, 2010, p. 37

The acknowledged brain duality is the key of strategic art. Nothing is accidental: the manager uses the left hemisphere in order to correlate the elements of the diagnostic analysis to with decisive factors of the past victories to obtain strategic planning, respectively the strategies that the company will follow in the next period. In order to get these strategies to the status of art, he releases his creativity in the process of designing visual projections, corresponding to the strategies, activity subscribed to the right hemisphere. (see Fig.2). Thus we suggest a genuine approach which aims at raising the strategic management to the high level of the strategic art.

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THE INFLUENCE OF COUNTRY OF ORIGIN ON THE PROCESS OF BUYING FOOD PRODUCTS

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Abstract

In this paper we presented the concept of country of origin and how this influence the process of buying the food products. In our study we wanted to investigate the opinion of Romanian peoples about the Romanian food products and to see if the country of origin has any importance in the process of buying the usual food.

Key words: *country of origin, globalization, county image*

JEL classification: *F60, M31, L66*

1. Literature review

The intensification of international trade and the emergence of the globalization phenomenon have favored the specialization of national economies in areas in which they hold a competitive advantage. (Roger, 2008; Heinberg, 2011). Thus, over time, consumers began to associate products with certain countries (product-country images), which gave companies in that country a competitive advantage. Generally consumers associate watches with Switzerland, cars with Germany, leather products with Italy, electronics with Japan, cosmetic products with France, etc. The notoriety gained by some products has also transferred to other products from the same country (Barbu, 2011). As a result the concept of "country of origin" has emerged. In marketing, the influence that a manufacturing country has on a product is called the country of origin effect, and in intercultural management "prism effect" (Apetrei and Petrushka, 2010). The "country of origin" concept is a complex one and incorporates the following aspects (Rescinti et al, 2012):

Country's image (CI) – personal experiences (travel, friends from that country, consumption / use of a representative product from that country), media (both through reports and through advertising) stereotypes "shape the reputation of the country" (Patterson, Tai, 1991)

Product-country image (PCI) – linking the representative product from a country with that country. If the products have a high quality, consumers think highly of that country. Thus, other products from that country are associated with the quality of the main products.

Product image (PI) –if the consumers are using the representative products with high quality, their satisfaction creates an positive overview image of all products from that country.

Over time, the concept "country of origin" has been debated by many marketers who wanted to demonstrate its importance. Among the first who writes about this topic was Schooler (1962); he has shown that consumers differentiate similar products by country of origin. Erickson, Johansson and Chao (1984) have shown in the paper "Image variables in multi-attribute product evaluations, Country of origin effects" that the country of origin has a "halo effect" influencing the perception of the product characteristics thus leading to influencing the purchasing decision. Other studies have demonstrated that the country of origin is an important product characteristic as well as the quality, the price and the reliability. (Cai, 2002)

The country of origin is perceived by consumers as a quality measurement tool, influencing purchasing decisions (Roth, 2008; Profeta, 2008). When a consumer is planning to purchase a new product and he doesn't have much information about it, the opinion is formed on the basis of country of origin. If they have a good (or bad) opinion about a product from a particular country, they consider all products from that country as having high quality (or low).

In some cases, when representative products for a country are involved, the brand is eliminate from the buying decision, it means the notorious quality of the product has more power comparing with the brand (Agrawal and Kamakura, 1999). For example, when a consumer wants to buy mozzarella, he will choose the product manufactured in Italy, considering that the Italian recipe is best, even at the expense of a brand.

The products which come from developed countries have a much better reputation than those coming from developing countries (Lim, 2010; Cai, 2002). For this reason, the companies from developing countries are very disadvantaged on international markets. A positive image of the country helps companies sell their products at a higher price. Marketers have felt the importance of country of origin when they had to promote a product that comes from a country with a bad image (perceived as having lower quality products). Marketing managers need to identify the strengths and weaknesses of countries where goods are manufactured, for knowing how to build brand products.

Because consumers have become increasingly more interested to know the origin of the products they consume/use, companies began to mention the country of origin by the words "Made in". In some countries, as USA, Canada and Japan, authorities forced companies to indicate on the label where the goods were produced in Europe, the country of origin labeling is voluntary, being imposed only for certain classes of products imported from third countries, as for example is the case of textile products whose mandatory labeling was imposed in 2010 by Toine Manders Report. (<http://www.alde.eu/press/press-and-release-news/press-release/article/ep-approves-clearer-textile-labelling-for-consumers-23452/>).

Regarding food, only beef, fresh fruits and vegetables, honey and olive oil are mandatory for country of origin labeling. According to the Eurobarometer conducted by the European Commission and the market study conducted by the European Consumers Organization (BEUC) which showed the importance of country of origin in the food purchasing decision, it would be necessary an extension of the mandatory labeling with the information about country of origin also at other categories of products.

According to Eurobarometer, 70% of Europeans are taking into consideration the country of origin, when buying food. The European citizens (90% of the respondents) want to know exactly the country the products are from and are dissatisfied with the phrase Made in EU. According to the study conducted by BEUC, 6 out of 10 respondents want to know the country of origin of the main ingredients used in manufacturing the product (<http://www.moneystreet.ro/cluj/evenimente/etichetarea-produselor-europenii-doresc-sa-cunoasca-tara-de-origine-a-produselor-alimentare/>).

To protect the quality and the name of agricultural and traditional food products, the European Union introduced a special labeling for such products (Council Regulation (EC) No. 510/2006 of 20 March 2006). According to the criteria they meet, traditional products can be labeled with the following signs: PDO (protected designation of origin), PGI (Protected Geographical Indication) or TSP (traditional specialty guaranteed).

Any member of the European Union can label their products using the words "Made in EU". Because the products are not made exclusively in one country, the problem of determining the country of origin occurred. In order to find the country of origin you can use several methods:

- Substantial Transformation
- Value-Added Percentage Test
- Change in Tariff Classification

In Europe, for a product to be labeled "Made in EU" the "45% value-added rule" must be met. So, at least 45% by Build-down method (or 30% after Build-up method) of value added should be done in an EU country. (http://ec.europa.eu/taxation_customs/resources/documents/roo_chap_86-89_en.pdf). Because they understood the importance of using a developed country on the label and because using the real country of origin would mean a disadvantage, the big brands began to mention on the label the country of origin for the brand (country of brand) or the country where the product was designed (design in).

2. Case study

The country of origin is perceived by consumers as a quality measurement tool. For this reason we wanted to find out if Romanian consumers perceive national products as quality products and if country of origin represents a competitive advantage for Romanian manufacturers. We interviewed a total of 102 persons, of whom 66 women and 36 men. The respondents were aged between 18 and 57 years. The survey contains ten questions and was published on <http://www.isondaje.ro/surveys/results/275544080/>. The respondents profile is: young man with age of 29 years, with higher education and with a family monthly income between 1500-2500 lei.

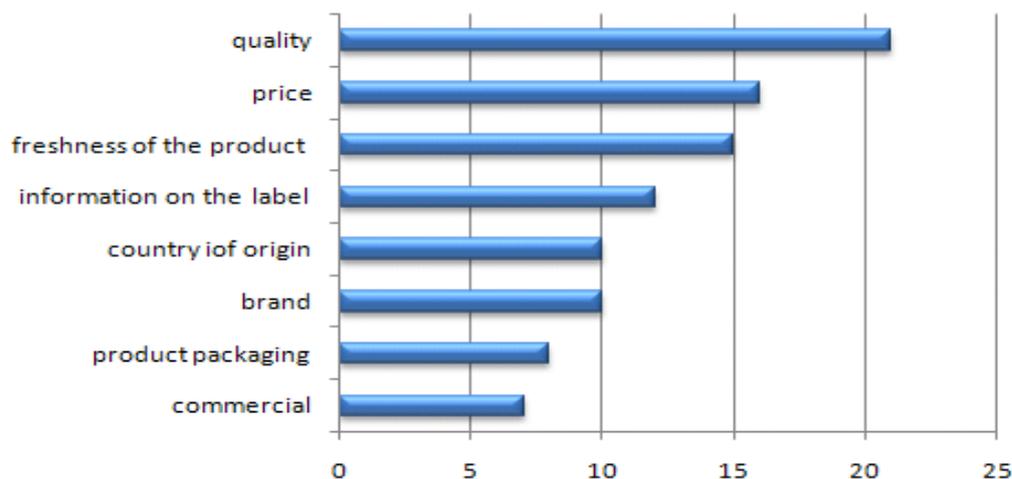
The hypotheses:

- H1. Romanian consumers perceive Romanian products as quality products.
- H2. Country of origin is a criterion for the selection of products

Results and discussion

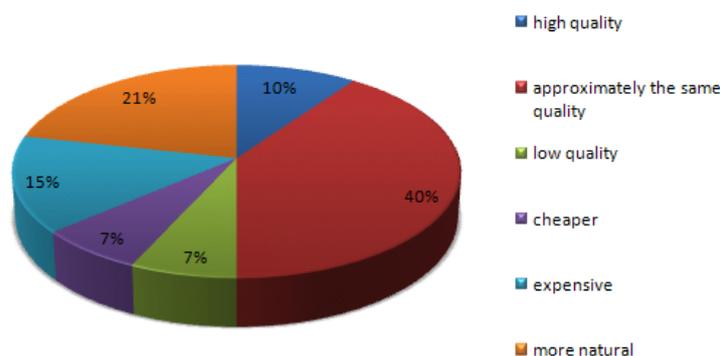
According to the responses to the first question, namely "Generally, when you buy food, which criteria you take into account? (order the following criteria in order of importance 1 - most important, 8 - least important)" the majority of respondents have as the main criterion in the selection of the products their quality. This is gratifying and is mainly due to the raising of the food education. Romanians began to know the characteristics of the goods and to distinguish a quality product from a less quality one. Due to the low wages, the price is an important criterion in choosing food products, being the second in the top of food selection criteria. Also because of low wages, the Romanians did not reach that level that they choose products based on country of origin criteria, to choose local products. Commercial do not have a great impact on consumers and is not an important criteria in the choice of products.

Figure 1 – Criteria in the choice of products



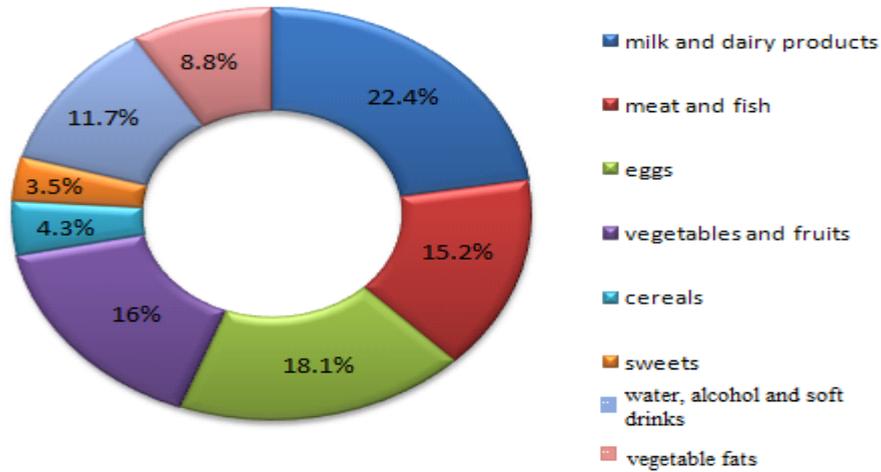
To the question "What kind of food do you purchase? (in terms of country of origin)", as expected in an era of globalization, the Romanians purchase both Romanian and imported products. This shows that Romanian products have about the same quality as the imported products. This is confirmed by question 3, when respondents were asked "How do you appreciate Romanian products compared to those imported?" Most responded that Romanian products have about the same quality as imported products, they also believe that Romanian products are more natural, but more expensive than the imported ones.

Graph 1 – What kind of food do you purchase



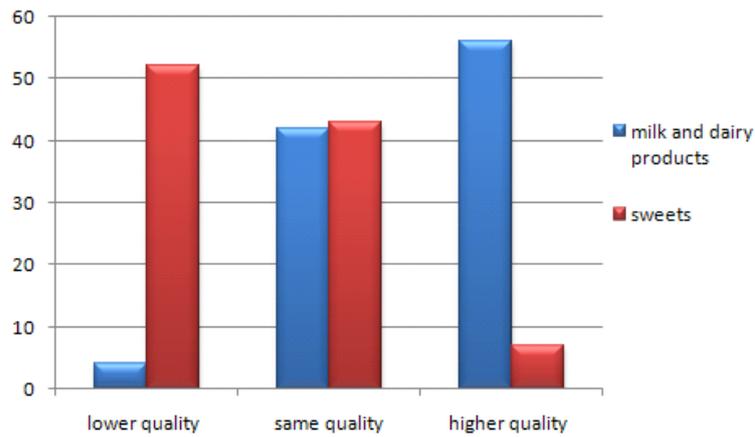
Correlating question no. 4 "From which category of foods do you buy Romanian products most often?" to question no. 5 "In terms of quality, how do you appreciate Romanian products from the following categories of food, compared with the import?" shows that the Romanian people buy Romanian products most often from the following food categories: milk and dairy products, eggs, fruit and vegetables.

Graph 2 - From which category of foods do you buy Romanian products most often



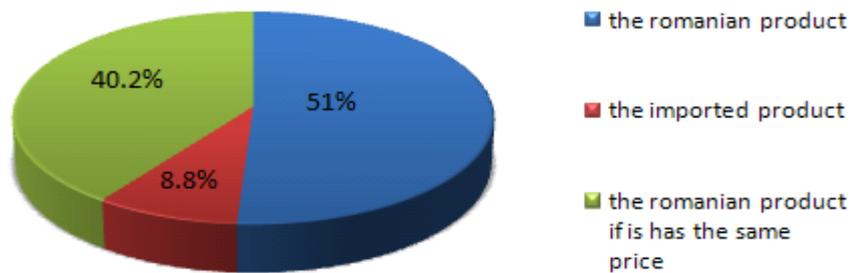
Consumers often buy these types of products because they believe they have a superior quality than the imported products. At the opposite pole stand sweets, which are considered as inferior quality.

