

THE ROMANIAN ACCOUNTANCY ON THE VERGE OF ROMANIA'S ADHERENCE TO THE EUROPEAN UNION

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Romania knocks on the gates to joining the European Union. This fact can't by-pass the national accounting system. The way for developing the Romanian accounting system is that of the implementation of the European Directives and the international standards (IAS -IFRS) in the Romanian accounting policy. The professionals try to find a common language that will insure the financial situations' comparability in time and that will respond to the problems of the globalization of the economies and financial markets. The reasons for starting the accounting harmonizing program are linked to the necessity of inveiglement of foreign investor and the adherence to the European Union.

1. INTENTIONS, TRACK RECORDS AND PERSPECTIVES REGARDING THE DEVELOPMENT PROGRAM OF THE ROMANIAN ACCOUNTING SYSTEM

The "red" time of the Romanian accountancy (1950-1990) was dominated by the Marx's economy model; the financial situations had only a statistical purpose that was used to follow if the macro economical targets were reached. After the fall of the communism, the new state authorities created a series of law reforms which was intended to turn the Romanian economy towards a market economy. After 1990 certain activity on the way to develop the stock market in Romania could be seen, as symbol of market economy as well as a way to attract foreign investors. Until the end of 1991 the reform of the Romanian accountancy was developing. The period 1990-1994 is characterized by adapting the old accounting system to market economy. Romania had to choose between varieties of accounting methods that existed in Continental Europe. The first reform stage of the Romanian accounting system (1994-1999) was characterized by implementing a new system inspired by Western Europe. Choosing the French model wasn't a mistake. The model chosen after the fall of the communism was one adapted to the Romanian conditions and even easily adapted to the Romanian economy. Imposing an Accounting Plan was an approach accordantly to the Romanian accounting medium. From a monist Accounting Plan based on soviet thinking, we switched to an Accounting Plan influenced by the French Accounting Plan. Some specialists consider that the English model should have been adopted as it was more appropriate.

Introducing a new accounting system after the fall of the communism opened an important spat towards the need to reform the Romanian accountancy. Even if the accounting system introduced in 1994 was hard, with all the limits and omissions, we can't neglect the positive aspects of the system. By using the French model, Romania opened towards the European Directives. Introducing the dual accounting system it created a way to the financial accounting oriented to the external and internal users of the accounting information. Beyond the strong and weak points, the new accounting system introduced after 1994 accrued an important step on the way to reforming the Romanian accountancy. Even with this system, a need of change was still in the air.

Starting from 2000 Romania entered the second step in the reform of the accounting system that means ensuring that Romanian accountancy is in accordance with the international accounting laws. A series of laws were adopted after 2000 in order to harmonize the Romanian accounting system with the European Directives and with the International Accounting System. Hence, starting from 2000 a part of the Romanian companies, considered big, switch to applying the International Accounting Standards. Their financial situations are audited by financial auditors. For all the other companies the Finance Ministry adopted simplified

accounting rules harmonized with the European Directives, used starting from 2003, rules that are a simplified variant of the big companies' rules.

The new Romanian accounting regulations introduced in 2000 are influenced by the British accounting system and the French one but also by the International Standards (IAS-IFRS) and the European Accounting Directives.

The Romanian accounting should be oriented to economical decisions making. There can't be financial situations written in the spirit of the international accounting referential unless the accountancy is free from taxation. Delayed taxes are used for the first time, a new element in the Romanian accounting system. In our country the accountancy is linked to taxation so the delayed taxes were insufficient debated. Even the delayed taxation start to be used in the Romanian accountancy, it's not used for small and middle enterprises, but it's necessary to use them in the writing of the consolidated accounts. In this respect, the Romanian legislators may inspire from IAS 12 "Income Taxes" that debates the accounting policies regarding the taxation of the income.

In the Romanian accounting medium we can find for the first time the principle substance over form. In the new Balance Sheet format, there isn't "legal provisions". These are signs that the accountancy is moving away from taxation. The International Financial Reporting Standards can't be assimilated in Romania, as long as the accountancy is polluted by taxation.

Starting from 2006 a series of enterprises considered big will apply the International Standards (IAS-IFRS) and the enterprises considered small and middle will apply a simplified method based on the same standards. We see that for some enterprises the IFRS has substituted IAS. IASB is close to fulfilling three major tasks that preoccupied the Board from the first years of existence: to have by 2005 an "accounting platform" that will contain good standards, realizing a suitable medium for assimilating the national standards with the international ones, the international standards (IAS-IFRS) with the American standards (US GAAP) (Feleaga, Malciu, 2005). The International Financial Reporting Standards will become an important element for the tip of iceberg called Romanian economy (Feleaga, Malciu, 2004).

The influence of the IASB can be seen upon the annual financial situations of the Romanian enterprises. The format of the Profit and Loss Account is accordantly to IAS 1. The new format of the Profit and Loss Account is based on the relationship ordinary-extraordinary rather than current-exceptional and the expenses are analyzed based on their nature. Although the Romanian accounting laws are according to the harmonization with the European IVth Directive, surprisingly there is the possibility to use several models of the Profit and Loss Account.

