PARTICIPATIONS AS A FORM OF ECONOMIC ACTIVITY

Sorin Briciu[1]
Iustin Atanasiu Pop[2]
Oana Raluca Ivan[3]

ABSTRACT: This paper attempts to define the concept of participations and its manifestations in the Romanian economy. Within this research a number of questions related to participations as a form of economic activity have raised, questions that led to the formulation of certain hypotheses which were tested based on data obtained from the analysis of national and international literature. This paper can be considered as a start of a research that will extend to financial investments. The research methodology used in compiling this material presupposed theoretical documentation on the concepts, forms and ways of expression of participations, based on the literature, both native and foreign, which we managed to study. We appreciate however that the research we made allowed us to start with some assumptions, namely that both in the economic theory and in the financial - accounting practice, the concept of participations is insufficiently clarified and defined. Broadly, any participation is a financial investment due to the upward evolution trend which the participations and the combinations of companies are facing nowadays.

Key words: participations, information flow, decisional support

JEL codes: M41

Introduction

At the beginning of the new millennium the world has undergone a period of major transformations, social crisis, economic and financial changes in political regimes and changes in the global economic structure by integrating financial flows, which favors the development of the global economy.International financial flows have experienced a large expansion, both within the economies of individual countries and globally, integrating in this movement continents and regions that are geographically far away from each other.

Globalization involves the increasing of trade, finance and production factors flows, due to international transport, communications and the development of informational links. Globalization in association with the attenuation of the importance of nations has created a global market. In the globalization process the international links do not only work in the small area of some countries but in a global network in which factors of production move freely (Baddeley M., 2006).

The scientific approach undertaken in an attempt to delineate the concept of ***accounting information flow*** concerning the participations, has risen a number of questions on the way of manifestation, the limits and consequences of this economic phenomenon on the economic entities, business and / or social partners from the economic space in which they are active:

Question 1: **What does an accounting informational flow concerning participations consist of?**

Question 2: **Can an accounting informational flow concerning participations be decisional support?**

[1] „1 Decembrie 1918" University of Alba Iulia, 13-15 N.Iorga Street, Alba Iulia, sbriciu@yahoo.com
[2] "Babeş-Bolyai" University of Cluj Napoca,1 M. Kogalniceanu Street, Cluj-Napoca, iustinpop@yahoo.com
[3] „1 Decembrie 1918" University of Alba Iulia, 13-15 N.Iorga Street, Alba Iulia, raluca.ivan@uab.ro

Question 3: **Can an accounting informational flow concerning participations be support for forecasting/predictions?**

Question 4: **Does an accounting informational flow have several ways of manifestation?**

Even if, for each information flow can be elaborated more informational systems, they all have to forward the information generated from them. In these circumstances we concluded that the accounting financial flow represents all the accounting actions generated by an economic event that the professional accountant is required to reflect in the accounts of economic entities (firms or groups of companies). In particular participations involve the development of economic activities that take place in a setting regulated by a commercial contract or a contract of association (statute), actions that generate an accounting information flow which is reflected in the accounting records of the participants. Based on the information reflected in the accounts various financial situations are prepared, which will become informational support in the process of documentation, analysis, forecasting and decision making.

Based on these questions were formulated the main hypotheses of this study:

Hypothesis 1 (I1): *There is an accounting informational flow concerning participations which should be highlighted and reflected in the financial statements and / or explanatory notes.*

Hypothesis 2 (I2): *An accounting informational flow concerning participations can be decisional support.*

Hypothesis 3 (I3): *An accounting informational flow concerning participations can be support for forecasting/predictions.*

Hypothesis 4 (I4): *An accounting informational flow has several ways of manifestation*

The data used in this study were collected from the analysis of economic entities which were taken into account by the Stock Exchange Bucharest in the calculation of BET for the period 2004 - 2008, by consulting the official financial statements presented by them to the belonging Territorial Tax Administrations.

Based on these data there have been developed a series of mathematical models which through the prism of efficiency analysis led to a number of conclusions

The sample included all the economic entities that were used to calculate the BET index, namely a number of 25, starting with December 2004

The hypotheses of the research

The scientific approach undertaken in an attempt to delineate the concept of ***accounting information flow*** concerning the participations, has risen a number of questions on the way of manifestation, the limits and consequences of this economic phenomenon on the economic entities, business and / or social partners from the economic space in which they are active:

Question 1: **What does an accounting informational flow concerning participations consist of?**

Question 2: **Can an accounting informational flow concerning participations be decisional support?**

Question 3: **Can an accounting informational flow concerning participations be support for forecasting/predictions?**

Question 4: **Does an accounting informational flow have several ways of manifestation?**

Based on these four questions above, taking account of the scientific approaches at national and international level addressing the theme of participations, the assumptions of this study are presented in detail as follows.

What does an accounting informational flow concerning participations consist of?

We consider that for each informational flow several informational sistems can be designed, being responsible for the transmission of the information generated by them.

We opine that a financial accounting flow reprezents all the accounting actions generated by an economic event that the professional accountant is required to reflect in the accounts of economic entities (firms or groups of companies).

Participations involve the development of economic activities that take place in a setting regulated by a commercial contract or a contract of association (statute),

Based on the above mentioned the following hypothesis can be constructed:

Hypothesis 1 (I1): *There is an accounting informational flow concerning participations which should be highlighted and reflected in the financial statements and / or explanatory notes.*

Can an accounting informational flow concerning participations be decisional support?

In the specialized literature, by decision-making is understood the "process by which the manager identifies himself with the organizational problems and wants to solve them." In these circumstances we can say that the data is the material basis of information, which in turn may be the material basis of decisions. It can be seen easily that based on the information and existing knowledge is created new knowledge, which in turn may be, along with the information, support for the decision-making system.

Economic data, from the moment they occur, until they are used as information in the management and decision-making processes, pass through several operational stages that form the data-processing cycle, referred to in literature as "economic information flow."

An accounting financial flow implies the existence of a decisional system which adopts and implements a series of decisions that turn into economic action. These economic actions generate rights and/or obligations that are reflected in the accounts through a process of transformation of information into data. Based on the information reflected in the accounts various financial situations are prepared which will become an information support in the decision-making process.

Hypothesis 2 (I2): *An accounting informational flow concerning participations can be decisional support.*

Can an accounting informational flow concerning participations be support for forecasting/predictions?

Through this study we try to identify a method for predicting the behavior of economic entities in terms of appealing to participations as a form of manifestation in the Romanian economy.

Startig from the assumption that the stock market index BET is an expression of the Romanian economic evolution, the companies used to calculate the index were identified, considering them as representative for our economy in general. In these circumstances,an attempt to identify interdependencies between the declared value of the financial participations of each of these companies and the evolution of BET. In this respect, were used as a sample of the research the economic entities which were taken in the calculation of BET by Bucharest Stock Exchange for the period 2004-2009.

In these circumstances, the following hypothesis was formulated:

Hypothesis 3 (I3): *An accounting informational flow concerning participations can be support for forecasting/predictions.*

Does an accounting informational flow have several ways of manifestation?