Figure 2



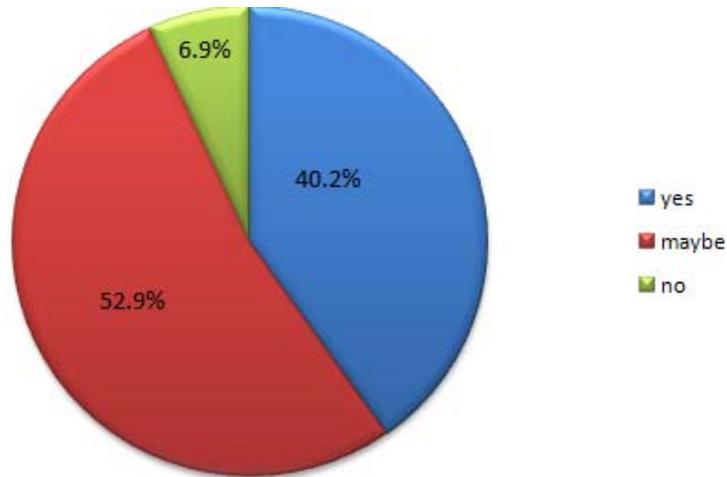
If they had to choose between two similar products, one Romanian and one imported, 51% of Romanian respondents would buy the Romanian product at any price, and 40.2% would choose a Romanian product if it has about the same price as the imported one.

Graph 3 – Romanian vs. Imported products



When asked " If the signaling of Romanian products would be more visible, would you buy more Romanian food?", only 7 respondents said that they will not buy more Romanian products, resulting that consumers want to recognize the Romanian products and to purchase them.

Graph 4 - " If the signaling of Romanian products would be more visible, would you buy more Romanian food?"



This aspect should be considered by Romanians food producers and to comply with the requirements of consumers.

At the last question the responders had to associate Romanian products with certain images that suggested the following characteristics: freshness, that it contains many chemical additives, that they are natural, that they are outdated or are unhealthy.

Figure 1 – Characteristics of products



The overwhelming majority chose Figure no. 3, which expresses the fact that Romanian products are considered natural.

3. Conclusions

In our study we want to investigate the opinion of Romanian peoples about the Romanian food products and to see if the country of origin has any importance in the process of buying the usual food.

About the hypotheses we made at the beginning of our study we can underline the following conclusions: at the first hypothesis *Romanian consumers perceive Romanian products as quality products* we can say that it is partial confirmed because our consumers are considering the Romanian food as almost the same quality as the food from other countries. We didn't obtain a very big difference of

opinion between the quality of Romanian products and imported products, so we can consider that the Romanian products have to improve the quality that in future to be preferred instead of imported ones.

About the second hypothesis *Country of origin is a criterion for the selection of products*, we consider, also, that is partial confirmed because there are some other criteria more important in the process of choosing the food, not only the country of origin. But, as it can be seen from the answers of the questions, if the Romanian products would be better labelled, the Romanian peoples would be more of them. This information can be used by Romanian producers and by sellers if they want to promote the Romanian products.

Our buyers still consider the Romanian products to be natural, so it can be a good point for the domestic producers to offer really natural food products at affordable prices.

Our research can be continued with detailed studies focused on the main groups of Romanian food products purchased by Romanian buyers.

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HAVE MARKETERS REACHED “EL DORADO”?

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Abstract

The following paper aims to offer a brief description and personal interpretation of one of the most controversial innovations in the marketing domain: neuromarketing. During the last years, this relatively new field has gained partisans as well as oponents, as any scientific discovery. The main advantages that neuromarketing studies offer consist in efficiency and accuracy, while one of its major disadvantages is represented by the relatively high costs. Considering the human brain as being “El Dorado” – since one of the marketers’ major role is to understand the consumer behaviour, its needs, desires and preferences that are subconsciously realized – we could, in the same context, consider neuromarketing as being “the opening gate” leading to this hidden place of great riches. However, marketers will not “dominate” “El Dorado”, due to the fact that the complexity and uniqueness of individuals would make this extremely difficult. Neuromarketing, seen as another marketing tool, is not dangerous; the danger is represented by the inappropriate hands that could manage it.

Keywords: *neuromarketing, efficiency, human brain, “El Dorado”*

1. Introduction

The economic crisis of 2008 has also left its marks in the complex and dynamic field of marketing. The budgets allocated for research and advertising were among the first ones to be strongly reduced. Such breakdowns, however, could be considered as being the perfect opportunities to review certain aspects that seem to no longer work, or, on the contrary, to highlight the future issues that deserve to be taken into account. Therefore, one must question the lessons that the last economic crisis has taught marketers. Should they pay more attention to the desires and needs of their customers? Should they develop more powerful and enticing messages in order to convince them to purchase? The answer to both questions will most certainly be a positive one. However, I believe that an important lesson that this economic phenomenon should have taught marketers is that their activity should be focused on efficiency. Efficiency, in marketing, could be shortly “translated” in having customers that are ready and eager to buy the product, the only concern remaining the availability of that certain good. In order to awaken the desire of buying, marketers must come up with products that perfectly suit the needs and desires of the customer, followed by strategic and powerful advertising campaigns. In order to create convincing messages and perfectly suited products, marketers should, first and foremost, venture through the complex and mysterious “black box”¹⁰. And so they did! Their adventure was (and it still is) based on traditional marketing research methods, such as questionnaires, focus-groups, personal interviews etc. However, when it comes to traditional research, there is a powerful gap between the consumers’ subconscious and its actual behaviour. If we were to ask someone what is the reason for which she/he would like something, we would probably face an ambiguous answer, most of the times, or we can even observe that the answer does not exist. This is because our preferences – no matter if we’re talking about a product or service – are unconsciously realized.

When it comes to the complexity of the human brain, there are more questions than answers. Moreover, we lack access to most of the processes happening in “the black box”, being, therefore, unable to decode many of the information we can see/receive. So, considering that a great percent of thinking is unconsciously realised, and that most of the times customers can not come up with solid arguments in order to sustain their choices, I can not help but wonder, how trustworthy are the traditional marketing research methods? Can we really expect a focus group to solve a marketing problem? Should we fully trust the answers of a questionnaire?

Efficiency, in traditional marketing, is relatively hard to measure, mostly when it comes to advertising. The hardest part is associating the possible positive results (a 15% increase in the number of

¹⁰Metaphore used to describe the human mind - Kotler, Philip; Amstrong, Gary– “*The Principles of Marketing*”, Teora (2003), Bucharest

new customers, for example) with the advertising method – has the number of new customers increased due to the new outdoor banners placed all over the city? Or was it the TV commercial that had a great impact? The only possible way to find out would be to directly ask the customers what influenced their decision of buying; their answers, however, can not be full trusted, due to the fact that most people do not even remember when was the first time they've heard about the product. And they are not to be blamed. We are being “bombed” daily with different messages, through different ways. No wonder we do not remember most of them!

There is no doubt that a better understanding of the motivation which impulses the individual to act, determining, therefore, a preference, a purchase, or a behaviour, would represent the essential key to success for marketers. In this context, we could consider, metaphorically speaking, the human mind as being the “El Dorado” pursued by marketers. The legend of El Dorado lies deep in South America, and it describes a hidden place of great riches. The human mind can be seen as such a place, due to the fact that once the mechanisms and processes related to the human brain are better understood, marketers can come up with products that best suit the customers' needs and desires, thus developing efficient marketing activities. Wouldn't that be exactly one of the major roles of marketers? Moreover, efficiency will ultimately lead to profit, therefore, the human mind can really be seen as marketers' El Dorado.

The good news for marketers is that, nowadays, they have the proper instrument that could help them enlighten “the black box”, which is: neuromarketing. As a field of study, neuromarketing can be defined as the application of neuroscientific methods to analyze and understand human behaviour in relation to markets and marketing exchanges. The concept emerged at the end of the 1980's – beginning of 1990's, in the United States and the first actual researches were made during 1991; the first products to be researched by neuromarketing were premium products with a large sales volume, such as luxury cars. The main instruments used in neuromarketing are medical equipments, such as:

- functional magnetic resonance imaging (fMRI)
- magnetoencephalography (MEG)
- positron emission technology (PET)

What actually happens during a neuromarketing test, is that the activity changes in certain parts of the person's brain connected to the specific equipment are being measured, while the person is being subject to certain auditory, visual, or even olfactory stimuli (the research, however, depends on the type of equipment used, for example the functional magnetic resonance imaging – fMRI - can only work with visual stimuli). This way, researchers can figure out what parts of the brain are being “activated” and what feelings does a certain image, sound or smell awake during the presence of these stimuli. The subjects are shown different ads, logos, they are played different sounds in order to observe the way their brain reacts to them and what parts of the brain are more likely to be solicited. The information obtained is definitely more accurate, due to the fact that it is more likely to point to what the subjects are really thinking and feeling. A very interesting neuromarketing research regarding smoking pointed out a shocking fact. Even though all the subjects involved in the test believed that smoking is harmful and even though all of them considered the commercials developed by the anti-smoking organizations as being repulsive, the research proved the exact opposite: the effect of these commercials (that were meant to be repulsive and convince people to quit smoking) was, in fact, increasing the desire of smoking. Therefore, neuromarketing studies not only come up with new information for marketers, but also for consumers. There are many aspects regarding our brain that we do not understand and thus, have no control over them.

It is believed that this relatively new field will actually help marketers find their way into the individual's mind and discover even the most hidden thoughts, fears and desires. Neuromarketing, as a result, will be the opening gate to El Dorado of marketers. As expected, the domain caused many controversies, gaining partisans and opponents along its way. The main benefits of neuromarketing consist in efficiency and accuracy. It can be seen as a tool that helps marketers to better understand their targeted audience and to design better products for their clients. It also gives them the opportunity to evaluate certain aspects of interest - such as logos, images and messages used in advertising – before investing substantial sums of money in their advertising campaigns.

However, many people fear that this domain could exceed the line between influence and manipulation. They fear that marketers will find “a buy button”¹¹ that, along with brilliant, enticing and irresistible advertisements, will turn us all into unstoppable buying machines. Their fear is not to be

¹¹Nick Lee, Amanda J. Broderick, Laura Chamberlain – “What is ‘neuromarketing’? A discussion and agenda for future research” - International Journal of Psychophysiology 63 (2007) 199–204

blamed, especially since we are talking about a new field, for which regulation is not yet completely defined. Still, the high costs of such research is not to be neglected. The development and implementation of neuromarketing will surely not be rapid processes (at least in the near future) due to the fact that the equipment and costs needed are relatively high. It's true that researchers can opt for cheaper equipments - such as electroencephalography (EEG) and galvanic skin response (GSR) technology – but these will not offer the same accurate and efficient results as the other ones.

Moreover, one must not neglect the complexity and uniqueness of an individual. Even though there are some basic features that we all share, most of our perceptions, reactions and preferences are strongly influenced by several factors, such as: education, social environment, personal experiences etc. Therefore, generalizing the results of a certain study would be a mistake, despite the greater accuracy given by neuromarketing research. Nevertheless, applying insights from neuroscience should not be considered more dangerous than those applied from psychology, for example. Psychological studies have also offered marketers deep insights and new perspectives over human behaviour.

To my way of thinking, when it comes to finding pros and cons, we must keep in mind a very important aspect: it is not the discovered information that represents a danger, but the way in which it will be used. Therefore, neuromarketing can be seen as a simple tool; like Martin Lindstrom used to say: *“I believe it is simply a tool, like a hammer. Yes – in the wrong hands, a hammer can be used to bludgeon someone over the head, but that is not its purpose, and it doesn't mean that hammers should be banned, or seized, or embargoed¹²”*.

2. Conclusions

Concluding, I consider that, in spite of the fact that neuromarketing can be seen as “a leading gate” towards “El Dorado”, the complexity and uniqueness of the individuals will make it difficult for marketers to dominate their hidden pursued place, at least for the near future. Marketers will surely gain deeper insights into the consumer behaviour and purchase process and enlarge their spectrum, but, as long as these reasearches will not be kept secret, customers will also obtain more information about the mysterious processes of our mind.

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ACCOUNTING AND TAX TREATMENTS REGARDING THE CALCULATION OF THE MONETARY RIGHTS OF EMPLOYEES

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Abstract:

In terms of performance and development the activity of a company the human resource is essential. The labour is the foundation of any activity, so it is very important the labour record, its results and as well as to ensure the redistribution after the quantity and quality of the workers efforts. Any enterprise to conduct a business successfully requires a qualified staff that will be able to carry out all the necessary works and in a timely manner. The success or survival in business requires a good understanding of human resources management. It takes into account the recruitment of able, flexible and devoted staff, the enterprise bosses have to motivate them. The motivation usually rises in a wage received by employees on the basis of an individual and collective contract of work. The wage is important because it represents the legal income of existence of man because it helps to maintain the employee and his family. The wage is considered a form of income in cash or in kind and this entail a number of obligations to the State budget. Each employee has the right to a fair wage depending on the work performed and any deviation from the legal framework draws penalties corresponding to each category of deficiencies. Changes to the legislation for the year 2013 compared to the previous period, the gross minimum wage in the country guaranteed in payment grown up being 800 \$ per month. We propose the reduction of social contributions of employee and employers to be more stimulating hiring of staff.

Keywords: *net salary, gross wage, income tax from salary.*

1. Introduction

The wage defined as the price used in the relations between the employer and the employee as an element of production costs or income received by employees from their work.¹³

The Labour Code¹⁴ defines the salary as follows: “The wage represents the work of employee compensation based on individual labour contract. For the labour performed on the basis of the individual contract of work, each employee has the right to a wage expressed in money”.

