

## THE PRINCIPLE OF BUSINESS CONTINUITY – AN INTERDISCIPLINARY APPROACH

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**Abstract:** *The accounting information is presented in the financial statements according to the applicable general accounting principles in order to satisfy the users' needs related to being aware of the financial position and the performances. The purpose of the paper is to develop and to thoroughly study the principle of business continuity, on the grounds of which the business operation at normal capacity is being analysed, without reducing its activity. The study is performed appealing to the financial analysis using the data provided by the accounting.*

**Key words:** *the principle of business continuity, company's performance, added value, factor analysis.*

### 1. Introduction

The relevance of value judgments, the methodological rigor offered by accounting products is the foundation for shaping the global strategic diagnosis of a company. Assessing the status, performance and development perspectives of a company represents the purpose of financial analysis based on accounting data, so as to establish a relevant diagnosis (Drumea, 2004). The need for information and the requirements of the information consumers undergo quantitative and qualitative changes. Surrounded by strong competition, managers are increasingly obliged to place customers' and consumers' needs and requirements first. This success will only happen when potential customers know, buy and trust their products and services (Neacşu, 2020). The information provided by the accounting system corresponds to the greatest extent to the needs of knowing the indicators of the company's financial position and performance. The financial statements are documents that show information on the company's financial position, financial performance and cash flows that are useful to a wide range of users. The presentation of the items in the financial statements is made by recognition and assessment compared to the general principles provided by the accounting regulations according to the Order of the Minister of Public Finances no. 1802/2014. Therefore, the basic principle is the principle of business continuity, which involves the normal operation of the company, without being wound up or reducing its

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business. Provided that, after the balance sheet date, there is a deterioration of the operating results and the financial position, it is necessary to analyse the adequacy of the business continuity principle for the presentation of the items in the financial statements. Reasoning must be here an integral part of the preparation of financial statements (Ristea et al., 2012). The need for certainty, uniformity and conformity of financial statements determines rules for the application of accounting policies, rules for complying with the accounting principles. Given these circumstances, features such as uniformity and comparability in accounting lie between principles and rules.

If we refer to the principle of business continuity, professional accountants are responsible for developing solid reasoning on the company's management. They assess the management's reasoning and apply their own reasoning to determine whether the company's business is done based on the continuity principle or not.

If the annual financial statements that are structured by aggregation and classification do not present the elements based on the principle of continuity, the users must be notified of this information, together with the reasons that determined the management's decision.

An important task in this regard lies with the auditor, who must ensure that the management's assessment related to continuity is accurate and reasoned, and in the absence of such an assessment, he/she must consider and thoroughly and deeply analyse the plans of the management and identify possible events that could generate significant doubts.

To this end, financial, operational or other conditions are analysed (IAASB, 2018):

*Financial events:*

- Net debt or current net debt position;
- Loans whose maturity date is set for the next period and approaching maturity without any action for renewal or repayment;
- Significant unfavourable financial indicators;
- Negative cash flows from operating activities outlined by historical or forecast financial statements;
- Actions regarding the withdrawal of financial support by creditors;
- Significant operating losses or significant impairment of the value of assets used to generate cash flows;
- Arrears or interruptions in the payment of dividends;
- Failure to comply with the terms of the credit agreements.

*Operational events:*

- Manifestations of management, such as winding up the company or ceasing operations;
- Key management individuals leaving the company without available people to replace them;
- Loss of an important market, key customers or suppliers, license or franchise;
- Difficulties encountered on the labour market;
- The emergence of a new competitor.

*Other types of events:*

- Non-compliance with certain statutory capital requirements or other types of regulatory requirements (e.g. liquidity or solvency requirements, in the case of financial institutions);
- The existence of ongoing disputes that could lead to claims that the company could not satisfy;
- The occurrence of Acts of God without insurance contracts concluded by the company for such circumstances.

***For small entities, the following events can be considered*** (Iacob, 2019):

- Withdrawal of financial support by certain creditors;
- Loss of an important supplier or customer or key employee;
- Loss of a license or franchise agreement;
- Withdrawal of funds obtained through loans from owners-managers.