As we have shown, Romanian regulations allow the joint venture between two or more legal entities or individuals, who may choose to create an "institution" with or without legal personality. In these circumstances, it was formulated the following hypothesis:

Hypothesis 4 (I4): *An accounting informational flow has several ways of manifestation according with the juridical limits established by the association act. (association with or without legal personality).*

In these circumstances the present research tries to establish the multiple influences of the participation process as a form of manifestation of the economic entities operating in the Romanian economy.

The objective of the analysis is to determine the operational system of participations, to study the existing relationships and to identify new ones that in turn can be significant, and moreover, if these new relationships may bring useful information to the decision system.

Testing hypothesis I.1.

Hypothesis 1 (I1): *There is an accounting informational flow concerning participations which should be highlighted and reflected in the financial statements and / or explanatory notes.*
Participations involve the implementation of economic activities taking place in an environment regulated through a commercial contract or a contract of association (statute); we can define the activities into three categories as shown below:
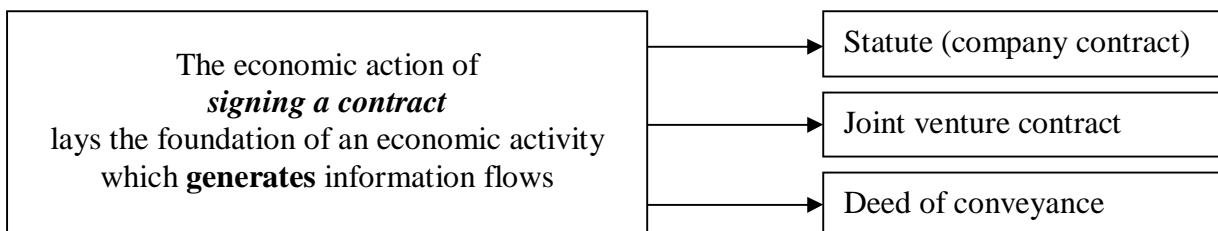
Fig. no. 1. - Participations as rezult of a contract
(Source: projection of the authors)

The establishment of rights takes place at the signing of the company contract, contract that may involve either capital establishment for setting up a new entity or capital increase when accepting new members or associates when increasing the actual contribution of already existing associates.
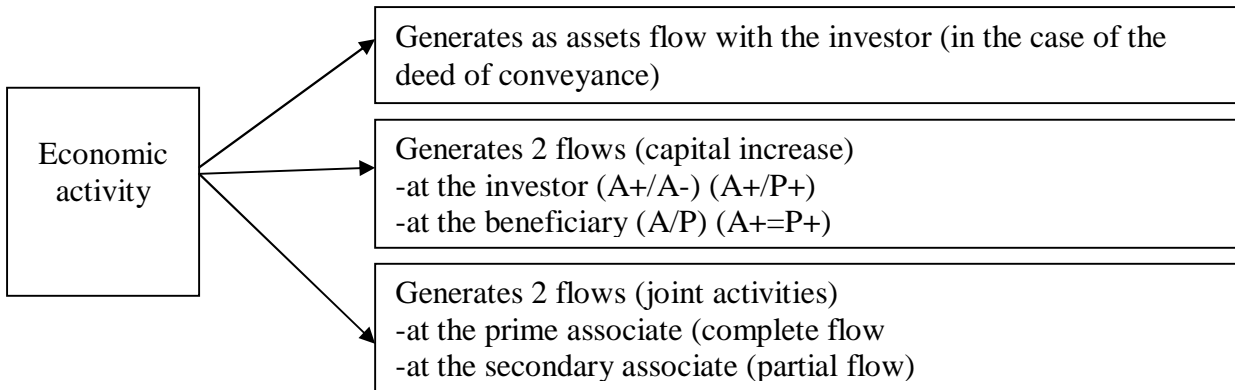
In the case of **rights establishment** the particularities of the flow of information generated by this economic action are given by the flows taking place between the investor and beneficiary/issuer, by the existence of internal flows for the two participants in the transaction, and by the existence of an external flow.

Venture economic actions involve signing a contract that generates an association without legal personality.

In the case of economic actions concerning participationsthe particularities of the information flow generated by this actions are that they involve economic flows generated by the economic activity and settlement flows.

The acquisition of rights requires signing a deed of assignment that is based on a deed of conveyance of equity (shares).

In the case of **acquisition of rights** (contract of sale–purchase/deed of conveyance) the features of the information flow generated by this action are determined by the flows taking place between investors and by the fact that these flows do not affect the issuer.

```
                           ┌─────────────────────────────────────────────────┐
                           │ Generates as assets flow with the investor (in  │
                           │ the case of the deed of conveyance)             │
                           └─────────────────────────────────────────────────┘
┌──────────────┐           ┌─────────────────────────────────────────────────┐
│              │           │ Generates 2 flows (capital increase)            │
│  Economic    │ ─────────▶│ -at the investor (A+/A-) (A+/P+)                │
│  activity    │           │ -at the beneficiary (A/P) (A+=P+)               │
│              │           └─────────────────────────────────────────────────┘
└──────────────┘           ┌─────────────────────────────────────────────────┐
                           │ Generates 2 flows (joint activities)            │
                           │ -at the prime associate (complete flow          │
                           │ -at the secondary associate (partial flow)      │
                           └─────────────────────────────────────────────────┘
```

Fig. no. 2. - Flows generated by participations
(Source: projection of the authors)

We opine that within the participations which involve signing a contract that governs the conduct of joint economic activities we can call a **complete flow** the totality of processed information centralized by the prime associate received in connection with the commercial activity conducted in the venture.

In our view the flows generated by activities developed by each member of the holding may be called **elementary flows**, and the flows generated by the transfer of activities share that goes to each participant can be called **transfer flows**.

Testing hypothesis I.2.

Hypothesis 2 (I2): *An accounting informational flow concerning participations can be decisional support.*

Managers need information for planning and controlling activities. Internal accounting information is essential to economic entities although it is not the only source for obtaining information.

Managers use accounting information as a control key in permanent and continuous evaluation of the results of the actions undertaken to achieve the planned activities to be carried out to obtain the proposed results. Even if managers use external information obtained from outside the firm too, such as for example, national statistics, studies on population structure and evolution to determine the opportunities to open a new business, statistics on the economic development of various branches of industry, all those information that can support forecasting of expenditure and revenue in their business (Dominiak G. F., Louderback III J.G., 1988), we consider that information provided by the accounting process are essential to validate the actions.

Without careful planning, the objectives can be achieved only by accident. Therefore the use of accounting information in managerial accounting provides information necessary in decision making because all the activities of budgeting is or should be developed taking into account the accounting reports that must be made.