Payroll systems around the world have as foundation some highlights and specific principles such as:¹⁵

- the principle of negotiating wages- according to this principle in article 162, paragraph 2 of the Labour Code, says: “The individual wage is set by individual negotiation between employer and employee”;
- the principle of minimum gross wage per country guaranteed in payment corresponding to the normal hours of work, is established by decision of the Government after the consultation with trade unions and employers. If the normal work schedule is, according to the law, less than 8 hours per day, the minimum gross wage is calculated by reporting the gross minimum wage per country at the average number of hours per month according to the legal work schedule approved”;
- the principle of wage differentiation according to the importance of work- in the context of this principle, the wages of an employee are differenced on posts and the base salary is established depending on the importance and the complexity of the work involved;
- the principle of confidentiality of wages in Labour Code, in the context of article 163, paragraph 1: “The wage is confidential, the employer has the obligation to take the measures necessary to ensure confidentiality”;
- the principle of remuneration depending on the results of work- pays performance depending on the earnestness, skill, efficiency and effectiveness of which give proof each employee in part;

¹³ Anton Rotaru, Ionel Bostan, “Sisteme de salarizare”, Ed. Seldom, Iași, 2002, p. 15- 19.

¹⁴ Law No.53/2003- Labour Code , it was republished in Official Gazette No.0345 of 18 May 2011;

¹⁵ Lucian Popescu, “Salarizarea personalului”, Ed. Tribuna Economică, București, 2007, p. 45-48.

- the principle of remuneration depending on the conditions of work- requires to take into account in determining the wage, the conditions under which the work is carried out, so that those who work in special conditions receive higher wages;
- the principle of non-discrimination- the work must be equal for both: men and for women and also men have to receive a equal pay equal to women without discrimination;
- the principle of remuneration in relation with training, qualification and professional competence- all the employees must be paid according to the training, qualification and professional competence of which give proof, the principle mentioned above must be present in all normative acts establishing wages in various fields of activity;
- the principles of decentralization and liberalization wage- in which an employee receives a salary less than or greater than in the private sector according to the supply and demand. In this way is observed the processing of socialist payroll systems in systems based on decentralized labour freedom.

2. Component and structure of wages¹⁶

The wage has the following structure :

- base salary;
- additions;
- extra allowances.

The base salary is considered the fixed side of the salary and the additions and extra allowances are considered the variable side.

“The base salary represents the employment salary and is set for each function in part, in relation with the qualification, the importance, complexity of the works which return to the post with the necessary training and competency”. In the State sector, the base salary is established by law and in the private sector is established according to the individual or collective contract of work in relation with the way and the place of work by individual or collective negotiation. This it may not be less than the gross minimum wage per country guaranteed.

“The minimum gross wage per country guaranteed in payment in the year 2013 is in the following amount:

- for the period 1-31 January 2013 of 700 \$ per month for a full schedule of work, 169.333 hours on average per month in 2012 representing 4.13 \$ per hour according to the article 1 of Government Decision, No.1225/2011¹⁷;
- starting with February 1, 2013 is 700 \$ per month for a full schedule of work, 168.667 hours on average per month in 2013 representing 4.44 \$ per hour according to article 1, paragraph 1 of the Government Decision No.23/2013;
- since July 1, 2013 is 800 \$ per month for a full schedule of work, 168.667 hours on average per month in 2013 representing 4.74 \$ per hour according to article 1, paragraph 2 of the Government Decision No.23/2013.

In 2012 was earning 2.117 \$ and in 2013 the gross average earning would be 2.223 \$ according to article 16 of the Law on state social insurance budget for 2013”.¹⁸

Additions

Additions to the salary represents the remuneration over the base salary for hard work as a singular person or in team in the form of awards.

The characteristics that distinguish the additions from the bonuses have two specific traits:

- depend on and are motivated b the results of the work n the greatest measure and are aimed to reward the extra mode.
- the grant and the amount of them have an subjective nature.

Addition can be:

¹⁶ Lucian Popescu, “Salarizarea personalului”, Ed. Tribuna Economică, București, 2007, pag. 56-77.

¹⁷ The decision by the Government 1225/14.12.2011 for the establishment of minimum gross basic salary per country guaranteed in payment as of 2012.

¹⁸ Government decision No. 23/2013 for the establishment of minimum gross basic salary per country guaranteed in payment has been published in the Official Gazette, part I, no. 52 of 23 January 2013;

- a) benefits granted to companies with (major) capital of the State: awards from the salary fund, awards from the annual profit fund (up to 10% of the net profits, but no more than the level of the average monthly salary in the financial reporting exercise)¹⁹ and other benefits agreed in the (collective) contract of work, this may also include gratifications (Christmas, Easter Holiday, anniversaries);
- b) additions granted in budgetary institutions: individual awards during the year which are set as a percentage of the salary fund; an annual award for the work done, the rate may reach up to an average monthly salary and also it is known as the 13th salary, this does not represent a proper salary; incentives granted during the year at certain categories of persons from special funds for specific areas of activity (Court of Auditors, the Ministry of Finance);
- c) merit pay, it is given especially in budgetary institutions, individuals which are distinguished through honors constantly, in the amount of 15-20% of the number of work stations and 15-20% of the base salary for a period of one year;
- d) allowances are added provisionally in relation to work performed. They may be: driving allowances; indemnities for coordination; session indemnities; holiday bonuses; indemnities for transfer to another locality, indemnities for installation for the higher education graduates in some specialties and fields of activity; travel, delegation and detachment daily; compensations in national and foreign currency for the personnel sent to the permanent mission abroad in accordance with the law of each country.

Increases represent allocations at the base salary and the amount of it is presented in percentage or fixed amount of the base salary. They differ from the additions that have a permanent character and if the employee fits in the constantly working conditions and maintains his place more time.

Rises are of several types, namely: the increase for the length of the work, the increase for the activity unfolded for the program, the increase for working systematically for the program, the increase for the work performed during the night, supplement for additional functions, the increase for temporary driving functions, the increase for the use of a foreign language, the increase for conditions of hard work, the increase for harmful labour conditions, bonus for the dangerous conditions of work, the increase for protection and isolation, the increase of construction site, the increase for underground work, flying allowance, the risk rises, nervous overload and privacy, the increase for the work offshore, special goals and production, the increase for stand-by duty at home.

3. Accounting services and other personal rights

The main way of rewarding work done by staff can be defined as pay or payroll. Personal expenses are comprised of the total gross remuneration granted to labour and social costs; these are borne by the enterprise in the form of contributions to social insurance for unemployment. Each patrimonial unit can establish a system of payroll. It consists of: the tariff system, payroll, bonuses, other elements of the payroll system.²⁰ Payroll form is prefigured in the individual or collective contract of work established by each unit in part or in the regulation of laws or in special statutes-8. Personal rights are highlighted in the accounts of the group **42' Similar accounts and personal staff** in the context of the General Plan of Accounts²¹:

- **421 Account "Personal- wages owed"** highlights wages, additions and the awards due from the company to the employees; after the economic content is an account of creditors and after the accounting function it is a liability account. It is credited with the gross wages and other rights of employees and of the alumni educational institutions. The charge of withholding on salaries and net wages paid to employees. It is a credit account balance and represents the owed pay.
- **423 Account "Personal- material aids owed"** keeps track of the disease aids for temporary incapacity of work, maternity benefits for child care, sick child care. Aids deaths and other aids

¹⁹ Law No.414/2004 regarding profit distribution to national companies, national companies and companies with all or the majority capital of State and as well as local administrations;

²⁰ Lucian Popescu, "Salarizarea personalului", Ed. Tribuna Economică, București, 2007, p. 251-254.

²¹ Ordin 3055/2009 actualizat 2012 pentru aprobarea Reglementarilor contabile conforme cu directivele europene, publicat în Monitorul Oficial nr. 766bis din 10 noiembrie 2009.

granted; after the economic content is an account of creditors and after the accounting functions it is a liability account. It is credited with: the amount of aid materials to the employees paid by the employer, the amount of aid materials to employees met from social insurance budget. The charge of withholding aid materials and net amounts granted to the employees (Contributions for health insurance-CHS, unemployment, tax on income from wages, staff advances, uncollected materials assistance, loss of material assistance due to third parties, net material assistance paid to the employees). It is a credit account balance and represents the amount of social benefits owed to the employees.

- **424 Account “Raw material representing the profit participation by staff”** represents the incentives granted to the employees of the net profit realized by the entity at the end of the fiscal year financial. After the economic content is an account of debt and after the accounting functions it is a liability account. It is credited with the amount of net profit distributed to incentives from AGA’s decision. The charge of withholding gross incentives granted to the employees as well as the net amounts paid to its employees. It is a credit account balance and represents the amount of incentives owed to the employees.
- **425 Account “Advances granted to staff”** keeps track of the fortnight granted to employees. After the economic content is an account of payables and after the accounting functions it is an active account. They charge by the amounts granted to the employees with contract of work in the form of the fortnight and the payments of the amounts representing uncollected advances in the legal term by employees. It is credited with the amounts withheld from the wages of the employees rights or of aid materials representing the advances granted. It is a borrower account balance and reflects the advances paid to employees at the end of the period.
- **426 Account “Personal rights royalties”** raises wages and other uncollected duties of employees in the legal term. After the economic content is an account of creditors and after the accounting functions it is a liability account. It is credited with the amount of salaries, bonuses, incentives, aids disease and other uncollected duties in the legal term. They charge by the amounts paid to the employees in cash and personal rights royalties. It is a credit account balance and represents the amounts uncollected by employees.
- **427 Account ”Loss of wages owed to third parties”** highlights the payroll deductions and seizures due to third parties. After the economic content is an account of creditors and after the accounting functions it is a liability account. It is credited with the amounts withheld from wages representing rents, the garnishment and other reluctant towards third parties. They charge by the amounts paid to third parties. It is a credit account balance and represents the amounts withheld from wages.
- **428 Account “Other payables and receivables in connection with the staff”** keeps track of other debts and receivables of the entity towards the seizures employees. After the economic content is an account of the debt or receivables and after the accounting functions it is a bifunctional account, and he unfolds on two synthetic accounts of grade II, namely²²:
- **4281 “ Other duties in connection with the staff”;**
- **4282 ”Other receivables in connection with the staff”.**
- **4281 Account “Other duties in connection with the staff”**, after the economic content is an account of debts and after the accounting function it is a liability account. It is credited with the sober management guarantees withheld to the employees, with the amounts of employees who have not made the payment or severance pay states for outstanding vacation by the end of the fiscal year financial and the amounts owed to employees in the form of grants. They charge by the amounts paid to its employees in this account previously highlighted as well as the guarantees returned to managers (including associated interest) with any prescription or annual owed amounts. It is a credit account balance and represents other creditors of the company to the employees.
- **4282 Account “Other receivables in connection with the staff”** is an account of receivables from employees, after the economic content and the accounting function it is an asset account, They charge by the amount of the debt toward employees representing: rents receivable, unwarranted advances, twits, other flows including the proportion of the value of work equipment

²² Ordin 3055/2009 actualizat 2012 pentru aprobarea Reglementarilor contabile conforme cu directivele europene, publicat în Monitorul Oficial nr. 766bis din 10 noiembrie 2009.

supported by employee, the amount of treatment and rest tickets and travel vouchers and other primates values. It is credited with the amounts collected or withheld from employees. It is a borrower account balance and represents the amount of debt the company toward the seizures employees.¹

4. Social tax liabilities related to salaries

Income tax from salary, income beneficiaries from wages are required to pay a monthly tax representing a percentage share of 16% which is applied to the base where the monthly income is determined as follows: on the base is applied a rate of 16% which is determined as the difference between the net income computed by deducting from the gross income of mandatory contributions for the month, the personal deduction provided for that month so that at the end of the year does not exceed the equivalent \$ of 200 euros.

The information on the calculation of tax is included in the taxes that the employee is obligated to complete and keep them throughout the duration of payment of wages.

Payers of salaries and similar income are required to determine the total amount of tax per year for each taxpayer, you also need to withhold income tax for each month on the date of payment of income and transfer it to the State budget until 25th of the month following the month for which such income is paid.²

The method of calculation of the tax on income from wages is the following:

Taxable income from salaries= the gross income of the employee (employed CAS 10.5% + employed CASS 5.5% + employed SAN 0.5%)

Gross monthly salary income taxation= taxable income from salaries + taxable income from mass cards

Income tax= 16% * gross monthly salary income taxation.³

Personal deduction

“In accordance with article 56 of the Tax Code, physical persons and residents specified in article 40, paragraph 1, letter a and paragraph 2 shall be entitled to deduct from the net monthly income of an amount paid as a personal deduction granted for each month of the reporting period only at income from wages at the place where the basic functions is”.⁴

The deduction is granted to individuals who achieved a gross monthly income up to 1000 \$ including.⁵

Table no: 1

People in maintenance	Deduction
0	250
1	350
2	450
3	550
4 or more	650

Math relationship that include the deduction in the calculation of tax on income from wages is built depending on gross salary and on the number of people in maintenance as follows:

$$DP = (250 + 100 * NPM) * K$$

Where:

DP= personal deduction

NPM= number of persons in the maintenance

K= parameter defined in table no.2:¹

¹ Balteş Nicolae, Alina Teodora Ciuhurianu “Contabilitatea financiară”, Editura Universităţii “Lucian Blaga” Sibiu 2007, pag. 144-161.

² Mihai Ristea, Corina Dumitru, Iulia Jianu, Ştefan Grigorescu, Ionel Jianu, “Contabilitatea beneficiilor angajaţilor”, angajaţilor”, Ed. Tribuna Economică, Bucureşti, 2009, p. 177-178.

³ Lucian Popescu, „Contabilitatea provizioanelor”, Revista „Gestiunea şi contabilitatea firmei”, Ed. Tribuna Economică, nr. 11-12 Noiembrie - Decembrie 2011, p. 56.

⁴ Law No. 571/2003- Fiscal Code, last update in accordance with Government Ordinance No. 30 of 31 August 2011; 2011;

⁵ Mihai Ristea, Corina Dumitru, Iulia Jianu, Ştefan Grigorescu, Ionel Jianu, “Contabilitatea beneficiilor angajaţilor”, angajaţilor”, Ed. Tribuna Economică, Bucureşti, 2009, pag. 176.

Table no. 2

Gross salary	Up to 1000	Between 1000.01 ÷ 3000\$	Over 3000.01
K	1	1- $\frac{SB-1.000}{2.000}$	0
Personal deduction	$250+ 100 \times NPI$	$(250+ 100 \times NPI) \frac{3.000-SB}{2.000}$	0

Accounting for income tax from salary is keeping with the 444 account “Income tax on the nature of wages”. After the economic content is an account of creditors and after the accounting function it is a liability account. It is credited with the amounts withheld from income at salaries of company personnel representing the tax on income from wages.²

➤ **421 “Personal- owed wages= 444 “Income tax on the nature of wages”.**

The charge amounts paid from state budget as of wages income tax:

➤ **444 “Income tax on the nature of wages= 5121 “Accounts at banks in \$”.**

It is a credit account balance and reflects the amount of tax on the income from the wages owed by the company of the State budget..