To set the analysis on the principle of business continuity, steps are taken to deepen and develop the management's actions starting from medium and long-term financing, checking contracts to cover future production, assessing the owners' ability to maintain the credit conditions and possibly extend such contracts.

The management of the company is responsible for designing projects that ensure the business continuity, and any event that might generate suspicions must be documented by:

- written statements from management regarding the future action plans and the feasibility of such plans;
- analysis of cash flow and forecasting of the future income;
- studying loan agreements and checking contractual clauses on maturity dates and penalties;
- reading the minutes of the meetings of the board of directors to find out if there were discussions on certain financial difficulties;
- obtaining letters from lawyers on the pending disputes, their status and any claims that may arise upon their completion;
- obtaining a statement on the existence, legality and enforcement of commitments with related parties or other third parties for financial support.

The examination of the management's assessment regarding business continuity must include the period to which the management referred in order to outline its assessment (Păunescu and Radu, 2018).

## **2. Research Methods**

To elaborate the study on the appropriateness of the principle of business continuity in the presentation and transmission of accounting information in the financial statements, the existing material in the literature is organized and thoroughly studied. The collection and interpretation tools require the elaboration of tests and the outlining of the issues to be analysed. Therefore, the research aims at the following objectives:

- Determining lines of action to highlight the application of the principle of business continuity in the presentation of accounting information by a company;

• Determining the indicators and the method of analysis to provide assurance on the continuity of the company's business.

The research methods used involve the study of the literature, verification, physical observation, interviewing, questioning, investigation, testing and case study.

### 3. Research Results

The relevant assessment of a company's financial position is made using instruments that measure results such as interim management balances (SIG). With the help of this construction of indicators on successive levels, the final result is established with the aim of financing the future activity. The case study is performed using the data from the profit and loss account of the company RTI SRL.

Table 1

*The table of intermediate management balances, for the period 2017-2019*

No.	Indicator	2017	2018	2019	2019/2018	2018/2017
1	Income from the sales of goods	151604	2494	2859	365	-149110
2	Goods-related expenses	152676	2494	2726	232	-150182
<b>3</b>	<b>Commercial margin</b>	<b>-1072</b>	<b>0</b>	<b>133</b>	<b>133</b>	<b>1072</b>
4	Sold production	35996157	37122969	47388881	10265912	1126812
5	Stocks variation					
6	Capitalized production					
<b>7</b>	<b>Production of the year</b>	<b>35996157</b>	<b>37122969</b>	<b>47388881</b>	<b>10265912</b>	<b>1126812</b>
8	Intermediate consumption, namely expenses from third parties	27795866	25767562	31644021	5876459	-2028304
<b>9</b>	<b>Added value</b>	<b>8199219</b>	<b>11355407</b>	<b>15744993</b>	<b>4389586</b>	<b>3156188</b>
10	Income from operating subsidies pertaining to the net turnover					
11	Taxes and duties expenses	37892	40959	84460	43501	3067
12	Personnel expenses	5671533	7914125	9727282	1813157	2242592
<b>13</b>	<b>Gross income</b>	<b>2489794</b>	<b>3400323</b>	<b>5933251</b>	<b>2532928</b>	<b>910529</b>
14	Other operating income and income from provisions	854	9857	425979	416122	9003
15	Other operating expenses	47575	21244	42598	21354	-26331
16	Amortization and provisions expenses	333914	214032	384356	170324	-119882
<b>17</b>	<b>Operating result</b>	<b>2109159</b>	<b>3174904</b>	<b>5932276</b>	<b>2757372</b>	<b>1065745</b>
18	Financial income	152201	245409	276672	31263	93208
19	Financial expenses	675794	880808	602539	-278269	205014
<b>20</b>	<b>Gross result of the year</b>	<b>1585566</b>	<b>2539505</b>	<b>5606409</b>	<b>3066904</b>	<b>953939</b>
21	Profit tax	260952	418951	897772	478821	157999
<b>22</b>	<b>Net result of the year</b>	<b>1324614</b>	<b>2120554</b>	<b>4708637</b>	<b>2588083</b>	<b>795940</b>

To argue the claim on the principle of business continuity, the in-depth analysis is done by developing a model of factoring (factorial analysis of value added), for the period 2019-2017, using the data below.