The analysis and forecasting of financial results is an evaluative and repetitive process through which the users of financial information engage in a process of identifying information and expectations, of testing hypothesis and conditioned predictions. In this process, financial information users tend to understand patterns and relationships in the specific economic reports of companies, often in order to determine the proportion of expected performance that can be achieved
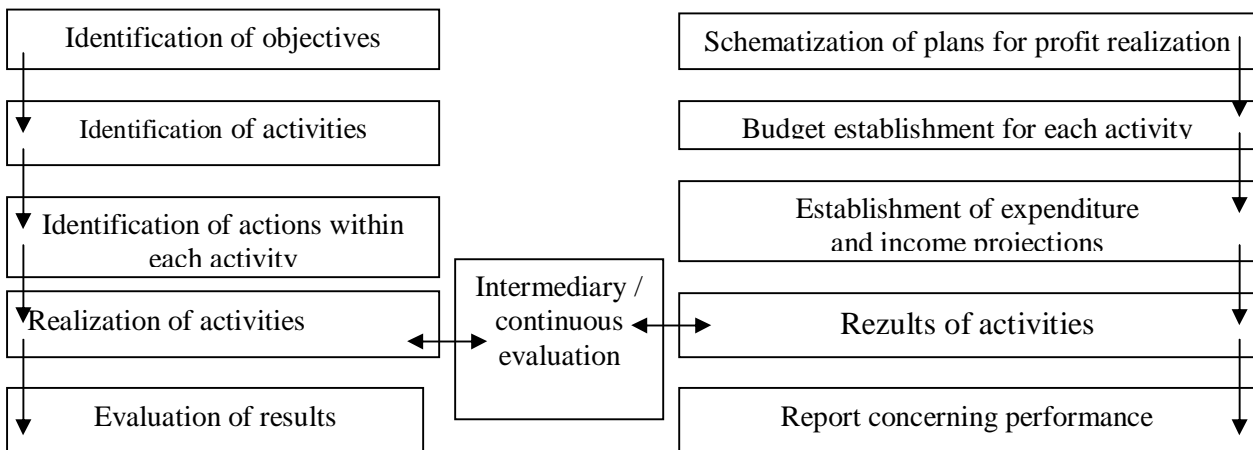
in the foreseeable future time periods (Hodder L. et al, 2008).

Under these conditions, we opine that information flows generated by economic activities carried out in participation, with or without legal personality, being used in the process of analysis of economic performance derived from the performed activities are decision support in the processof management.

In the scheme of figure 3 "carrying out the activity" and "evaluation of results" were designed in different boxes, but they usually generate a continuous feedback. The latest results are evaluated quickly to determine corrective actions so that they can achieve the initial set of objectives.
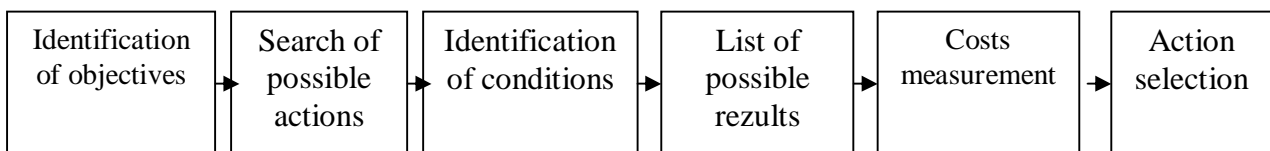
Management process   **Accounting process**

Identification of objectives		Schematization of plans for profit realization
Identification of activities		Budget establishment for each activity
Identification of actions within each activity		Establishment of expenditure and income projections
Realization of activities	Intermediary / continuous evaluation	Rezults of activities
Evaluation of results		Report concerning performance

Fig. no. 3. - The resemblance between the managerial and accounting activities
(Source: projection of the authors)

If decision-making is made under uncertainty the decision-making model is presented in the figure below:

| Identification of objectives | Search of possible actions | Identification of conditions | List of possible rezults | Costs measurement | Action selection |

Fig. no. 4. - The decision-making model in uncertanty conditions
(Source : Colin Drury, Management and Cost Accounting Third Edition,
Chapman & Hall Publishing, London 1992, pag. 412)

Identifying the targets involves setting a goal to be achieved (a 10% sales growth, profit growth of 12% over the next three years, a recovery of 20% of the investment, the profitability rate of 35% of the shares). The quantification of objectives is known as objective function. Searching for possible actions involves identifying alternative activities that can lead to achieving the proposed objectives.

To take the decision under uncertainty is necessary to take into account those factors which do not depend on the one who makes the decision. These factors can not be controlled are called events or states of nature.
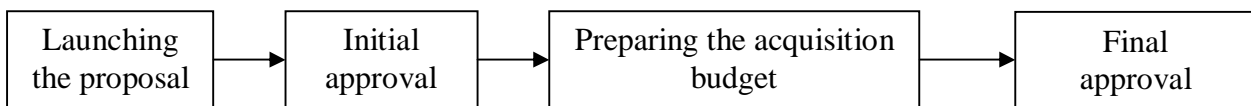
Each result is conditioned by a specific set of actions to be undertaken and completed. Measuring the value of the results is made according to the nature of the objectives established by the one who is making the decision.

The establishment of the actions that can lead to achieving the objectives is based on the

projected data and on the information supplied by various information sources. Under these conditions, we consider that in the decision making process we are dealing with two types of accounting information flows on participations that can be used as decision support.

In the process of selection of the set of actions to be undertaken there will be provided expected information flows and later, after starting work, we will have real information flows that are built on real-time data provided by our accounting department, department which can retrieve, process and send interim financial results. Since these data are used to assess the effectiveness of decisions, allowing the management unit to undertake additional corrective actions that may lead to the achievement of goals, the generated information flows become an important decision support in the process of assisting activities.

It is important that the top management to establish a procedure for approval of capital investments to make managers accountable for decisions they take which are in accordance with the company's long term objectives. Such a procedure exists only in large companies.

| Launching the proposal | → | Initial approval | → | Preparing the acquisition budget | → | Final approval |

Fig. no. 5. - Approval of capital investment procedure
(Source : Colin Drury, Management and Cost Accounting Third Edition,
Chapman & Hall Publishing, London 1992, pg. 412)

Launching the proposal (Drury C., 1992).
The one who initiates the purchase must make a proposal concerning the acquisition in which to provide a description of the investment, why it seems opportune, to estimate the costs and benefits that can be generated. The initiator must obtain from the accounting department an evaluation of the submitted proposal.

Initial approval.
When the initial assessment is complete, the proposal is sent to the Board of Directors , and will be evaluated in terms of each department.

Preparing the acquisition budget.
This budget will be built by the accounting department which will have to be working closely with the board.

Acquisition costs in the budget will be structured in the following chapters: reducing of costs and replacement costs, production line expansion, new products that will enter the range of sold products, health and safety, and others.

This budget will be reviewed by the board before they front it on to the final approval and the necessary corrections will be made, if necessary.

Final approval.
Is made based on the complete budget and is approved, but not before they establish clearly the total amount of investment to be made. When it was decided to make an investment it is important to establish a system through which to receive impressions on the results obtained from the investment process. It is also important to conduct a post-audit activity to provide the cash inflows and outflows.