People in maintenance ca be the wife or husband, children or other family member, relatives of the taxpayer or of the husband or the wife until to the second degree inclusive whose taxable and non-taxable income does not exceed 250 \$ monthly, are not considered dependent in maintenance, individuals who own agricultural land and forestry on area of 10000 square meters at the bottom of the hill and plain areas and 20000 square meters in mountain areas and also individuals who receive income from cultivation and exploitation of vegetables, flowers, vegetables, shrubs, ornamental plants in greenhouses or specially designed solar regardless of the surface.³

Contributions to insurance and social protection

Entities, individuals and legal entities, the public institutions and any payer of income salary or assimilated nature of wages are obliged to calculate, withhold and deliver to the State budget the compulsory social insurance contributions.

The odds of social insurance contribution for 2013⁴

A. Social insurance contribution foreseen in article 296 of the Law No.571/2003 regarding Fiscal Code:

- a) normal conditions of work of 31.3% of which:
 - 10.5% given by employee at the individual monthly gross wage including rises and additions;
 - 20.8% given by the employer to the individual monthly gross salaries with all increases and additions included.
- b) special conditions of work of 36.3% of which:
 - 10.5% given by employee to the individual monthly gross wage including rises and additions;
 - 25.8% given by the employer to the individual monthly gross salaries with all increases and additions included.
- c) special conditions of work of 41.3% of which:
 - 10.5 % given by employee to the individual monthly gross wage including rises and additions;
 - 30.8 % given by the employer to the individual monthly gross salaries with all increases and additions included.

¹ The personal monthly deductions OMFP published in Official Gazette of Romania nr.39/2005;

² Ordin 3055/2009 actualizat 2012 pentru aprobarea Reglementarilor contabile conforme cu directivele europene, publicat în Monitorul Oficial nr. 766bis din 10 noiembrie 2009.

³ Lucian Popescu, „Contabilitatea provizioanelor”, Revista „Gestiunea și contabilitatea firmei”, Ed. Tribuna Economică, nr. 11-12 Noiembrie - Decembrie 2011, p. 36.

⁴ Law on State social insurance budget for year 2013, number 6/2013 was published in Official Gazette No. 107 of 22 February 2013 and Law of State budget for the year 2013, number 5/2013, published in Official Gazette No. 106 of 22 February 2013;

- B. The contribution of health insurance according to article 296 of the Law No. 571/2003 regarding the Fiscal Code for:
- 5.5 % given by employee on the payroll income or treated which are subject to income tax;
 - 502 % given by the employer at the monthly salary fund.
- C. Contribution for vacation and compensations of health insurance provided by article 296 regarding the Fiscal Code is 0.85 5 at the monthly salary fund.
- D. Contribution to unemployment insurance budget foreseen in article 296 of the Law No. 571/2003 regarding the Fiscal Code:
- 0.5 % given by employee to the gross monthly income achieved;
 - 0.5 % given by the employer to the amount of gross monthly income achieved.
- E. The contribution of insurance for work accidents and occupational disease differing on depending on the class of risk according to the article 296 of the Law No. 571/2003 regarding the Fiscal Code for:
- 0.15 % - 0.85 % given by the employer of the amount of the gross monthly income achieved.
- F. The contribution to the guarantee fund for clemency provided by article 296 of the Law No.571/2003 regarding the Fiscal Code for:
- 0.25 % given by the employer in the gross income realized per month.
- G. Contribution to promotion the rights of people with disabilities for the employer: 50 % of minimum gross salary per country multiplied by the number of jobs in which are engaged people with disabilities or buying goods and services from authorized protected units in equivalent amount.

The calculation of contributions is carried out by applying the percentage foreseen on bases of calculation depending on the case. Amounts resulting it is accrued from the budgets and funds which belongs to them until 25th of the month following the month for which it is owed.

Net salary will take into account in its calculation the basic functions or other functions. The basic function of tax purposes can be understood as the functions are given in a unique way certain tax (deductions) to calculate the tax on the salary. The withholding of contributions and State budget of tax payable from gross salary results net salary. Withholding from salary pay may not exceed in each month half of the net salary.

Table 3- Structure of salary, of insurance contributions and social protection

Gross salary					Employer's contributions to the gross wages fund							
Net salary	The tax on income from salary	ISC- individual social contributions			CSC-Collective social contributions							
NS	TIS	SICRU	CHI	CSI	CSI	CHI	SICRU	FGR	CIWAOD	CHAHI	CPRPD	
GS-ISC-TIS	16*BCI	0.5% *GS	5.5% *GS	10.5% *GS	20.8 % * GWF	5.2% *GWF	0.5% *GWF	0.25% *GWF	(0.15%- 0.85%) *GWF	0.85% *GWF	*	

GS (gross income including all rises, additions to salary, severance pay, benefits in kind and other according to the Tax Code, art. 55)

MNI = monthly net income (GS-ISC)

VBC-TI = the basis for calculating income or taxable income(GS-ISC-PD)

ISC= individual social contributions

TIS= the tax on income from salary

NS = net salary

FSB= gross wages fund (monthly)

GWF= Social insurance contribution against the risk of unemployment

SICRU= contribution for health insurance

CHI= Contribution for social insurance

CSC= contributiile sociale colective - collective social contributions
CAMPB= the contribution of insurance for work accidents or occupational diseases (at present, depending on the CAEN code)
CCIS= contribution for holidays and allowances for health insurance
FGCS= fondul pentru garantarea creanțelor - the Fund for guaranteeing the receivables.
CPDPH= contribuția angajatorului pentru promovarea drepturilor persoanelor cu handicap¹

5. Conclusions

Nowadays everybody is faced with the economic crisis, the crisis that has brought a lot of imbalances in the countries of the world economies, some reaching in the threshold of bankruptcy. These imbalances have led to a decrease in quality of life.

An important role in the economic theory and economic practice of redistribution labour, social protection and social contributions, they exert a strong influence over the conditions of work and life of the population.

I believe that at the national level is required economic increase, growth which to raise the living standards of the population. This increase can be achieved by reducing the taxation which would lead to the creation of new jobs and thus increase consumption.

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2. Law No.53/2003- Labour Code, it was republished in Official Gazette No.0345 of 18 May 2011;
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7. Government decision No. 23/2013 for the establishment of minimum gross basic salary per country guaranteed in payment has been published in the Official Gazette, part I, no. 52 of 23 January 2013;
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¹ Lucian Popescu, „Contabilitatea provizioanelor”, Revista „Gestiunea și contabilitatea firmei”, Ed. Tribuna Economică, nr. 11-12 Noiembrie - Decembrie 2011, p. 42.

STUDY REGARDING THE ANALYSIS OF THE FINANCIAL POSITION OF AN ECONOMIC ENTITY

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Abstract:

The study regarding the analysis of the financial stand of SC Thrace Greiner Packaging SRL is meant to analyze the evolution of the assets, debts and capital throughout their structure. In addition, this study has determined the company's structure based on the coefficients of liquidity, solvency, profitability and indebtedness.

The main goal is to find out if the company has invested its money, if the company was capable of paying its debts and the way it has managed its activity in order to achieve the final purpose: making a profit.

Keywords: *assets, liabilities, structure, indicators*

1. The balance sheet, instrument for assessing the financial position of an economic entity

Under the provisions of art. Article 4. (1) Accounting Law no. 82/1991, republished, the Ministry of Public Finance issues the following order, Ord. nr. 3055/2009 for approving the Accounting Regulations in accordance with European Directives, published in the Romanian Official Monitor, Part I, nr. 766 from the 10th of november 2009, issued by the Ministry of Public Finance, pursuant to art. 2 para. (2). a) and Art. 10 para. (4) Government Decision no. 34/2009 regarding the organization and functioning of the Ministry of Finance, with subsequent amendments. This Order approves accounting regulations harmonized with EU directives in accordance with Directive IV of the European Economic Community and accounting regulations in accordance with Directive VII of the European Economic Community. The above-mentioned order requires businesses to prepare simplified annual financial statements including:

- balance sheet;
- profit and loss account;
- statement of the changes in equity
- cash flow statement;
- notes to the annual financial statements.

According to Order no. 3055/2009, the balance sheet is a summary document which sets out the assets, liabilities and equity of a company's financial year end, and in other cases provided by law. In the balance sheet, assets and liabilities are grouped by two criteria, namely: the nature and liquidity, and by nature and chargeability.

These regulations presents assets as a resource controlled by the entity as a result of past events from which are expected to generate future economic benefits to the entity. If the asset is likely to generate future economic benefits and has a cost or value that can be measured reliably, then it is highlighted in the balance sheet. The presentation of assets as immobilised asstes or as circulant assets depends on the purpose for which they are intended, according to the accounting policies approved by the administrators or by the people in charge of managing the entity.

These regulations presents a liability as a present obligation of the entity arising from past events and the settlement of which is expected to result in an outflow of resources embodying economic benefits. When it is probable that an outflow of resources embodying economic benefits will result from the settlement of a debt obligation it is recognized in the accounting and presented in the balance sheet.

Equity is the residual interest in the assets of the shareholders or associates of an entity after deducting all of its liabilities. Economic benefits are the ability to contribute, directly or indirectly, to the cash flow or cash equivalents to the entity. This contribution reveals increases in cash inflows, but also decreases in outflows.

The balance fundamental equation¹ is: **Assets = liabilities + equity**. The equation shows that the the economic resources which are assets are equal to liabilities plus equity which are resources or rights over the company. The two sides of the relationship are always equal.

This equation is also known as: **Assets = Liabilities**.

¹ <http://www.tradeville.eu/tradepedia/bilantul-contabil>

The importance of the balance sheet is derived from the functions that it fulfills¹:

- 1) accounting data generalizing function is given by the need to group dispersed data of current accounting, well established criteria in a limited number of indicators that could provide insight into the economic and financial situation of the entity.
- 2) the knowledge function of the financial and economical activity is manifested by the analysis of achieving project indicators and outcomes, identifying reserves and establishing measures for the improvement of economic and financial activity.
- 3) the forward looking function, which consists in the possibility offered by the balance sheet to guide future work by making the revenues and expenses for future periods based on the economic situation and the results of the reporting period considered.

2. Overview of the company

Thrace Greiner Packaging Llc („Society”) is a limited liability company under Romanian law. The company was founded in November 1992. The official headquarters of Thrace Greiner Packaging Llc is at the following address: Station Street, nr. 15, Sibiu, Sibiu County. The main activity of the company is the production of plastic packaging.

Companies are considered related if one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly control or significantly influence the other.

Thrace Greiner Packaging Llc is 50% owned by the company Thrace Plastics Pack CO SA Greece and 50% by Greiner Packaging Llc Romania, Sibiu (100% owned by Greiner Packaging Austria). Companies within the group that runs transactions are: Thrace Plastics Packaging SA Greece, Thrace Ipomea Bulgaria, Pairis Greece, Thrace Turkey, Thrace Serbia, Greiner Packaging SRL Romania, Greiner Packaging KFT Hungary, Greiner Packaging SRO Poland, Greiner Packaging Czech Republic, Greiner Holding Austria.

The social capital consists of 894.816 shares with nominal value of 10 lei, 50% belonging to the company Thrace Greiner Packaging SA Greece and 50% company Greiner Packaging Llc.

2.1. Evolution of assets, liabilities and equity

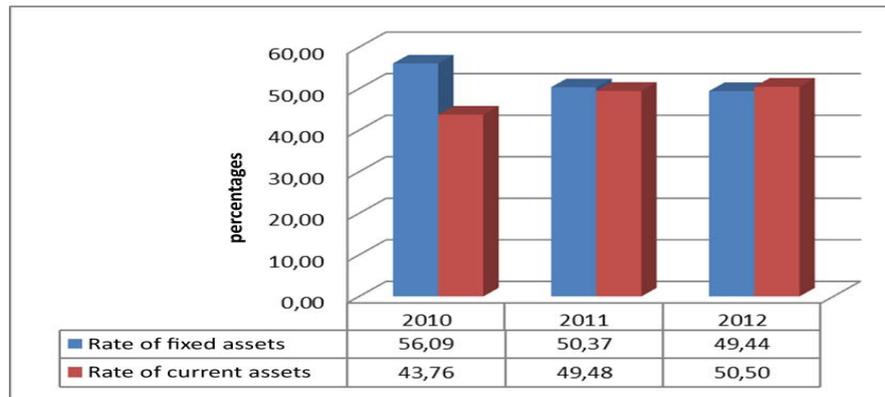
Table 1. The analysis of the structure of assets

No.	Specification	Symbol	2010	2011	2012
A.	Rate of fixed assets	Rai	56,09	50,37	49,44
A.1.	Rate of intangible fixed assets	Rain	0,03	0,06	0,13
A.2.	Rate of tangible fixed assets	Raic	99,97	99,94	99,87
A.3.	Fixed rate financial assets	Raif	-	-	-
B.	Rate of circulant assets	Rac	43,76	49,48	50,50
B.1.	Stocks rate	Rstoc	41,43	35,38	54,73
B.2.	Debts rate	Rcr	49,92	39,84	38,69
B.3.	Rate of cash	Rdb	8,65	24,78	6,58

- percentages -

Figure 1. The analysis of the structure of assets

¹ <http://www.scribube.com/economie/contabilitate/notiune-sifunctiilebilantului113592422.php>



Rate of fixed assets decreased from 56.09% to 49.44% in the whole period analyzed, which lead to a lower degree of capital investment in the company. Intangible fixed assets rate is very low as intangible assets consist strictly of concessions and patents. Tangible assets have the highest share in total fixed assets consisting of land, building, plant, equipment, machinery, furniture, and so on as evidence and tangible fixed assets rate is high, but decreased from 99.97 % to 99.87% in the analyzed period. The rate of financial assets is insignificantly small, financial assets being created only from other loans (long-term loans and receivables, with interest and their adjustments).

