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# WHY IS IMPORTANT TO DO THE PERFORMANCE ANALYSIS?

Viewpoint

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Performance  
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## Abstract

*This paper deals with the importance that should be given to the performance analysis, mainly the one of the profit and loss account, for being able to take the best financial decisions. Profit and loss account is considered the tool that measures business performance. Although appears a question mark on the confidence you need to attach to this result because it arises from the application of the accounting standards and regulations. And there are many possibilities for recognize revenues and expenses, cutoff, income or revenue, expenditure connection, which asks a little caution about the importance given. The aim of the paper is to see how helps the economic analysis in the process of decisions making.*

## Introduction

Analysis of the effectiveness of an enterprise is useful to all users of the annual financial accounts in order to take the best financial decisions. This refers to the firm performance measurement closely linked to the objectives set out above.

For effective decision making is necessary to identify the most relevant information from the bulk of the available data, by the financial information users. It is also important being able to adapt their decisions to external conditions occurring during the life of an enterprise.

It is necessary to connect the results of the profit and loss account with those recorded in the balance sheet, in order to ensure the accuracy of the available data in this way being able to take good economic decisions.

## Why performance analysis?

Returning to the concept of performance should be noted that each accounting information user, based on self-interest, is more interested in some information and less interested about others. Each user has its own definition for performance.

In addition to the differences arising from the subjectivity of those involved within companies, there are also differences in the performance observation field. If some scholars do not consider the exploitation others consider all elements that affect equity changes, the only exceptions being capital movements and dividends.

Having a business aims to maximize shareholders' wealth. And this is possible only through a profitable activity as a result of adapted economic decisions to changes appeared in the economy. The profit can be used either for self-financing in order to increase the company's value or to remunerate shareholders through dividends or to change the financial structure and capital cost.

Whatever is the field in which we work, we all want performance. Even if we are talking about sports where it can also be easily measured somewhat different time, centimeters or score, construction where engineers can create different sizes or certain particularities, music by a number of octaves that a singer can reach, and so on.

The literature offers different understandings of the concept of performance. The first perspective is one that considers performance as success, which depends on the accounting information users, who need to provide a certain representation. In another sense performance is seen as a result of the action, and the third is the lair of action being considered a process, dynamic vision, and not just a result, the static vision. (Grosu, 2010)

But when we talk about economic performance is more difficult to define this

concept, especially because of the many factors that can influence the performance of an enterprise. It is very important to keep in mind the fact that each user understands this economic concept based on personal interests. (Gruian, 2010) If managers are following the overall performance of the enterprise, investors perceive the return on investment, creditors - solvency and liquidity, and employees and customers are looking for the stability of the company. ( tef nescu, 2005)

It is very important to say that the company is not enough to just get the accounting profit but also to create value for its shareholders. To increase the value it is absolutely necessary to have superior return on investment on the capital cost of different sources of funding used. Accounting profit should be analyzed in terms of effort and effect relationship, what efforts were made to obtain it.

However, the performance depends on the proposed objectives. If you do not have goals you could not tell whether or not you touch performance. To settle for what you have accomplished, without being able to compare the result can not be considered to be efficient or not. In other words, the performance depends on a benchmark considered goal or objective, that can be multidimensional, is the result of the activity, most often subjective as it attempts to approach reality as closely as desired.

Performance is one which "binds" the individual or firm, in our case, to overcome limits and to want to progress. No one can say about a performance that is good or bad, because the analysis result varies from case to case. The same result compared with modest goals can be considered a good result, but compared with high goals is a bad one.

In other words it is not enough to be efficient just in the economic sector, but overall performance is important, because every business has some share in it. It may be pointed out the difference between performance and results. Performance is something relative and determined by comparison with different objectives or results of competition, while the result is an absolute term. (Gruian, 2010)

The accounting result is considered the main indicator to measure the financial performance of the company. Even if it is oriented towards the past, helps to analyze the way in which they carried them past actions to improve the future. Thus performance measurement has an effect above action. (Chirila, 2004)

Most often the performance measurement actually means the enterprise profit. We speak here of that profit which results in the profit and loss account, very important being also the resources that formed the basis for obtaining it, the

components of profit and certain characteristics of the components.