Foreign literature has built a number of models of capital investment decision-making. These parameterized models are coming to the investment action which must be based on predetermined procedures. As follows, we present in the picture below one of these models of making a capital investment decision (Drury C., 1992).
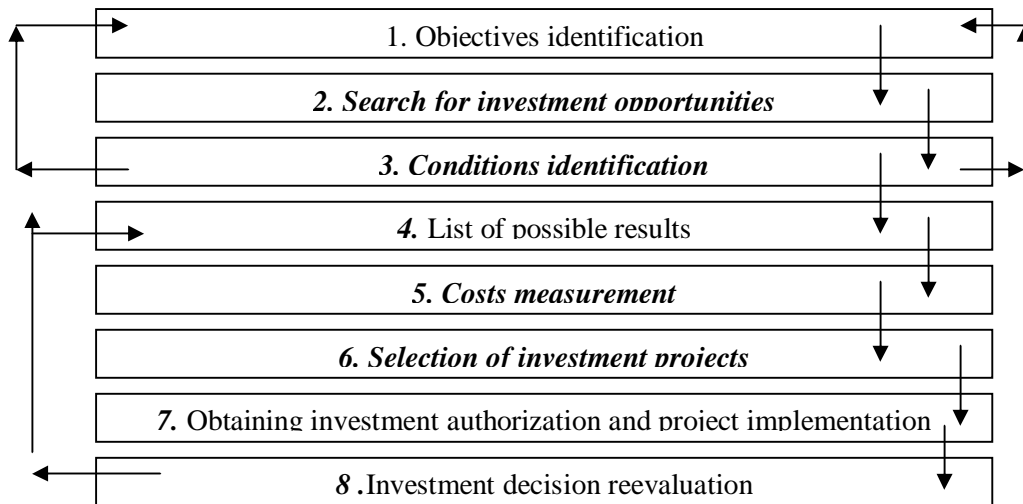
**Fig. no. 6. - A model of decision making in capital**
(Source : Colin Drury, Management and Cost Accounting Second Edition, Chapman & Hall Publishing, London 1991, pg. 320)

Financial investment is synonymous with an external growth strategy. The external development of a company can be realized in various forms, but the main ways are involving either a merger or an acquisition of a participation.

Equity securities are securities whose ownership is estimated to be useful especially because it allows to exercise a notable influence on the issuing company and to ensure control of its activity.

We opine that the flow of accounting information on participations is a decisional support as it can be used by management activities both in the business forecasting activities, as well as in the analysis and control of the results to be obtained from the activities undertaken .As it has already been shown before we have to deal with projected information flows and actual information flows. Projected information flows are designed to enable the business management to fundament decisions while actual information flows allow management to undertake verification activities, quantification of possible violations and eventually new actions that will lead to achieving the objectives. Thus, we designed the figure no.7.
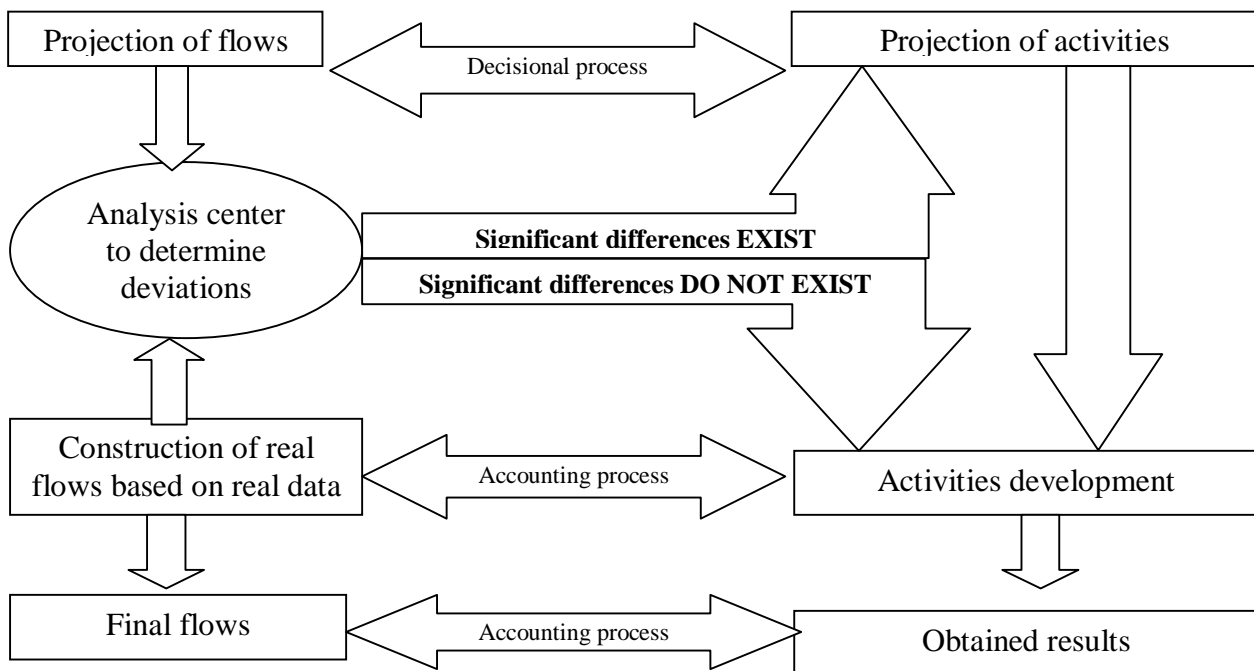
Fig. no. 7. Informational flows as decisional support
(Source: projection of the authors)

Testing hypothesis I.3.

Hypothesis 3 (I3): *An accounting informational flow concerning participations can be support for forecasting/predictions.*

The *accounting informational flow concerning participations* was analyzed on all companies that have entered the BET calculations in the period December 2004 - June 2008, announced by the Bucharest Stock Exchange.

Thus from the total of 68 economic entities that were listed until the year 2008 were selected all the companies that were part of the BET calculation.

The data collected from the sample of economic entities participating in the study are presented in Annex as temporal series of values of the economic indicator *Participations*, from December 2004 to June 2008, which involved the use of the economic data reported by the economic entities in their financial statements as *Financial assets*.

To highlight how the economic indicators and the stock indicator BET are connected, the interdependence between them, the correlation coefficients Bravais-Pearson between time series values of these indicators (both globally and by industry) and the BET values were calculated.

In the second table are mentioned the correlations between the values of the *Participations* indicator and the *BET* indicator for each economic entity.

Table no. 2

The correlations between the values of the Participations indicator and the BET indicator for each economic entity.

Analyzed company	BET		
	R Pearson	**Sig. (2-tailed)**	**N**
S.S.I.F. BROKER S.A.	0,45	0,27	8
ANTIBIOTICE S.A.	0,06	0,88	8
ROMPETROL RAFINARE S.A.	0,57	0,14	8
TURBOMECANICA S.A.	-0,45	0,26	8

RULMENTUL S.A.	0,63	0,10	8
BANCA TRANSILVANIA S.A.	0,55	0,16	8
PETROM S.A.	**0,88**	**0,00**	8
IMPACT DEVELOPER & CONTRACTOR S.A.	-0,23	0,58	8
BIOFARM S.A.	0,42	0,30	8
BRD - GROUPE SOCIETE GENERALE S.A.	**0,76**	**0,03**	8

As shown in the above Table no.2 only the firms TURBOMECANICA S.A. and IMPACT DEVELOPER & CONTRACTOR S.A. have an inverse relation with the evolution of BET, the rest having a direct connection.