Figure 1.1. The rate of current assets in 2010

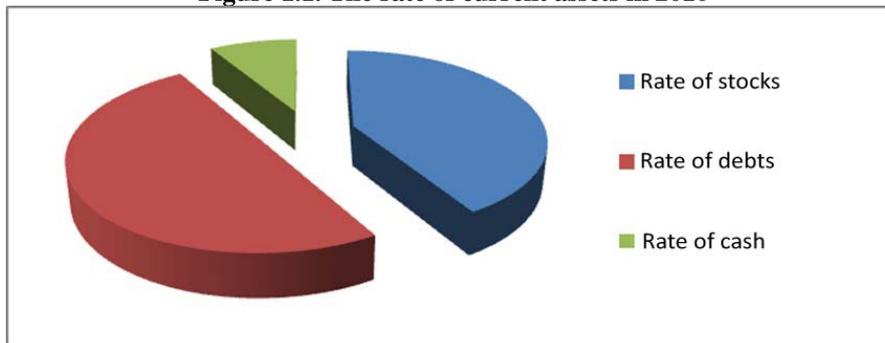


Figure 1.2. The rate of current assets in 2011

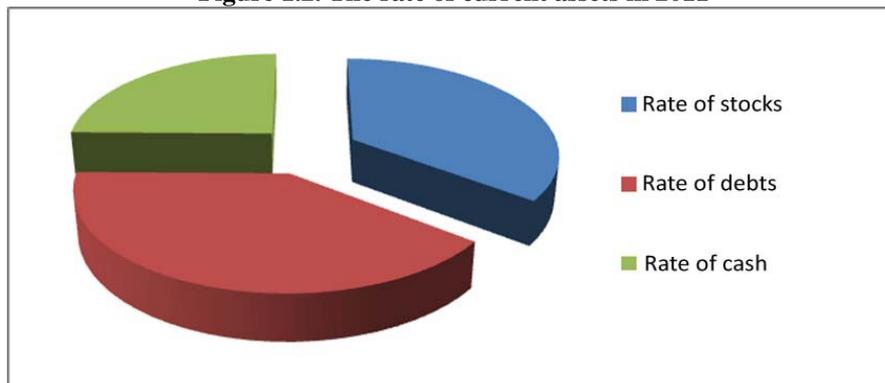
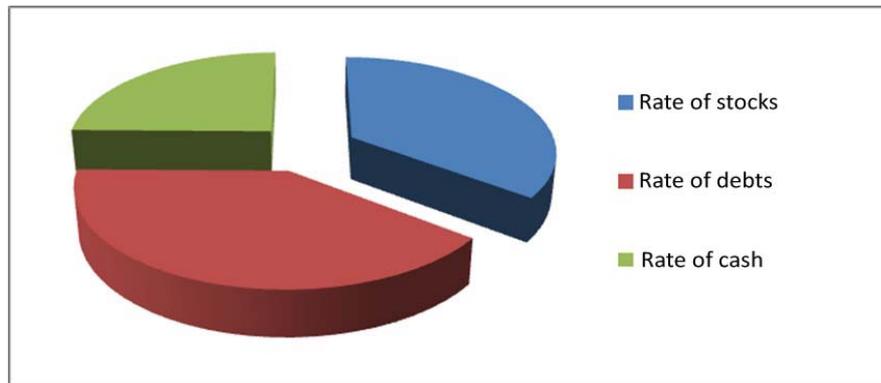
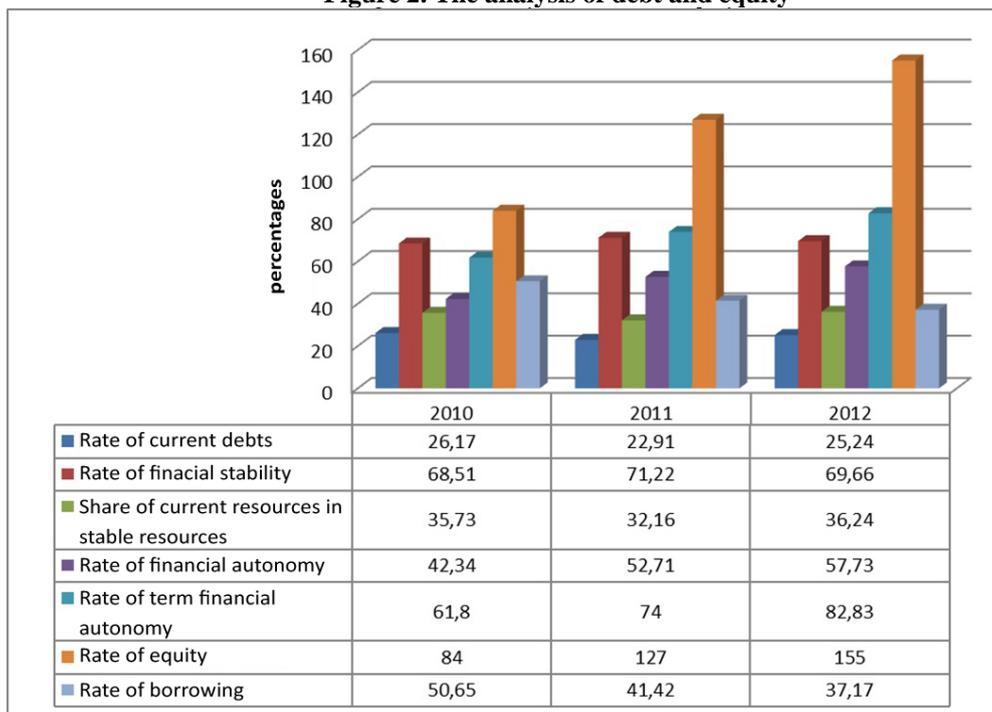


Figure 1.3. The rate of current assets in 2012



On the other hand, the rate of current assets increased from year to year, during the period analyzed, by 15.4 percentage points. In 2010 and 2011 the largest share in current assets have had claims, in exchange with 2012, when stocks have recorded the largest share due to lower demand for certain goods and a contract with Danone for certain types of products. Available cash has a very high share percentage (abnormal) in 2011, as evidenced by increased sales of products, the company's net profit growth. Stocks rate records in all three years values greater than 30%, which indicates a balanced stocks level. Cash rate and cash equivalents exceed 10% in 2011, which shows that the company provides the financial needs of the enterprise.

Figure 2. The analysis of debt and equity



It can be seen that the share of short-term debt to total capital was lower in 2011 and 2012, compared to 2010. The share of long-term debt and capital in total liabilities increased accordingly in 2011 and 2012, compared to 2010. The balance sheet shows that the amounts due to credit institutions on short term have increased from year to year with small amounts, but the amounts owed to credit institutions in the long term have decreased in 2011-2012 compared to 2010. That means the company has honored its long-term debts and has drawn short-term resources. The company has received a 3.5 times greater sum in advances orders account in 2011 compared to 2010. It means that the company has received many orders and signed a contract with Danone to achieve a new product that is a new type of plastic cup for fruit yogurt. These amounts received in the orders account fell by 98.11% in 2012 compared to 2011 because the contract was conducted over a period of one year, and Thrace Greiner

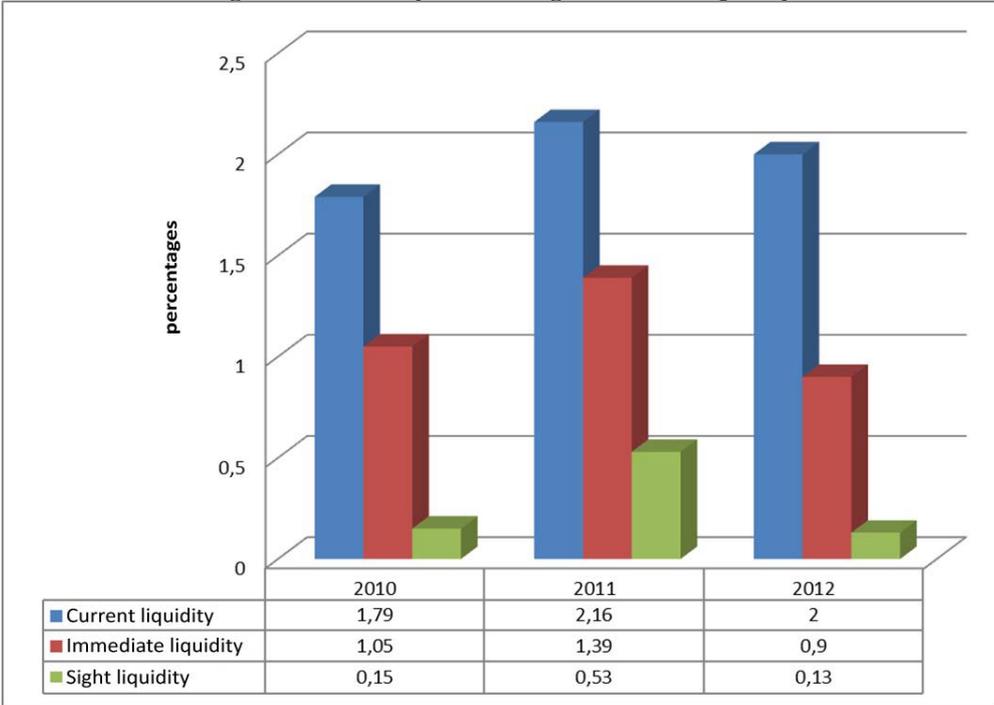
Packaging Llc had to honor the contract signed in 2011, including in 2012. The financial stability is relatively high during the analyzed period, the biggest stability being recorded in 2010, which highlights the relatively high proportion of stable resources available to the company.

The financial autonomy rate is appropriate in all the years analyzed, over 33%, and increased in 2012 compared to 2010 and 2011, which lead to high financial independence of the entity to third parties. Indebtedness of the company is increased during the three years analyzed, but declining, due to lower long-term loaned capital share and foreign capital.

3. The analysis of the financial situation of the company

3.1. The analysis and diagnosis of the liquidity

Figure 3. The analysis and diagnosis of the liquidity



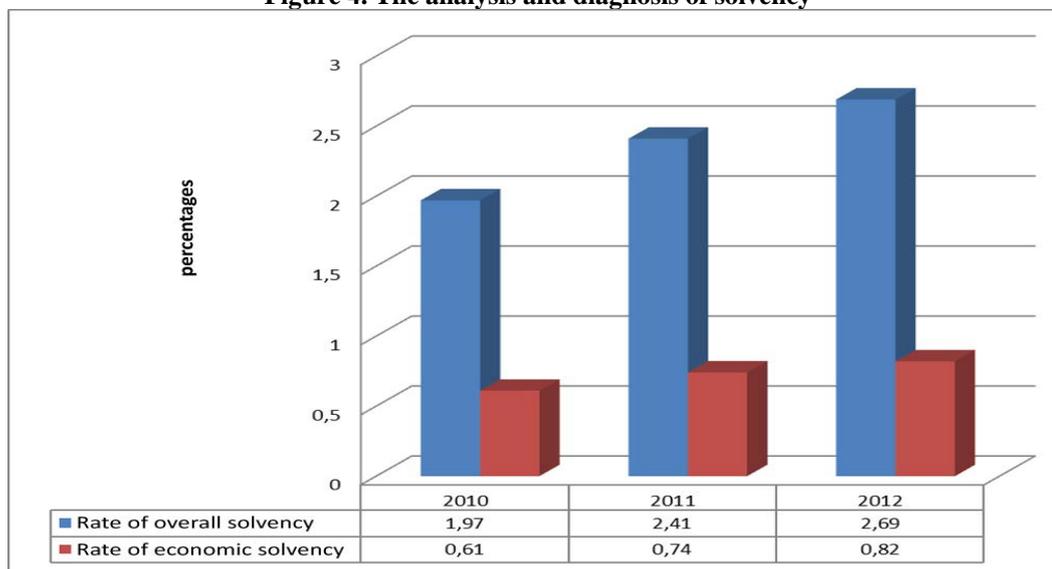
Immediate cash rates shows values close to the optimum level 2 throughout the analyzed period. The best current liquidity is found in 2011, when current assets are more than double the current liabilities. This shows that the company can cover more than twice the less than one year debts.

All immediate liquidity rates have values that belong to the optimum value (0.8 to 1) and even exceeds it. We can see that the smallest immediate liquidity is the one in 2012, when the stocks grew their value with almost 50% compared to 2011, due to the loss of the contract with Danone, which led to the company having the products on stock. The contract with Danone was lost due to a market withdrawal of Danone products, which led to an inability for Danone to pay their debts to all its suppliers, including the analyzed company. The fact remained unresolved in financial and legal terms.

The liquidity at sight rate is subunit and close to 0, which shows that available cash only cover very little of the short-term debts. In 2011 alone available cash is between 50 and 100%, due receipts in the orders account.

3.2. The analysis and diagnosis of solvency

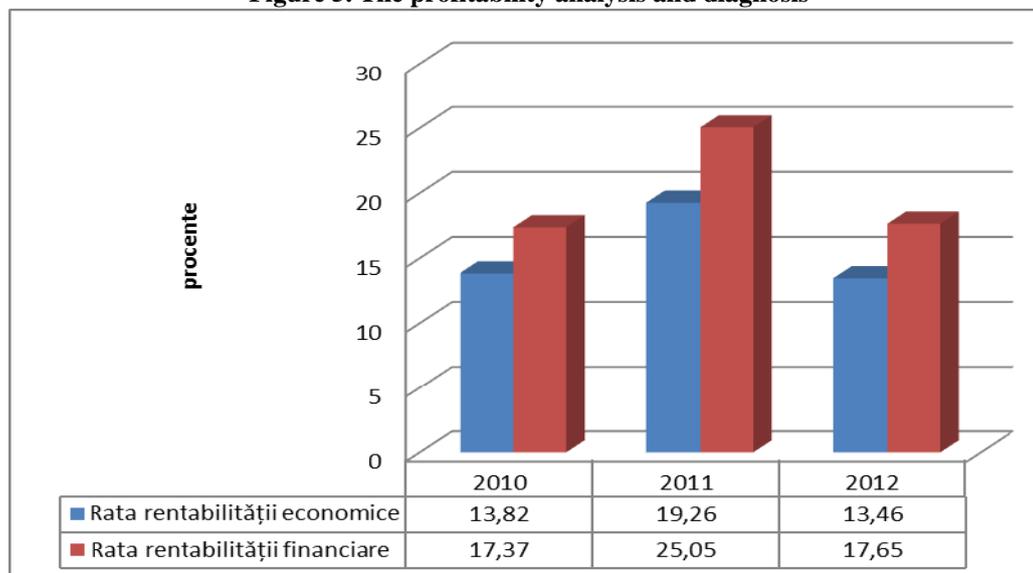
Figure 4. The analysis and diagnosis of solvency



The overall solvency rate is higher than 1 in all three years analyzed, the risk of default being the lowest in 2010 as total debt declined from year to year, with 12% in 2011 compared to 2010 and by 15% in 2012 compared to 2011. Economic solvency rate increased each year and exceeds the threshold (0,3 - 0,5) because long-term debt decreased greatly from 2010 and 2011 respectively decreased by approximately 24% and 40% between 2010 to 2012.