*Factorial analysis of value added for the period 2017-2019* Table 2

No.	Indicator	2017	2018	2019
1	Production of the year ( $Q_{ex}$ )	35996157	37122969	47388881
2	Intermediary consumptions ( $C_i$ )	27795866	25767562	31644021
3	Number of employees - $N_s$	105	145	149
4	Average work time / employee - $t_s$	176	180	182
5	Total work time T	18480	26100	27118
6	Hourly labour productivity $W_{mh}$	1947.843994	1422.335977	1747.506
7	Medium range ( $1-C_i/Q_{ex}$ )	0.22781018	0.305886283	0.332248

**Factorial model of the added value**

$$VA = Q_{ex} * \gamma_m$$

according to which the analysis is being made.

$$\text{where: } \gamma_m = 1 - C_i / Q_{ex}$$

$$Q_{ex} = T * W_{mh}$$

$$T = N_s * t_s$$

Table 3

*Developing and applying the factorial analysis model of the added value*

MODEL	$\Delta 2018/2017$	$\Delta 2019/2018$
$\Delta VA = VA_1 - VA_0$	3156188	4389586
1. $\Delta VA / Q_{ex} = \Delta Q_{ex} * \gamma_0 =$	256699.2444	3140201.663
<b>1.1 <math>\Delta VA / T = \Delta T * W_{mh0} * \gamma_{m0} =</math></b>	<b>3381288.821</b>	<b>442904.3803</b>
1.1.1 $\Delta VA / N_s = \Delta N_s * t_0 * W_{mh0} * \gamma_{m0} =$	3123920.381	313252.6069
1.1.2 $\Delta VA / t = N_{s1} * \Delta t * W_{mh0} * \gamma_{m0} =$	257368.4405	129651.7734
<b>Verification: 1.1.1 + 1.1.2 = 1.1</b>	<b>3381288.821</b>	<b>442904.3803</b>
<b>1.2 <math>\Delta VA / W_{mh} = T_1 * \Delta W_{mh} * \gamma_{m0} =</math></b>	-3124589.577	2697297.283
Verification: 1.1. + 1.2 = 1	256699.2444	3140201.663
2. $\Delta VA / \gamma = Q_{ex1} * \Delta \gamma =$	2898416.756	1249251.337
Verification: 1. + 2. = $\Delta VA$	3155116	4389453

Therefore, the variation of value added in 2018 compared to 2017 is significantly due to the variation of the number of staff and less to the average working time per employee, the average hourly labour productivity and the  $\gamma_m$  factor ( $1 - C_i / Q_{ex}$ ).

Unlike during the previous period, when compared to 2018, the average hourly labour productivity in 2019 influenced the variation of added value by 2697297.283 lei, although the staff variation was not important (4 employees), which means an efficient

use of human resources potential.

In these circumstances, we can support the principle of business continuity in the case of RTI SRL, which expresses the idea that the entity continues its activity at normal capacity, without significantly diminishing business or marking in any way the winding up status (OMFP 1802, 2014).

#### 4. Conclusions

The information offered in the financial statements is relevant and significant, and freedom and compliance in their presentation also triggers professional judgment. The principles-based accounting system, which requires initiative to design accounting policies according to accounting standards, also calls for recourse to the practitioners' reasoning.

Consequently, accounting must harmoniously combine the Norms (regulations) with creativity, so the accounting approach is based on accrual accounting. The principles we reflect on for the organization of the harmonious and refined system of accounting represent the architectural ensemble on which the whole expressed through the financial statements is built. The principle of business continuity is the pillar underlying the presentation of information according to the situation of the company's business. The management policy is analysed and developed through the specialist's reasoning, in order to establish the events that generate sensitive doubts related to doing business at a given level.

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