In this case, all significant correlations for a threshold of p = 0.05 are positive and are strong direct relations They appear in the case of the companies Petrom SA, BRD-Groupe Societe Generale SA. Negative correlation appear only in the case of two companies, TURBOMECANICA S.A. and IMPACT DEVELOPER & CONTRACTOR S.A., and although there is an indirect average connection, this correlations are not significantly different than 0 for p=0,05.

For S.S.I.F. BROKER S.A., ROMPETROL RAFINARE S.A., RULMENTUL S.A., BANCA TRANSILVANIA S.A. si BIOFARM S.A. we have a direct average relation. One may observe that in the case of ROMPETROL RAFINARE S.A., RULMENTUL S.A. and BANCA TRANSILVANIA S.A . the potetial development of a strong relationship.

For ANTIBIOTICE S.A. there is a direct weak relationship.

To illustrate the economic relationship at the branch level, we have grouped the companies into four groups, *the oil industry*, *finance and banking, pharmaceuticals* and the *other industries*

Table no. 3

The economic relationship between the Participations indicator and the BET indicator at branch level

	BET		
	R Pearson	**Sig. (2-tailed)**	**N**
Oil Industry	**0,86**	**0,01**	8
Finance and Banking	0,62	0,10	8
Pharmaceutical Industry	0,42	0,30	8
OtherIndustries	0,29	0,49	8
TOTAL Participations	**0,85**	**0,01**	8

In this case all correlations are positive but a significant correlation to a threshold of p = 0.05 appears only for companies in the oil industry. Negative correlations do not arise in the analysis of companies built on industry groups.

In the same table were drawn the correlation values between BET and the values of the indicator *Participations*, which is a positive and significant correlation with values semnficantly different from 0 for p = 0.05 (In this case we have p = 0.01)

A first conclusion of the analysis of the two tables of correlation is that economic entities in the petroleum industry and the financial and banking area are those most strongly correlated positively with the BET index, suggesting that they are those who mainly determine the BET value.

We tested this hypothesis in a regression equation with BET as the dependent variable, and the participations in the four industries combined. All values used were originally standardized. Because the sample size is small, data must be interpreted with caution.

Table no. 4.

The adequacy of the participations model

TIP	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
PARTICIPATIONS	1	,932(b)	,869	,694	,55312207

Model Summary   a Predictors: (Constant), Zscore(indus), Zscore(petrol), Zscore(farma), Zscore(banks),
b Predictors: (Constant), Zscore(indus), Zscore(farma), Zscore(petrol), Zscore(banks)

R square values, indicating the adequacy of the model are high for *Participations*, as such, the regression equation explains much of the variance, which is illustrated in the table below by the values of F, the ratios of variance explained by the regression equation and the residual one.

Table no. 5

The ratios of variance explained by the regression equation and the residual one.

TIP	Model		Sum of Squares	df	Mean Square	F	Sig.
	1	Regression	6,082	4	1,521	4,970	,109(b)
		Residual	,918	3	,306		
		Total	7,000	7			

ANOVA(c)   a Predictors: (Constant), Zscore(indus), Zscore(petrol), Zscore(farma), Zscore(bancks)
b Predictors: (Constant), Zscore(indus), Zscore(farma), Zscore(petrol), Zscore(banks)
c Dependent Variable: Zscore(BET)

Based on this table were calculated below the regression equation coefficients of the same model *Participations*.

Table no. 6

The regression equation coefficients

TIP	Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
			B	Std. Error	Beta	B	Std. Error
	1	(Constant)	-1,48E-016	,196		,000	1,000
		Zscore(petrol)	**1,125**	**,684**	**1,125**	**1,645**	**,199**
		Zscore(banks)	,139	1,064	,139	,130	,904
		Zscore(farma)	-,087	,282	-,087	-,309	,777
		Zscore(indus)	-,519	,660	-,519	-,787	,489

Coefficients(a)   a Dependent Variable: Zscore(BET)

From the above data results that a one standard deviation increase in the participations of oil companies are increasing by 1.125 standard deviations the BET.

In these circumstances we can say that the flow of accounting information on participations constitutes a support for the prediction of future flows which have as support an already generated flow.

If we hold shares in some issuers we can predict future information flows caused by the increase of social capital, or temporary flows caused by temporary aids consisting of transfers of assets for limited periods of time (related to equity loans).

In the case of joint venture contracts the existence of information flows related to the economic activity constitutes forecast support in the settlement information flows.

Testing hypothesis I.4.
Hypothesis 4 (I4): *An accounting informational flow has several ways of manifestation.*

Activities developed in participation may be delineated according to the legal form of expression in venture activities with legal personality and unincorporated venture activities (without legal personality).

Ventures with legal personality involve either the establishment of a new economic entity or participating to the social capital of an existing entity. Participation in the social capital of an existing entity can be done either by acquisition of already issued securities (purchase of existing titles) or by participation in the increasing of the social capital (purchase of newly issued securities).

When setting up a new economic entity a transfer of assets from investors to the beneficiary (the new economic entity established) takes place. The transfer of assets is done under contract and / or statute. In this case the flow causes a reflection of the economic action both in the investor's and beneficiary's accounts.

Investor **A+ / A-**	Generates flow →	**Issuer** **A+ / P+**
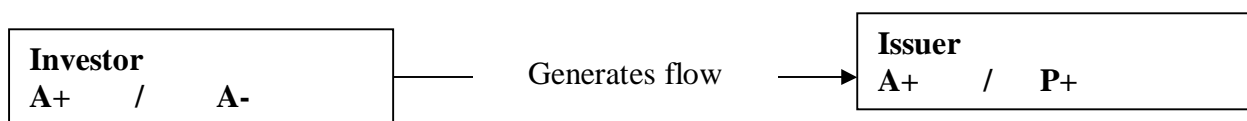
Fig. no. 7. - The action of investing ina new economic entity
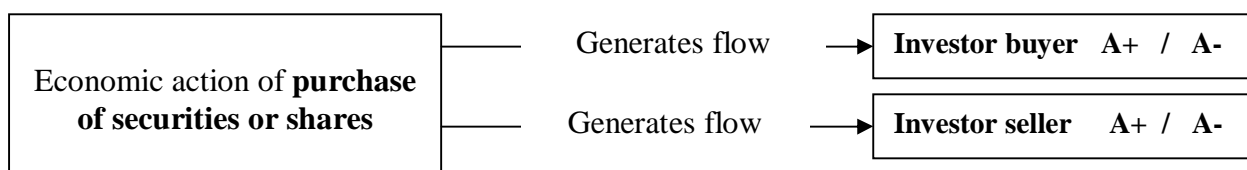(Source : projection of the authors)

The influence on the financial statements of the investor and issuer / recipient are correlated based on the flow generated by the economic action.