3.3. The profitability analysis and diagnosis

Figure 5. The profitability analysis and diagnosis



The most efficient economic rate of return operating activity can be observed in 2011, due to a gross operating profit much higher than in 2010 and than in 2012, and a total asset value changed very little in these three years being reviewed. Also in 2011, the best rate of financial stability was recorded, that in 2011 the company has the greatest capacity to generate net profit. This reflects the use of equity in order to obtain profit.

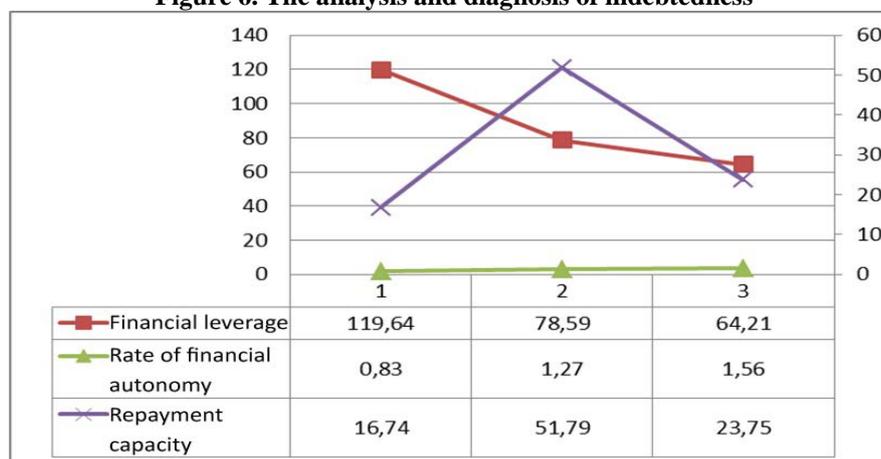
3.4. The analysis and diagnosis of indebtedness

Tabel 2. Analysis and diagnosis of indebtedness

No.	Specification	Symbol	2010	2011	2012
A.	Overall borrowing rate	Obr	50,65	41,42	37,07
A.1.	Financial Leverage	FL	119,64	78,59	64,21
A.2.	Financial autonomy rate	Far	0,83	1,27	1,56
A.3.	Repayment capacity	Rc	16,74	51,79	23,75

- percentages -

Figure 6. The analysis and diagnosis of indebtedness



Independence risk is manifested only in 2011 and 2012, as in 2010, the overall borrowing rate exceeds 50%. This can also be seen in the other three indicators. Financial leverage that diagnosed the financial risk is above the recommended level of 60% in all three years analyzed, but the largest in 2010, moving to 100% because the total debt is greater than equity.

The financial autonomy rate, which is recommended to be above the 1 level, is subject to the rule only in 2011 and 2012, because equity in 2010 was lower than the total debt.

Repayment ability rises above the minimum required level of 25-30% only in 2011, while in 2010 and 2012 does not reach the required level as self-financing capacity recorded the highest in 2011, unlike in 2010 and 2012 in which was much smaller.

4. Conclusions

The balance sheet is a tool that was the basis of the debt and equity structure, LD and company structure. Thrace Greiner Packaging Llc shows a low level of capital investment in the company. Intangible assets consist only from concessions and patents, in exchange tangible assets largest share in total fixed assets, consisting of land, building, plant, equipment, machinery, furniture, etc. Financial assets consist strictly of other loans (long-term loans and receivables, with interest and their adjustments). On the other hand, the rate of current assets increased from year to year during the period analysed. In 2010 and 2011 the largest share in current assets were claims, in exchange in 2012 stocks have recorded the largest share due to lower demand for certain goods and a contract with Danone for certain types of products.

Available funds have a very high percentage (abnormal) in 2011, as evidenced by increased sales of products, the company's net profit growth. Stocks rate show a balanced inventory stocks. Cash rate and cash equivalents exceed 10% in 2011, which shows that the company provides the financial needs of the enterprise.

The balance sheet shows that the amounts due to credit institutions for short-term loans increased from year to year with small amounts, but the amounts owed to credit institutions for long-term loans have greatly decreased in 2011-2012 compared to 2010, due repayment of a loan. That means the company has honored its long-term debts and drawn short-term resources. The company received an amount 3.5 times greater of advances in the orders account in 2011 compared to 2010. It means that the company has received many orders and signed a contract with Danone to achieve a new product, a new type of plastic cup for fruit yogurt. These amounts received on the orders account decreased in 2012

compared to 2011 because the contract was conducted over a period of one year, and Thrace Greiner Packaging Llc had to honor the contract signed in 2011, including that in 2012.

The financial stability is relatively high during the analyzed period, the biggest stability being recorded in 2010, which highlights the relatively high proportion of stable resources available to the company. The financial autonomy rate is appropriate in all the years analyzed, over 33%, and increased in 2012 compared to 2010 and 2011, which lead to high financial independence of the entity to third parties. Indebtedness of the company is increased in the three years analyzed, but declining, due to lower long-term loaned capital share, ie foreign capital.

Immediate cash rates shows values close to the optimum level 2 throughout the analyzed period. The best current liquidity is found in 2011, when current assets are more than double the current liabilities. This shows that the company can cover more than twice the less than one year debts. We can see that the smallest immediate liquidity is the one in 2012, when the stocks grew their value with almost 50% compared to 2011, due to the loss of the contract with Danone, which led to the company having the products on stock. The contract with Danone was lost due to a market withdrawal of Danone products, which led to an inability for Danone to pay their debts to all its suppliers, including the analyzed company. The fact remained unresolved in financial and legal terms. There is very little available cash to cover short-term debts. Only available cash in 2011 is between 50 and 100%, due to receipts for orders. The risk of inability to pay was the lowest in 2010, because the total debts have decreased from one year to the other.

Economic solvency rate increased each year and exceeds the threshold (0,3 - 0,5) because long-term debt decreased greatly from 2010 and 2011 respectively decreased by approximately 24% and 40% between 2010 to 2012.

The best economic rate of return can be observed in 2011, due to a gross operating profit much higher than in 2010 and than in 2012, and a total asset value changed very little in these three years being reviewed. In 2011 the company has the greatest capacity to generate net profit.

Independence risk is manifested only in 2011 and 2012, as in 2010, the overall borrowing rate exceeds 50%. The financial risk is above the recommended level of 60% in all three years analyzed, but the largest in 2010, moving to 100% because the total debt is greater than equity.

Self-financing capacity recorded the highest level in 2011, unlike in 2010 and 2012 in which it was much smaller.

In all the years analyzed, it is assumed that Thrace Greiner Packaging Llc has a good structure and a tendency to development. The company is trying to settle obligations and take new contracts to ensure an increasing trend of the profit.

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CENTRAL BANK'S ROLE IN ISLAMIC STATES CENTRAL BANK OF THE ISLAMIC REPUBLIC OF IRAN- PARTICULARITY OR UNIVERSALITY?

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Abstract

The role of financial institutions in economy has always been, and it remains, very important, despite locations and cultures. Islamic states are no exception, even if religion is a crucial factor that influences even the banking sector. Central banks in such countries, although they target the same objectives as any other central bank, in order to implement the monetary policy, they use instruments with more direct consequences on the banking system, being much more involved and active in this direction. Moreover, the bank's governance is a little bit different from other central banks, as it includes specialists not only from the banking sector, but from the major parts of the economic sectors, including the academic field. Such approaches are beneficial to the economy, leading to its consolidation and development.

Key words: financial institution, central bank, monetary policy, islamic law

1. Introduction

The role of financial institutions in the actual economic context is vital in order to ensure the functionality of the world's economies. Financial institutions refer to monetary market authorities: central banks, commercial banks and non-banking financial institutions, to capital market authorities: stock exchanges, but also to financial organisms with global authority: International Monetary Fund (I.M.F.) and the World's Bank group.

Although all of them have, on one hand, a coordination role, ensuring the control and the stability of economies, and on the other hand, a leverage role, leading to progress, each one has a different strategy for fulfilling its objectives.

No matter the economy, central bank's role is crucial, as it elaborates and implements the monetary and the credit policy, in a strict correlation with the general economic state policy. Its primary objective is the stability of national currency, leading to the economic development of the country. The monetary policy has to be stable, in the idea of a good coordination and regulation, but also flexible, so as to easily adapt to the economic conditions of each period.

The present paper analyses the role of a central bank in the Islamic countries, which represent a special economic, social and cultural context. The study focuses on the Central Bank of the Islamic Republic of Iran (C.B.I.), and it strives, by comparison with the European Central Bank (E.C.B.) and Romanian National Bank (R.N.B.), to offer the appropriate solutions for a better functionality of the economic system. Best practices need consolidation, and the ones that are dysfunctional, need a new architecture.

In the Name of Allah,

The Compassionate, The Merciful



2. The history of Central Bank of the Islamic Republic of Iran

The London bank "The New Oriental Bank" was the first to open a subsidiary in Teheran, in 1887, being the first real and modern banking institution. Two years later, "The Imperial Bank of Iran" was founded, by absorbing the first one, the new bank having the monopoly of money issuing.

Bank Melli Iran was the first national bank of the country, founded in 1927. In 1931, the Parliament authorized the bank to print and to distribute the national currency, the rial- equivalent of 100 dinars, all around the country, thus, making it functioning as a central bank until the end of 1960.

Around 1951, the governmental expenses increased to a large extent, and in order to face the difficulties, Iran had to borrow money from the I.M.F. In return for the credit offered, the Fund asked for the implementation of an economic stability program. Also, as the banking network started to extend, bank operations increased in volume, laws and regulations have been required to monitor the banking activity. As a consequence, in 1951, the “Bank Law” was introduced.

In such conditions, it appeared the need of an institution that should not be affected by banking competition, an authority with functions of a central bank, that adopts the monetary and the credit policy. Also, that institution was supposed to efficiently manage the financial resources, to assure economic development, to diminish the economic shocks and to monitor the banking activity.

On this base, in 1960, the “Monetary and Banking Law” was formulated, according to which the Central Bank of Iran was proposed to be Bank Markazi Jomhuri Islami Iran.

A major preoccupation of the state regarded the implementation of a banking system meant to respect the Islamic rules, because the law Sharia prohibited the usury, including the interest. All Iranian banks had to follow the banking principles described in the Islamic Banking law, according to which banks could engage only in operations without interest.

However, Islamic banking system has the same objective as any traditional banking system, that is to obtain profit through credit releases. As the interest is forbidden, the bank withdraws a part of the profit obtained by the individual/ company who asked for a credit, or on the contrary, in case of a loss, it supports a part of it, the credit contract being seen as a partnership. On the other hand, banks act as representatives of those who place their money in bank’s deposits, investing the money in profitable activities, which is then, redistributed to deponents, after deducting some administrative taxes.

2. Organisation of Central Bank of the Islamic Republic of Iran

In what concerns the organisation of Iran’s Central Bank, its governance is formed from individuals that belong to different economic fields, not only to the financial sector. As a comparison, the members who take part to the decision making process in E.C.B. or in R.N.B., belong mainly, to the financial domain. Iran’s Central Bank consists of:

1. The General Assembly- composed of the President, the Minister of Economic Affairs and Finance, the Head of the Management and Planning Organization and the Minister of Commerce.
2. The Money and Credit Council- composed of the Central Bank’s Governor, the Minister of Commerce, the Minister of Agriculture, the Minister of Industry, the Minister of Mines, the Minister of Justice, a representative of the Chamber of Commerce, the General Secretary of the Economic and Money and Credit Councils, the President of Bank Melli Iran, a representative of the commercial banks, an economics professor from Teheran University, a representative of Teheran’s Council of Agriculture, a specialist in industry and workforce, fiscal and monetary policies.
3. The Executive Board of the Bank- consists of the Governor, Deputy Governor, Secretary General and three Vice Governors.
4. The Note Reserve Control Board- composed of two deputies named by the Parliament, the Governor, the Ministry of Justice, the General Treasurer, the Chief of the Government Audit Committee and the President of the Surveillance Council.
5. The Supervisory Board- composed of the President and four members elected out of the most qualified auditors.

Also, the Central Bank has a Department for Banking Surveillance, meant to assure the security of banking operations, and a Department of Banking Studies and Regulations, formed of study groups, such as: finances and accounting, credit and banks, surveillance procedures and systems, which monitor the banking risks.

We can notice a large involvement of the private, academic, juridical, industrial and agricultural environment in the functionality and decision making of the Central Bank, that leads not only to the stability of the banking system, but also to the development of the economy. I consider of a real importance this involvement, and I believe it is useful that all central banks have such an approach when establishing their governance.

3. The functions of central banks

As it is mentioned in the Banking and Monetary Act of Iran, the Central Bank is responsible for creating and implementing the monetary and credit policy, in strict correlation with the general economic policy of the State.

Among the Central Bank's objective, we mention:

1. maintaining the value of national currency;
2. maintaining the equilibrium of the payments balance;
3. contribution to the country's economic growth;
4. prices' stability;
5. high levels of employment.