We must not forget that the accounting result can be determined as the difference between net assets at the end and the beginning of periodic transactions with owners failing to take into account - distribution or capital contribution - as well as revenues less expenses. The first method can be used when is aiming to measure economic enrichment of the company, while the second is trying to find out the performance of the activities. (P tra cu, 2010)

The performance takes into account both, even the results obtained using the production factors, namely those shown in the profit and loss account, but also the unrecognized result that comes from holding various inputs. The second one is an important component of the comprehensive income.

To measure the performance of an enterprise is important even if those who analyze not only consider the overall financial performance but also an overview of all the parameters, internal and external, quantitative and qualitative, human and technical, financial and physical. In other words the company's performance is interplay between shareholders and customer satisfaction, growth and development capability and efficiency of production processes.

Functions of a well-developed performance measurement are those to improve the performance of the companies and also measuring the performance by warning managers about the need to modify the incorrect plans and standards, and motivate the organization to achieve its objectives.

In other words the company's performance is not only financial accounting results that reflect the historical past of the company, but also future prospects for the development of knowledge generated by the non-financial and financial aspects of the business. The multitude of possibilities for expenditure and revenue recognition can lead to real creative accounting, when a company goes through difficult times and could affect the image.

In addition to the importance of achieving the outcome is more important how it is achieved. The performance not only helps the finding but aims to implement decisions that can improve the conditions under which performance was made.

## Conclusions

The competition that occurs in the economy market, makes the main purpose of a business to have profits in order to ensure the longest possible period of activity. It is understood that if the company goes bankrupt loss is at risk of having very little chance of stopping this. It's hard to find resources to cover losses to resume work.

No investor risks their property for an unprofitable business.

Hence the importance attached especially to accounting and the annual financial statements in financial decision making. In other words the balance sheet and profit and loss account are those instruments that reflect the company's financial position and performance.

Profit and loss account is the annual situation that should give the answer to one of the most important questions of the accounting information users - "Is it profitable or not this business?".

A company is efficient when it is able to generate enough profit to pay its debts in the normal maturity and increase the firm value. In other words an enterprise is powerful when it overlaps in some way the requirements of the both environment, internal and external one.

Profit and loss account shows which was the financial situation of the company for the previous period. Occurs then the question "Why would someone be interested on something that already happened and can not be changed?".

\* By parenthesis is the same as in sport ... What helps a volleyball game statistics, as an example, which is already lost? Statistics are important because give the solutions to improve the game and to win the next matches. In addition if we have a detailed statistical of each player we can know on which of them we have to intervene, to not repeat the mistakes of the previous match. \*

Turning now to our question ... is the past on which it can be create a far better present and this will influence the future. Financial accounting information released in the profit and loss account, and more, in the balance sheet are the most important material that helps to have a normal course of the activities and a the good management.

We can speak about performance if we have a profitable activity, efficiency and effectiveness, using the available resources to achieve the production target and profit. Normally, the concept definitions should eliminate misunderstandings and increase the awareness of researchers. The concept of performance is defined in a diversity of views that are very often contradictory and more confusing than helping to understand it.

What follows in most cases is to obtain maximum results with minimum effort, and this is very important for achieving financial and economic analysis based on annual statements in order to take the most appropriate management decisions.

In measuring the performance of an enterprise is important that those who analyze not only consider the overall financial performance but have an overview of the parameter both internal and external, quantitative and qualitative, human

and technical, financial and physical. In other words the company's performance is interplay between shareholders and customer satisfaction, growth and development capability and efficiency of production processes.

Only proper management can make financial decisions suitable for performance for the "health" of the enterprise. In addition we must not forget that making performance involves various costs, which must not exceed the results. It is therefore important also the result that they get but also the way they get. In general the company aims to reach a value as large as it gets, to successfully cope with the competitiveness of the sector and to thank everyone involved in the welfare from employees till the company's creditors.

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