The financial statements of the Investor A+ A-	**The financial statements of the Issuer** A+ P+
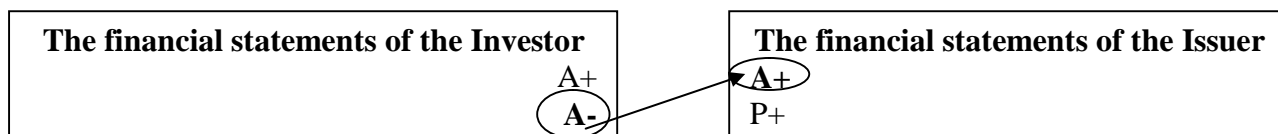
Fig. no. 8. - The conexion beetween the financial statements of the investor and issuer/recipient
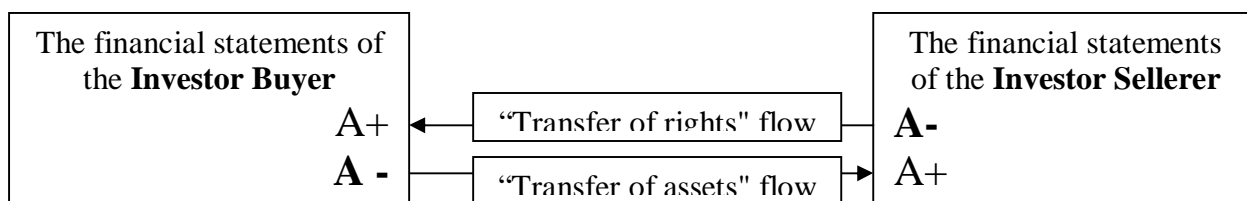(Source : projection of the authors)

We opine that in this case an information flow is created only in the case of investors, the issuer's/ receiver's financial statements not being influenced. In the case of the issuer this will only generate a change in the ownership structure respect in the shareholders register

| Economic action of **purchase of securities or shares** | Generates flow → | **Investor buyer A+ / A-** |
| | Generates flow → | **Investor seller A+ / A-** |

Fig. no. 9. - Economic action of purchase of securities or shares
(Source: projection of the authors)

We consider that in the case of the acquisition of rights we may find two types of flows between the investors who participate in the deal, namely a transfer of rights flow and a transfer of assets flow. This is schematically presented it in the figure no. 10:

Fig. no. 10. Types of flows between investors
(Source: projection of the authors)

Transfer of rights flow presupposes the transfer of property rights aver an issuer from the seller to the buyer.

Transfer of assets flow implies that settlement is made to transfer ownership

Subsequently we showed that participation in the capital as opposed to acquisition of securities already issued is similar to participation in the formation of a new entity, generating information flows that will be reflected in both the financial statements of the issuer and the investor's financial statements. In this case we can notice the emergence of rights (ownership of the issuer) in exchange for the transfer of assets from investor to issuer.
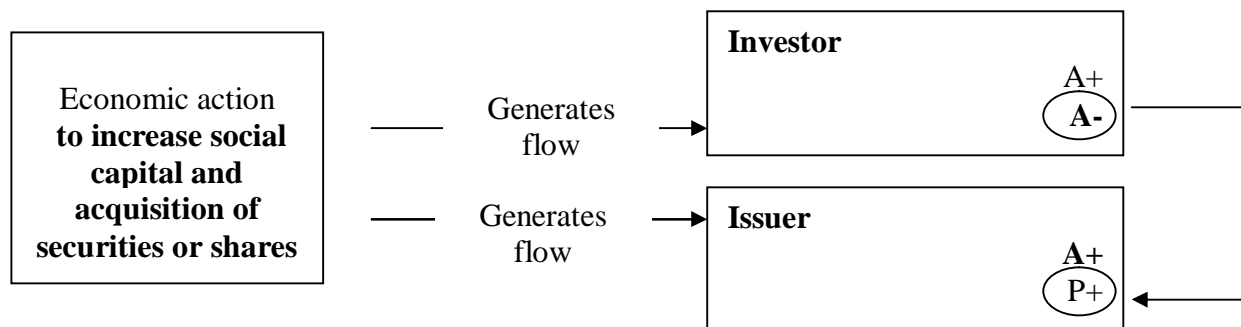
Fig. no. 11. - Economic action to increase social capital
(Source: projection of the authors)

This process implies the existence of two flows, namely the **transfer of rights flow** and the **transfer of assets flow**.

Transfer of rights flow presupposes the emergence of new property rights besides those already existing on the market. This flow causes a change in the liabilities of the issuer and other changes in the investor's assets.

Transfer of assets flow implies that settlement is made to transfer ownership. This flow causes a change in the economic entity assets both in the case of the investor and of the issuer (beneficiary).
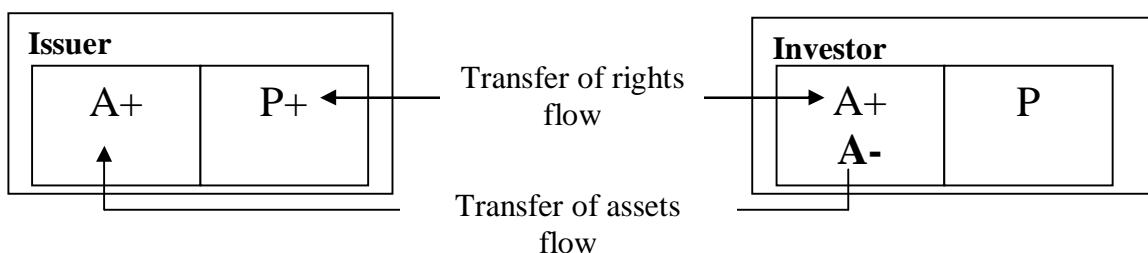
Fig. no. 12. - The influece of increasing the social capital
(Source: projection of the authors)

Venture activities without legal personality presuppose carrying out economic activities involving participation by two or more partners. The actions of one or more joint economic activities involve creating a legal framework to govern the expression of each economic entity associated.

Given that, under such contracts, the accounting of activities is only done with one of the associates, we can say that in this case, the flow of financial accounting in the case of participations is an intra-patrimonial one, while the flows are those that arise between the components of patrimonial assets and/or liabilities, changing their volume and internal structure, without a direct connection with the market (Pop A. 2002).

The first step is to determine the rank of each partner, establishing which partner will have the rank of prime associate. Its setting is based on the agreement of those associated with the compliance of the regulations in force.

Any associate can be the prime associate no matter the share it holds in the joint venture, however, with the restriction that economic entities with Romanian legal personality (even exclusive) have priority, in front of foreign legal entities and Romanian or foreign individuals.