The objective of the E.C.B. is to assure price stability. The strategy adopted in order to fulfil this aim is a direct target of inflation at 2% on the medium term, an annual fixed target, and the target of the monetary aggregate M3 at +/- 4.5%. Also, the E.C.B. aims to support the general economic policies of the euro zone, by reducing the unemployment and by a stable economic growth.

R.N.B. has as primary objective to assure and maintain prices' stability, in this idea, targeting the inflation with a variation interval of +/- 1 percentage points. In the same time, it supports the Government economic policy, aiming at economic development.

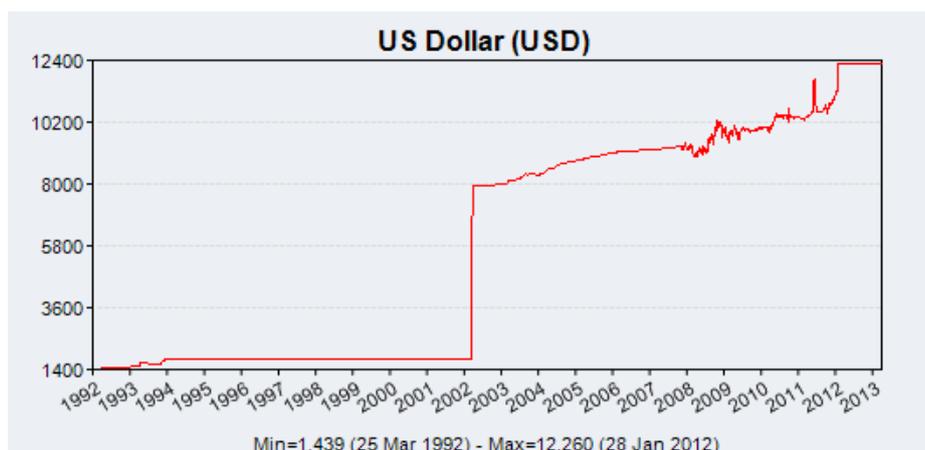
We can notice that, at objective level, the approach of the three central banks is similar, all of them targeting the inflation, their major preoccupation being prices' stability. Moreover, the preoccupation for other indicators, such as unemployment and Gross Domestic Product (G.D.P.) it is beneficial, as central banks have to be anchored in the economic reality, not isolated in the banking system.

In what concerns the objectives set by Iran's Central Bank, in what follows, I have presented the evolution of the most important indicators.

Regarding the exchange rate of the national currency, in 2003, when a floating regime was adopted, the Iranian rial depreciated against the dollar, increasing from 1,400 rials for 1 dollar, to 8,000 rials for 1 dollar. Then, until 2012, although the trend was still one of depreciation, the phenomenon was gradually, the perturbation beginning with 2007 being caused by the world's economic crisis.

In 2012, the exchange rate dramatically depreciated, getting to 12,400 rials for 1 dollar. Petroleum production represents the main financial source for Iran, and the production decrease, as a result of the embargo set by the United States of America and the European Union (E.U.) had a great impact. The drop in petroleum transactions lead to a decrease in the demand for rials, which meant a depreciation of the national currency of more than 25% compared to the dollar.

Figure no 1- Exchange rate USD/ IRR



Source: http://www.cbi.ir/exrates/rates_en.aspx

As a consequence of the economic crisis and of international sanctions, Iran had a lot to suffer, reason why in 2012, the inflation rate was 20.6%, while the unemployment rate was 11.8%. Even if the Iran' Central Bank does not have explicit targets for these indicators, such levels are not desirable, but Central Bank's efforts cannot be singular. The context is extremely important, and the actual unfavourable economic climate puts pressure on the Central Bank, which is in high difficulty.

On the other hand, in 2012, in the E.U., the inflation rate was 2.30 %, and in the euro zone-2.20%. In Romania, the inflation rate was, in 2012, of 4.60%.¹ Moreover, in the same period, the unemployment rate was in the E.U. of 10.5%, while in the euro zone, of 11.4%. In Romania, the unemployment reached 7% in 2012.²

High levels of those two indicators- inflation and unemployment- in Iran cannot be seen as a failure of the Central Bank monetary policy, because it can at most, influence the trend in the country's economy, it cannot impose it, and even less than this in such an unfavourable economic context as the one Iran confronts nowadays. For reaching the objectives it sets, the Central Bank of Iran has to fulfil the following functions:

1. issuing banknote and coins;
2. supervising credit institutions;
3. formulating the monetary and credit policy of the country;
4. preserving value of the national currency inside the country and abroad;
5. formulating regulations that govern transactions in foreign exchange and rial;
6. supervising gold transactions and formulating the related regulations;
7. balancing the volume of bank credits, harmonizing it with the country's monetary needs;
8. keeping the accounts of ministries, government agencies, and agencies affiliated to the government;
9. taking custody of the country's foreign exchange and gold reserves;
10. representing government in international and financial organisations;
11. possessing the right to take full charge of issuance of government bonds;
12. conclusion of payment agreements in the execution of monetary, financial, trade and transit agreements between the government and other countries.

For the implementation of its monetary policy, Iran's Central Bank can intervene on the monetary market, using direct and indirect instruments. The first category includes:

1. banking profit rates – Central Bank establishes the profit rate commercial banks can set for the credits they offer. For transaction contracts with a maturity of up to two years, the rate is of 14%, and for a period of more than 4 years, the rate reaches a level of 15%, no matter the economic field.

Figure no 2- Banks' lending rates for transaction contracts (period 1984-2012)

<i>Banks' Lending Rates for Transaction Contracts</i>					
<i>(Minimum expected lending rates for participatory contracts)</i>					
<i>(percent)</i>					
Year	Manufacturing and mining	Construction and housing	Agriculture	Trade and services	Exports
1363	6-12	8-12	4-8	8-12	—
1364	6-12	8-12	4-8	8-12	—
1365	6-12	8-12	4-8	8-12	—
1366	6-12	8-12	4-8	8-12	—
1367	6-12	8-12	4-8	8-12	—
1368	6-12	8-12	4-8	8-12	—
1369	11-13	12-14	6-9	17-19	—
1370	11-13	12-16	6-9	18 (minimum)	—

¹ About inflation.com, *Euro-Zone inflation*, available at: <http://www.aboutinflation.com/inflation/european-union---inflation>

² Eurostat, *Unemployment rate*, available at : [http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rate,_2001-2012_\(%25\).png&filetimestamp=20130417141135](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rate,_2001-2012_(%25).png&filetimestamp=20130417141135)
[http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rate,_2001-2012_\(%25\).png&filetimestamp=20130417141135](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rate,_2001-2012_(%25).png&filetimestamp=20130417141135)

1371	13	12-16	9	18 (minimum)	18 and over
1372	16-18	12-16	12-16	18-24	18
1373	16-18	15	12-16	18-24	18
1374	17-19	15-16	13-16	22-25	18
1375	17-19	15-16	13-16	22-25	18
1376	17-19	15-16	13-16	22-25	18
1377	17-19	15-16, 18, 19 *	13-16	22-25	18
1378	17-19	15-16, 18, 19 *	13-16	22-25	18
1379	17-19	15-16, 18, 19 *	13-16	22-25	18
1380	16-18	15, 16, 17, 19 **	14-15	23 (minimum)	18
1381 ⁽¹⁾	15-17	14, 15, 16, 18 ***	13-14	22 (minimum)	17
1382 ⁽²⁾	16	15, 18, 21 ****	13.5	21 (minimum)	16 ^Δ
1383 ⁽³⁾	15	15, 18, 21 ****	13.5	21 (minimum)	14
1384 ⁽⁴⁾	16	15-16	16	16	16
1385 ⁽⁵⁾	14	14	14	14	14
1386 ⁽⁶⁾	12	12	12	12	12
1387 ⁽⁷⁾	12	12	12	12	12
1388 ⁽⁸⁾	12	12	12	12	12
1389 ⁽⁹⁾			12 and 14		
1390 ⁽¹⁰⁾			11 and 14 14 and 15		

Source: <http://www.cbi.ir/simplelist/1493.aspx>

Also, the Central Bank sets the level of profit rates term investment deposits can have. They range from 6% for the short term, to 15% for periods of more than 5 years.

Figure no 3- Term investment deposit rates

Term Investment Deposit Rates (Provisional) * (percent)							
Year	Short-term	Special short-term (6-month)	One-year	Two-year	Three-year	Four-year	Five-year
1363	7.2	—	9 long-term deposits (one-year and over)				
1364	6	—	8 long-term deposits (one-year and over)				
1365	6	—	8.5 long-term deposits (one-year and over)				
1366	6	—	8.5 long-term deposits (one-year and over)				
1367	6	—	8.5 long-term deposits (one-year and over)				
1368	6	—	8.5 long-term deposits (one-year and over)				
1369	6.5	—	9	10	11	—	13
1370	6.5	—	9	10.5	11.5	—	14
1371	7.5	—	10	11.5	13	—	15
1372	8	—	11.5	13.5	14.5	—	16
1373	8	—	11.5	13.5	14.5	—	16
1374	8	10	14	15	16	—	18.5
1375	8	10	14	15	16	—	18.5
1376	8	10	14	15	16	—	18.5
1377	8	10	14	15	16	—	18.5
1378	8	10	14	15	16	—	18.5
1379	8	10	14	15	16	17	18.5
1380	7	9	13	13-17 **	13-17 **	13-17 **	17
1381 ⁽¹⁾	7	9	13	13-17 **	13-17 **	13-17 **	17
1382 ⁽²⁾	7	9	13	13-17 **	13-17 **	13-17 **	17
1383 ⁽³⁾	7	9	13	13-17 **	13-17 **	13-17 **	17
1384 ⁽⁴⁾	7	9	13	13-17 **	13-17 **	13-17 **	17
1385 ⁽⁵⁾	7	7-16 ***	7-16 ***	7-16 ***	7-16 ***	7-16 ***	16
1386 ⁽⁶⁾	7	7-16 ***	7-16 ***	7-16 ***	7-16 ***	7-16 ***	16
1387 ⁽⁷⁾	9 (maximum)	Based on bank recommendation & CBI confirmation	15 (maximum)	16 (maximum)	17 (maximum)	18 (maximum)	19 (maximum)
	9	16	17.25	17.5	18	18.5	19
1388 ⁽⁸⁾	9	12 ^Δ	14.5	15.5	16	17	17.5
1389 ⁽⁹⁾	6 ⁽⁹⁾	8 and 11 ⁽¹⁰⁾	14	14.5	15	16	17
1390	6 ⁽¹¹⁾	8 and 10 ⁽¹²⁾	12.5	13.0	14.0	14.5	15
Based on banks and credit institutions' discretion ⁽¹³⁾							

Source: <http://www.cbi.ir/simplelist/1493.aspx>

2. credit ceiling – Central Bank can intervene in and supervise monetary and banking affairs through limiting banks, specifying the mechanisms for use of funds and determining the ceiling of loans and credits in each sector;

3. other actions: determining the commission for banking services, as they are not allowed to exceed 2.5% of the transactions value.

Indirect instruments include:

1. reserve requirement ratio- commercial banks are obliged to deposit part of their liabilities in the form of deposit with Iran Central Bank. Through increasing/decreasing this ratio, the C.B.I. contracts/expands the broad money. Central Bank can determine reserve requirement ratio within 10% to 30%, depending on banks' liabilities', composition and field of activity.

Figure no 4- Reserve requirement ratio¹

The Reserve Requirement Ratio of Various Deposits in 1390 (2011/12)

Type of deposit	Reserve requirement ratio (percent)
Gharz-al-hasaneh savings	10.0
Demand deposits, cash deposits, letters of credit (LCs), bank guarantees, and others	17.0
Short-term investment	15.5
One-year investment	15.0
Two- and three-year investment	11.0
Four-year investment	10.0
Five-year investment	10.0

Source: <http://www.cbi.ir/page/8914.aspx>, „Monetary, Credit & Supervisory Policies of the Banking System in 1390(2011/12)”

3. C.B.I. participation papers- appropriate implementation of monetary policies by the C.B.I. is done through open market operations, which provide the required flexibility in liquidity management and intervention in the money market. Utilization of bonds, owing to its fixed interest rate nature, is prohibited according to Islamic Sharia. However, utilization of participation papers and investors' partnership in economic activities and payment of profit is encouraged. C.B.I. is authorized to issue participation papers upon the approval of the Parliament. By using this instrument, the C.B.I. could affect broad money (M2) through monetary base, thereby controlling the rate of inflation.

3. open deposit account (O.D.A.)- C.B.I. allows banks to open a special deposit account at the Monetary Council, so as to control liquidity through absorption of banks' excess resources. Iran's Central Bank pays profit to these deposits, on the basis of specific rules.

We can notice that Central Bank has the instruments needed to fulfil its objectives, but this only if country's internal and external conditions allow it.

In what concerns the monetary policy instruments used by the E.C.B., they include: open market operations, standing facilities and minimum reserves.

Taking in consideration the objectives, the frequency and the required procedures, the open market operations can be divided as follows: main refinancing operations (regular liquidity-providing reverse transactions with a frequency and maturity of one week), longer-term refinancing operations (liquidity-providing reverse transactions conducted both at regular and irregular frequencies and maturities), fine-tuning operations (can be executed on an ad hoc basis to manage the liquidity situation in the market and to steer interest rates, being primarily executed as reverse transactions, but also in the form of outright transactions, foreign exchange swaps and collection of fixed-term deposits), and

¹ „Gharz-al-hasaneh savings” refer to saving accounts and „demand deposit” means current accounts

structural operations (can be carried out through reverse transactions, outright transactions and issuance of debt certificates).

Permanent facilities refer to the absorption/ supply of liquidity overnight. These operations are realised at commercial banks' initiative, being divided into credit and deposit facility (corridor of +/- 0.75% to the monetary policy rate- 0.75%).

Minimum reserve requirements (1% the actual level) are utilised by the E.C.B. in the same way and with the same objective as the C.B.I., that is to control the money supply.

Regarding R.N.B., it utilises the same type of instruments as the E.C.B.: reserve requirements (15% for lei and 20% for foreign currency), standing facilities (corridor of +/- 4% to the monetary policy rate – 5.25%) and open market operations, which although have other name compared to the one used by the E.C.B., have the same objectives.

