

# An Overview of Diversities in the Use of the Profit and Loss Statement

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## INTRODUCTION

The main objective of any economic activity is considered to be the «performance», and this objective has proven to be quite difficult in regards of finding an example for it (Caylor, 2010; Ribeiro, Shan & Taylor, 2019). Recent studies have shown that in the financial information market, the “most” popular product is the profit and loss account because it shows whether or not the enterprise has achieved its basic objective of achieving an acceptable return (He et al., 2017; Hou et al., 2015). Undertakings have the possibility to add to the profit and loss account other items, rows, titles and subtotals when an International Accounting Standard requires it or when such a presentation is required for a true presentation of the financial results of the enterprise. The criteria to be respected in this case are the materiality threshold and the nature and function of the different components of income and expenditure.

In the context of the expansion of transnational companies, users of financial information are interested in the performance of the enterprise determined not on the basis of the accounting result but of the economic result (Jackson & Liu, 2010). This latter indicator cannot be accounted for by the profit and loss account because it has a more comprehensive structure than the accounting result, including items that do not translate through the profit and loss account. Users of financial information are interested in information that the profit and loss account cannot provide (Dennis, 2014). In order to meet their informational needs, decision-makers need to turn to new sources of information (Amira & Nuha, 2019). That is why the accountancy profession is called upon to create new tools to remove the information limits of the financial statements. The statement of changes in equity and the cash flow statement are the “new products” of the accounting offer (Ball, 2013). The statement of economic outturn should include the effects of all transactions and events occurring during the year, whether or not related to current operations, and which have an impact on equity (excluding shareholder or associate and distributor contributions). Also, gains or losses accounted for during the year, realized or unrealized, exceptional or extraordinary, participate in the performance of the enterprise and should therefore be included in the statement of comprehensive income (Timbate & Park, 2018).

On the other hand, given that companies can choose their accounting policies within certain limits, the results obtained reflect their objectives and not the reality (Stein, 2019). In this situation, is the outcome credible and relevant? The objectives of accounting policies differ according to the size of the enterprise and the economic environment in which it operates (Ahrens, 2008; Rozenbaum, 2018). As

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an example, it is possible to mention the reduction of the published losses, the decrease of the taxable profit, the increase or decrease of the current result, the increase or the decrease of the profit to be distributed, the temporary arrangement of the accounting results in order to reduce the risk perceived by the financial environment.

Many of the reported deficiencies were corrected during the reform (Barth et al., 2008; Cahan & Sun, 2015; Lukka, 2010). Moreover, the principle “nothing is perfect, everything is perfect” also works in accounting. In our opinion, any accounting system, however modern, converging with International Financial Reporting Standards, will never be perfect, because the world economy and, implicitly, the national economy is constantly changing (Richardson, 2011). New trends, new informational needs are emerging, and they pose a challenge to the accounting system and an invitation to reflection for accountants (Chen et al., 2017). The present chapter intends to identify the construct of a set of factors that influence the Profit and Loss Statement in the context of scarce and expensive resources.

This chapter is structured in the following way: in the first section, the authors will introduce a radiography of the current situation regarding the profit and loss account in accordance with the International Accounting Standard; in the second section, research methodology will be discussed; in the third section, the results of the study will be discussed; finally, the authors will argue the conclusions and will present this paper's limitation.

## BACKGROUND

Regardless of the international accounting standard, the notion of performance in accounting has a generally accepted first acceptance. Accounting in the field of performance has first and foremost the notion of profit. Given the recent history of scandals involving accounting conduct, the credibility of the public accounting profession has dropped significantly, losing one of the core responsibilities of the professional accountant (Ribeiro, Shan & Taylor, 2019). More recent research in the field suggests that there is a growing interest in studying the ethical conduct of professional accountants (Li et al., 2017). Moreover, since the 1980s, several institutions have encouraged education in accounting ethics, and today it has come to the fact that it has been present in schools since the beginning of the accounting profession (Doukakis, 2014; Alzola, 2017). However, the accounting scandals that took place in the 2000s prove that greater emphasis is needed on the Profit and Loss Statement, but also on improving the codes of ethics (Bettner & Kate, 2013). Thus, it is noted that, the Profit and Loss Account was viewed as a complement to the information provided through the Balance Sheet, but it can be said that there has always been a fight of primordially between the Balance Sheet and the Profit and Loss Account in providing useful information to those who I make decisions. Thus, the development of the corporate form of the entities brings to the fore the utility of the Profit and Loss Account in the financial reporting by increasing the interest for the performance of the entity, for the dynamic information and the decrease of the interest for the historical costs and for the punctual, static information. Despite the increased interest in this issue, there are certain deficiencies in the principles, virtues, values and rules that undermine the credibility of the accounting profession (He et al., 2017).

As the economy develops, the main interest point, performance-wise, shifts from revenue towards the profit described in the Profit and Loss Statement (Brown, 2010). This reflects the value fluxes that interacted with the increase or decrease of the wealth of the company at a certain period of time. So, the profit and loss statement highlighted the success of a company required for its survivability, or its failure to stay on the market (Khan, Khan & Elshareif, 2018).

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