The prime associate's task is to highlight the activities in its books by taking from the others associates the flows of all economic operations run on the basis of the joint venture contract. Having then the task of transferring to the secondary associates their share according to the contract of joint venture

It seems that under these conditions we can speak of a complete information flow and a partial information flow. By a complete information flow we may understand the information flow that covers the entire activity in the joint venture and by a partial information flow we understand the partial information transferred to each of the associates based on the joint venture contract.
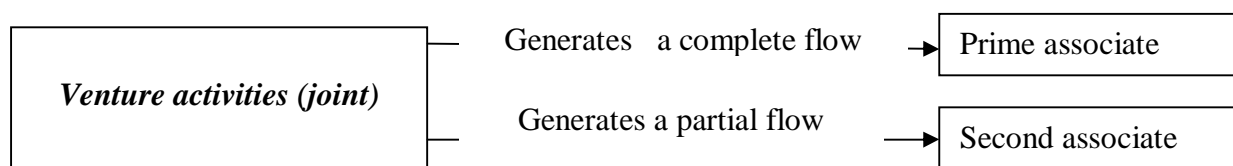
Fig. no. 13. - Venture activities (joint)
(Source: projection of the authors)

We opine that within economic activities concerning participations occur several types of flows between the partners that participate in the economic activity, namely: a flow generated by the transfer of assets, a flow generated by the transfer of activities undertaken by secondary associates towards the prime associate, and a flow generated by the settlement of the results which in turn implies a transfer of expenditure flow and a transfer of incomes flow.
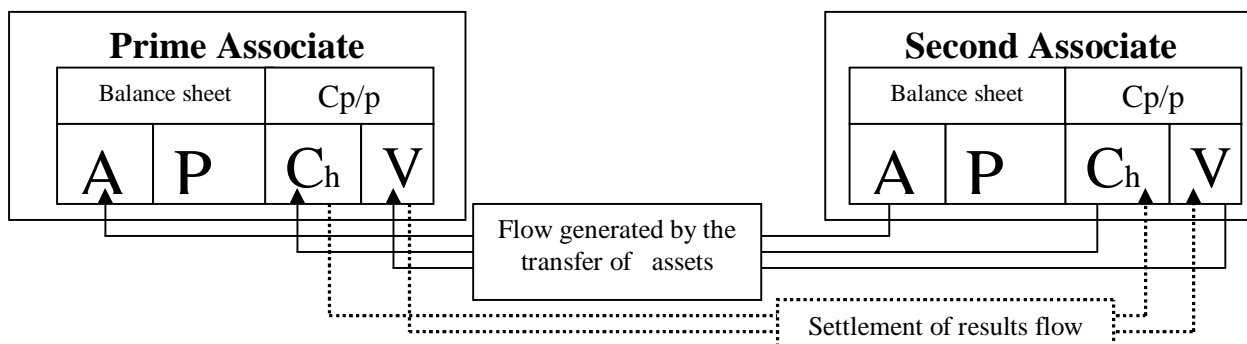
Fig. no. 14. - Venture activities (joint)
(Source: projection of the authors)

In the case of organizing economic entities in groups of companies we have shown that we have identified two types of flows, namely: **intra-group information flows** (flows generated between elements within the group) and **extra-group information flows** (flows generated by elements in the group with elements outside the group).

We opined that in intra-group flows, depending on the time of transfer of resources, we can identify permanent flows and temporary flows. In our opinion permanent flows arise from equity participation in an entity that belongs to the group either through capital input or by participating in creating a new entity that belongs to the group. Intra-group flows with temporary character involve the transfer of resources on a limited time period (group loans).

In extra-grup flows (flows generated by elements of the group with elements outside the group) we can determine, depending on their effect on the group structure, two broad categories namely the group flows and nongrup flows.

Through **group flows** we understand those flows that can either to strengthen the group or limit the group.

The **non group flows** mean either an establishment of rights flow (participation in the company contract which may include: setting up social capital or expansion of social capital - in the case when the issuer / recipient does not meet the requirements to be integrated into the group), or an information flow related to economic activities concerning participations (made by companies in the group with companies outside the group), or a flow that involves the acquisition of rights (sale and purchase of equity in companies that do not meet conditions to enter the group)

Group flows that can lead to the strengthening of this group can be presented schematically in the figure below:
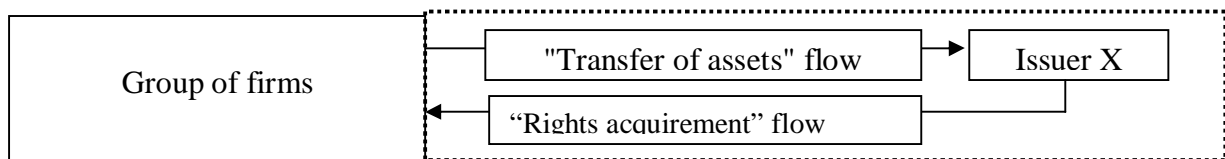

Fig. no. 15. - Fows that may lead to the consolidation of the group
(Source: projection of the authors)

Non-group flows that can lead to limitation of this group can be presented schematically as in the figure below:
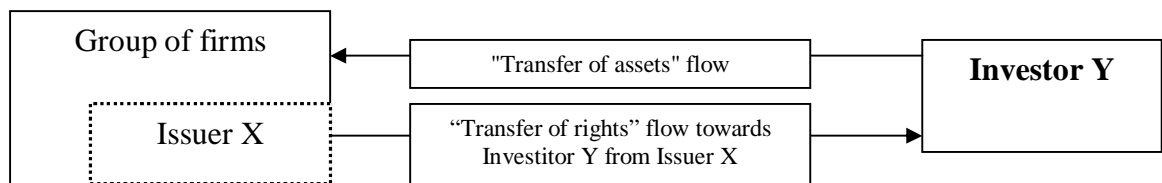
Fig. no. 16. - Flows that may lead to group limitations
(Source: projection of the authors)

The figure below presents the conduct of participations and their accounting implications upon the accounting records of the partners (associates/shareholders) participating in such economic activities:
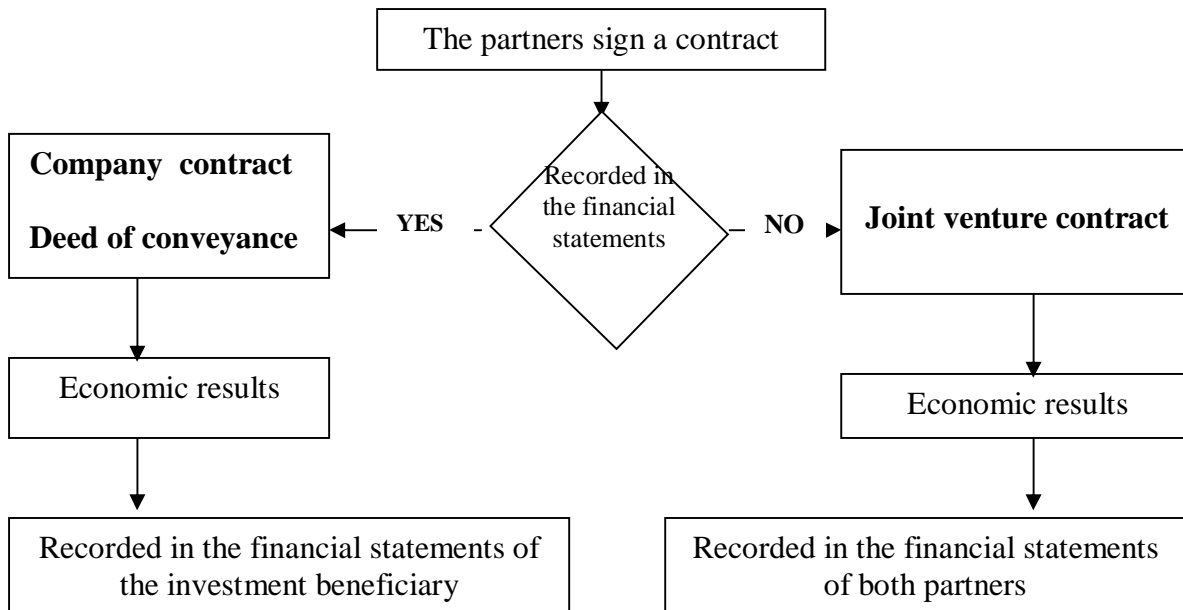
Fig. no. 17. - Participations development
(Source: projection of the authors)

Under these conditions, we may affirm, based on the the above mentioned synthesis, that the flow of accounting information manifests in many forms, without any claim to have identified all its manifestations

Conclusions

The research undertaken in an attempt to delineate the concept of **accounting information flow** as concerning participations tried and hopefully managed to answer a series of questions on how to show the limits and consequences of this economic phenomenon on the economic entities and business and / or social partners from the economic space in which they operate.