We can mention here repo operations (liquidity-providing reverse transactions whereby R.N.B. buys eligible assets from credit institutions upon their commitment to repurchase them at the date and the price agreed), deposit-taking operations (liquidity-absorbing transactions with pre-specified maturity), issuance of certificates of deposit (liquidity-absorbing transaction whereby R.N.B. sells certificates of deposits to credit institutions), reverse repo operations (liquidity-absorbing reverse transactions), credit operations against eligible assets as collateral (liquidity-providing reverse transactions whereby the R.N.B. grants loans to credit institutions that remain the owners of the underlying assets), outright sales/ purchases of eligible assets (liquidity-absorbing/ providing transactions whereby R.N.B. sells/ buys eligible assets whose ownership is transferred from seller to buyer), foreign exchange swaps (consist of two simultaneous transactions concluded with the same counterparty, whereby R.N.B. either buys foreign currency spot against lei, for liquidity-providing purposes, and sells at a later date the same amount of foreign currency forward against lei, or it sells foreign currency spot against lei, for liquidity-absorbing purposes, and buys at a later date the same amount of foreign currency forward against lei.)

The specificity is linked to the level and intensity of using such instruments, as central banks use them as leverage when they consider necessary and opportune their intervention in the market.

4. Conclusions

We can admit that Central Bank of Iran fulfils all the functions as any other central bank, the fact that is part of an Islamic system having no influence from this point of view. However, we can notice a series of differences if compared with the E.C.B. and R.N.B.

Firstly, we can mention a more complex organisation of Iran's Central Bank, its members belonging to different domains of the social, economic, juridical and academic context. Another aspect that needs to be mentioned is connected to a higher degree of intervention in the banking sector. The Central Bank establishes, by setting minimum and maximum limits, or by pointing precise and strict levels that some rates or indicators can have. It gives directives regarding the profit rates commercial banks can obtain, regarding the commissions' level they can set, or the maximum level the credits they offer can be at a certain moment.

In this way, the surveillance of the banking sector is much more rigorous. Unfortunately, in moments of crisis and unfavourable contexts, not even such measures can help. From the analysis above, it could be seen that the deterioration of Iran's economic situation, was caused mainly because of the economic crisis and of the embargo set by the U.S.A. and E.U., Central Bank's intervention being limited.

However, the C.B.I.'s governance and the instruments it uses, can be seen as 'best practices' in the domain, and could be implemented also at other central banks. The role of such institutions cannot be singular and restricted to the banking sector. It should have support from other national authorities, and be extended to the entire economy, for enhancing its development.

Seen only from their „ivory tower”, central banks risk to be seen as non-communicative, being isolated in their environment, or this is not the appropriate direction. The economic reality has to inspire them and the collaboration with individuals from diverse media can help for a better implementation of the monetary policy.

So, universality or particularity? For the appropriate answer, the context has to be taken into consideration. Although all central banks' actions converge to the same objectives, the effective implementation, as well as the external factors central banks cannot control (economic, political, social and cultural factors) can make the difference, and they do it most of the time...

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THE IMPORTANCE OF ANTI-FRAUD STRATEGIES IN ORGANIZATIONS

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Abstract

Global economic changes, increased risks and uncertainties within corporations, led slowly but surely to the occurrence of fraud and illicit phenomena. Anti-fraud strategies are the important pillars of any organization in preventing, detecting and deterring fraudulent activities. Moreover, the adoption of a code of ethics and the exercise of effective internal control is the key to success and it manages in fighting fraud. Many of those who commit these acts, make use of the details of the „fraud triangle” in particular of opportunity, because due to an ineffective internal and almost nonexistent control, there may be some errors, inaccuracies, which then can be converted into real illegal activities. Globally, the region that has most suffered from the emergence of this phenomenon is the USA, Europe being the third position. Exercising an internal control and internal audit can effectively lead to stopping these facts. The existence of a set of values, norms, ethical principles, can lead to abiding the law by the employees, at the same time representing the main weapon to prevent financial fraud in the organizations.

Keywords: *anti-fraud strategies, fraud triangle, code of ethics, internal control, internal audit.*

1. Reasons for the perpetration of fraud

The precarious economic situation, the effects of the financial and economic crisis and last but not least, the losses suffered by companies during this period can become important players in the fraud triangle, thus increasing the risk and the uncertainty within any company.

A theory often addressed by experts in this field is the fraud triangle theory. This model states that fraud is likely to result from a combination of three factors: motivation, opportunity and rationalization.¹

Motivation is based on greed or need, which for some individuals is most often a good reason for committing fraud, regardless of the consequences that it entails.

As far as opportunity is concerned, this aspect of the fraud triangle, is more likely to occur in organizations where internal control is weak or nonexistent. Therefore, for author of the fraud, the alleged probability that his illegal deed will not be revealed is a main concern.

The last component of this theory, namely rationalization or justification of the deed shows that many offenders try to find all kinds of excuses for committing fraud.

The main responsibility for preventing and detecting fraud at every corporate level, rests with management and a successful fraud deterrence may depend in an overwhelming proportion of a combination of efforts of management and external auditors.²

The overarching goal of management should be to reduce the element of opportunity in the fraud triangle.

The main mechanism for reducing opportunity is exercising an effective internal control, involving particularly the appropriate supervision of compliance tasks and activities of employees with the company-specific policies and procedures to which they belong.

The fast changes occurred in the legislative and informational environment creates a huge opportunity for fraud, which is why it is imperative to implement a long-term anti-fraud strategies.¹

¹http://www.cimaglobal.com/documents/importeddocuments/cid_techguide_fraud_risk_management_feb09.pdf.pdf:
Fraud risk management – A guide to good practice.

²http://www.fonduriue.ro/res/filepicker_users/cd25a597fd62/Documente_Suport/Studii/0_Studii_Instrumente_Structurale/Pag.1_Interese_Financiare_UE/4_Nota_informativa_indicatorii_frauda.pdf.

2. The importance and the necessity of anti-fraud strategies

The sudden changes occurring ever more frequently, both in the internal and external environment of organizations, the increasing of the complexity of the daily problems and the escalation of risks and uncertainties, which have begun to increasingly govern the corporate life, are becoming an undeniable reality, a reality in which the illegal phenomena are appearing where corruption and economic fraud are increasingly common.

To fight these phenomena, companies have implemented all sorts of anti-fraud strategies, strategies which, if well-implemented, can prevent and even combat these economic crimes.

Any anti-fraud strategy consists in all major objectives of the company in the long term regarding preventing, detecting and combating fraud, the main ways of achieving them, and the resources allocated for the main purpose of obtaining the desired results on the implementation of these strategies.²

The antifraud strategies foundation consists mainly in a well established ethical culture and an effective internal control of the organization.

The ethical culture and the existence of a code of conduct within the organization is a real help in preventing these fraud phenomena which are occurring more and more often in our lives and businesses, not just nationally but even worldwide.

A statement on the company's anti-fraud policy helps employees to know better that the term fraud, it helps them to take appropriate action when they face such phenomena, and last but not least, it helps them to know the legislation and the existing penalties for committing such crimes.

An effective anti-fraud strategy, consists in four components: prevention, detection, deterrence and response to fraud.³

Fraud prevention and detection plays an important role in deterring economic crimes for any corporation.

The stage of prevention starts with an effective internal control, which is composed of a multitude of policies and procedures implemented by the leadership of the entity, aiming to ensure rigorous and effective management of its activities.⁴

The internal control involves both respecting the policy of compliance management, asset protection, prevention and detection of errors and inaccuracies, and last but not least of fraud.

The existence of a rational system of internal control at the organizational level, properly designed and implemented, is a true weapon against possible fraud.

Preventive controls are made with the aim to reduce the risk of fraud.⁵ Moreover, the prevention strategies of fraudulent activities within any business is the first line of defense, and they offer effective ways to stop them.

The key elements of prevention, detection and deterrence of fraud are:⁶

- The existence of a fraud policy and of a code of ethics at the organizational level;
- The existence of an effective internal control;
- Free trainings provided to the employees to make them aware about the effects and penalties as a result of committing economic crimes;
- The existence of the internal and external audit;

¹ Sabău, Elena-Moncia, *Strategii antifraudă la nivelul corporațiilor, Partea I – Cultura etică și integritatea ocupațională*, Revista Contabilitatea, expertiza și auditul afacerilor, CECCAR, nr. 8, 2012, p. 24.

² Ogorean, Claudia, *Management strategic*, Editura Universității „Lucian Blaga” din Sibiu, Sibiu, 2006, p. 32-33.

³http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/CorporateGovernanceRiskManagementInternalControl/DownloadableDocuments/Fraud_Risk_Management_Business_Brief.pdf: *The basics of fraud risk management*, Business brief, 2009, p. 2.

⁴Toma, Marin, *Inițiere în auditul situațiilor financiare ale entității*, Ediția a III-a, revizuită și adăugită, Editura CECCAR, București, 2009, p. 36.

⁵<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/documents/Fraud-Risk-Management-O-200610.pdf>: *Fraud Risk Management - Developing a Strategy for Prevention, Detection and Response*.

⁶http://www.anao.gov.au/html/Files/BPG%20HTML/Government%20Fraud%20Control%20BPG/5_fraud_control_prevention.html: *Fraud Control – Prevention*.

- Creating and distributing an annual report that includes fraud committed within the company to the whole staff.

The figure below shows the main preventive measures taken by an organization when faced with a risk of fraud.

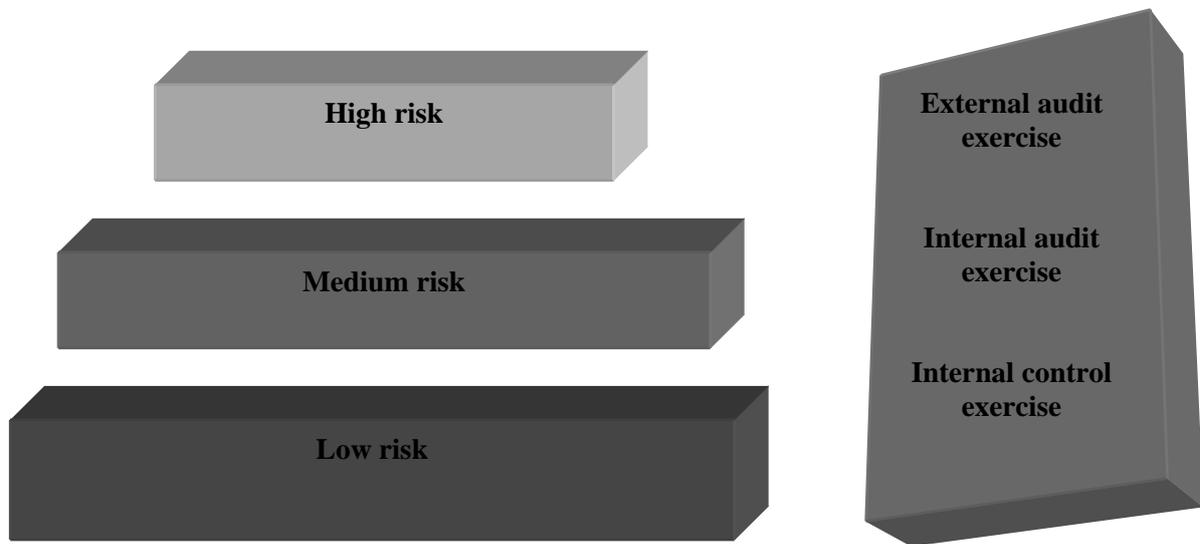


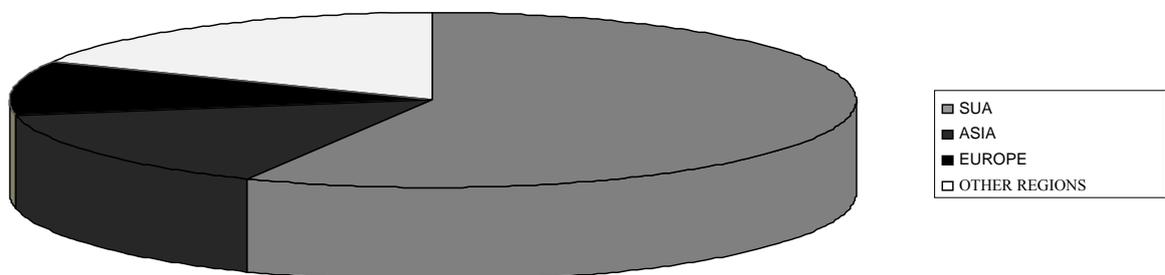
Figure 1: Preventive measures against fraud

Every organization has to fight against frauds and to outline specific policies and response plans in order to stop these illegal economic activities.

The response plans to fraud, or the existence of fraud policies set by the organization, are the main means of establishing how to address cases of fraud or even of suspected frauds.

According to the study conducted by the ACFE (Association of Certified Fraud Examiners) published in the 2012, the report shows that fraud is most prevalent in the U.S. with a percentage of 57.2%, then on the second place is Asia with 15 % and Europe ranks the third with a rate of 9.9%, other regions accumulating only a percentage of 17.9%, as shown in Figure 2.¹

Fraud percentage at a global level



According to the same study, the best way to discover the fraud was created by the existence of an effective internal audit, a method that is adopted in the prevention and discovery strategies of

¹http://www.acfe.com/uploadedFiles/ACFE_Website/Content/rtnn/2012-report-to-nations.pdf: *Report to the Nations on Occupational Fraud and Abuse – 2012* Global Fraud Study, ACFE, p. 20.

economic crimes. Thus, in Europe 23.3% cases were discovered with the help of this method, in Asia 14.2% and 14% in the United States.

3. Conclusions

The designing and the implementing of the antifraud strategies must be a priority for any organization, because it is more important to be able to prevent such phenomena than to fight them, the company's credibility and image depending to a very large extent on the effectiveness of such strategies.

The existence of a set of values, principles, norms, on which the employees may rely, is the most effective way to implement anti-fraud strategies.

The development of an ethical culture, the existence of an efficient internal control and internal audit and the existence of a work environment based on ethical principles, is a strong point in the prevention, detection and deterrence of illicit phenomena in the life of organizations worldwide.

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