Even if, for each information flow can be elaborated more informational systems, they all have to forward the information generated from them. In these circumstances we concluded that the accounting financial flow represents all the accounting actions generated by an economic event that the professional accountant is required to reflect in the accounts of economic entities (firms or groups of companies).

In particular participations involve the development of economic activities that take place in a setting regulated by a commercial contract or a contract of association (statute), actions that generate an accounting information flow which is reflected in the accounting records of the participants. Based on the information reflected in the accounts various financial situations are prepared, which will become informational support in the process of documentation, analysis, forecasting and decision making

The results obtained from the flow generated by the economic activities conducted in the investment process can be evaluated in relation to the projections that were the basis in the investment decision. The comparative analysis may reveal more options in the case of the decision making process, becoming the support in the decision process. Based on these results, one can also achieve a number of future projections transforming these information flows in support of forecasting.

As it has been shown through this study we may identify general indicators known in the Romanian economy which are connected with flows generated by participations. The connection between the evolution of BET and the manifestation of participations reported by economic entities through financial statements may give us additional bit of information on the state of the economy

in general. This may have important significance in taking decisions on economic actions undertaken in the economy.

The validation of the hypothesis which implies that there is a strong and direct link between the evolution of BET and the evolution of participations tells us that as long as BET will grow, participations will grow too, and thus will increase the long-term investments made in the economy.

Having determined this relationship, any prediction which is made about the progress of BET can be transposed in the evolution of participations that will take place in the national economy

The way of manifestation of the accounting information flows concerning participations is determined by the multiple forms of manifestation of participations in the Romanian economy. The regulatory environment in Romania allows the joint venture between two or more legal entities and /or individuals who may choose to create an "institution" with or without legal personality

The objective/aim of this work is to define the operational framework of the participations, to study the known relations and to identify the new ones which in turn can be significant. Moreover, if these new relationships can bring added useful information to the decisional system, we may consider the objective to be reached in the condition that all the four formulated hypothesis/assumptions have been validated.

The scientific approach developed through this work has led to some results that have been validated, but still suggest caution in formulating definitive conclusions

The data used as a basis of this research can be extended beyond the financial year 2004 as BET is operational within the Bucharest Stock Exchange since 1997. The lack of such data has limited us in this study to verify the existing correlations only in the period between 2004 – 2009. In the future we hope to extend this period by additional information received from economic entities which have been the subject of this study and were detailed in the structural panel of companies used to calculate the BET. Increasing this interval will lead to more conclusive results, and a more rigorous substantiation of the reached conclusions.

Future studies may also provide a new approach related to psychology underlying the generation of these investment flows, flows that are based on economic activities.

Another limit of this scientific approach is that it only provides information on the financial investments that occur through other economic entities ("institutions" with legal personality) without including the investments taking place without legal personality.

In our opinion this study can be developed at the level of other countries too, in order to check if it leads to similar results.

Achieving results in several countries will provide the opportunity of comparing the obtained results, and will lead to the development of new approaches in the analysis of financial flows. The latest trend in foreign literature is to identify the psychological factors underlying economic phenomena.

The results obtained at the national level will be analyzed taking into account the organizational cultures of each of the analyzed countries, the stock culture and hence the economic culture.

These new results will provide useful information to the decision-making systems that choose to manifest in the national economy, given that currently **GLOBALIZATION** is the watchword.

References

1 Baddeley M., Convergence or Divergence? The Impacts of Globalisation on Growth and Inequality in Less Developed Countries, International Review of Applied Economics, Vol. 20, No. 3, 391–410, July 2006, pag. 392

2 Colin Drury, Management and Cost Accounting Second Edition, Chapman & Hall Publishing, London 1991, pag. 320

3 Colin Drury, Management and Cost Accounting Third Edition, Chapman & Hall Publishing, London 1992, pag. 412 si urmatoarele

4 Geraldine F. Dominiak and Joseph G.Louderback III, Managerial Accounting, PWS-KENT PUBLISHING COMPANY, BOSTON, 1988, pag. 3 si urmatoarele

5 Hodder L., Hopkins P. E., and Wood D. A., The Effects of Financial Statement and Informational Complexity on Analysts' Cash Flow Forecasts, *THE ACCOUNTING REVIEW,* Vol. 83, No. 4, 2008, pp. 915–956

6 Pop A., Contabilitate financiară românească armonizată cu Directivele contabile europene şi Standardele Internaţionale de Contabilitate, Editura INTELCREDO, 2002, pag. 10

Annex

Evolution of Total Assets for the companies which were used in calcululating the BET indicator in the period December 2004 – June 2008

	EVOLUTION OF TOTAL PARTICIPATIONS									
	1	2	3	4	5	6	7	8	9	10
	OLT / BRK	ATB	INX / RRC	TER / TBM / TGN	ARC / RBR / TEL	SNC / TLV	CMP / ASP / SNP	DAC / ALR / IMP	PCL / ELJ / AZO / BIO	AZO / BRD
dec.04	9.894.299	7.106	808.429.673	831.365	4.109	5.304.798	1.878.195.939	22.085.297	37.934.093	12.371.088
iun.05	0	0	0	0	0	6.105.832	2.005.078.169	**0**	0	0
dec.05	9.412.104	7.106	852.889.058	361.986	4.572	16.003.600	3.013.242.767	271.522	47.427.641	19.264.615
iun.06	9.660.325	8.198	852.669.547	51.206	2.572	16.003.600	3.110.817.769	413.537		19.264.615
dec.06	9.639.243	8.198	1.016.613.808	138.711	2.572	19.203.600	4.531.436.137	17.120.578	47.427.579	25.929.479
iun.07	9.661.443	8.198	1.016.394.688	98.739	40.035.278	37.947.000	4.481.211.467	1.347.275	47.427.579	35.348.079
dec.07	20.070.321	8.198	957.494.307	7.594	44.508.104	55.058.750	5.506.940.916	5.170.180	40.647.476	41.223.915
iun.08	21.378.093	31.256	1.075.204.652	1.202.598	44.168.159	70.308.700	4.619.752.553	51.231.797	42.116.562	41.223.918

Values expressed in lei

Source : projection of the authors