The Romanian legislators generalized a structure based on nature for the Profit and Loss Account for all the enterprises and there is not possibility for the big enterprises to present and publish a Profit and Loss Account that is based on functions. This kind of a presentation would allow the financial information to be opened to the needs of investors and modern management.

In the first step of the reform of the Romanian accountancy the French experts oriented us to choose the first format for the Balance Sheet from the European IVth Directive (article 9, European Fourth Directive), in the second step the Romanian legislators chose the English format (article 10, European Fourth Directive, the Vertical Balance Sheet). The new format is oriented to the analysis based on liquidity-solvability and is close to structure of that from the international accounting referential. There are some incompatibilities with IAS 1, though. Introducing the vertical format in Romania is an important step, because it opens the annual financial situations towards a financial-economical analysis, giving and valuing useful information for many users. The distinction short term-long term is used regarding the assets and debts. The cash flow statements are a new concept in Romanian accountancy. The Romanian legislators may inspire from IAS 7 "Cash flow statements".

Another new concept for the Romanian accounting system is the introduction of a statement that reflects the changes in shareholders' equity. The shareholders' equity uses the concept of economical or comprehensive income, as another dimension of the analysis of results. The appendix completes the annual financial situations and contains the accounting policies and options used by the enterprise.

In the Romanian business medium there are also groups of enterprises that grow continuously. By introducing the laws regarding accounts consolidation, harmonized with the European IVth Directive and IAS 27 and IAS 28 in the Romanian accounting medium, we can say that we have all the informational criteria regarding the groups of enterprises, need at European and world level.

2. DIFFICULTIES REGARDING THE IMPLEMENTATION OF THE INTERNATIONAL STANDARDS (IAS-IFRS) IN THE ROMANIAN ACCOUNTING MEDIUM

The problem of assimilating the international standards (IAS-IFRS) in the Romanian accounting practice has been and still is debated by accountants, raising a lot of controversy among the university professors and the others interested in the subject. The new Romanian accounting laws can't be understood and put into practice without knowing the statements of

the international standards (IAS-IFRS). At an international level the International Financial Reporting Standards are becoming more important and the enterprises that use the British method for the annual financial situations dominated the capital market lately.

Trying to harmonize the Romanian accounting system with the international standards (IAS-IFRS) won't be easy. Some of the international accounting rules won't be easily assimilated in practice. This is the case of IAS 2 and IAS 7. However there are standards that will be hard to assimilate in practice, such as IAS 12, IAS 36, IAS 37, IAS 38 and so on. For example applying IAS 16 won't be easy in the Romanian accounting practice. Therefore, in order to calculate the economical useful life, fair value and loss from impairment of assets, the enterprises need to have enough employees and collaborators to analyze:

The net value that the society estimates that will obtain for an asset at the end of its economical useful life, after diminishing it with the sell expenses;

The sum for which the asset can be sold between two parties in a transaction at a price determined objectively and revaluing the assets at their fair value using authorized evaluators. (Togoe, 2003).

Many of the Romanian enterprises don't have enough financial resources to reflect the land and fix assets, in the case of the allowed alternative treatment at for the fair value based on the valuations done by authorized evaluators. In practice most of the Romanian enterprises consider the residual value insignificant and therefore don't use it to calculate the impairment.

Another example is the standard IAS 37 "Provisions, Contingent liabilities and Contingent Assets". Some old ideas still exist in the mentality of the managers regarding that fact that the shareholders and the potential investors don't need to know everything, as for example the old owners claiming their building and there are law suites regarding the aspects. It is necessary that all the events that can affect the enterprise, like contingent liabilities and contingent assets to be told to the shareholders and potential investors, as the contingent liabilities and contingent assets have consequences upon the enterprise's assets.

In what regards applying the standard IAS 38, the enterprises need to be attentive when using capitalization only for the asset that fulfils all the requirements. Not applying the standard IAS 38 as it is may lead to an increase in expenses in the Profit and loss account or to capitalization done is a wrong way for the expenses generated by producing an asset.

The standard IAS 12 "Income Taxes" won't be easy to apply in Romania. Applying this standard inducts to many concept changes for which our taxation didn't have the opportune and necessary reaction (Ristea, 2003). And the examples may continue.

There are also standards that won't presently be applied, a certain time of preparing being needed to prepare their use in practice. It's the case of the standards IAS 19, IAS 26 and IAS 39. It's necessary a separation of the accountancy from taxation in order to use the international standards (IAS-IFRS) in the Romanian accounting practice.

The main way to finance the enterprises must be also considered in the two accounting forces: British and Continental. While in the British force the financing of the enterprises is done through the stock market, the accounting information are addressed to the preset and potential investors, in the other force, the Continental, the financing is done with the help of the banks, the pressure from the investors not being that important. The international standards (IAS-IFRS) are highly influenced by the British accountancy. But the way to Romanian enterprises are financed is still the loan from the bank. This imposes that only the enterprises listed in the stock market should use the international standards IAS-IFRS, because these enterprises are interested in being financed from the capital market (local or international) (Ionascu, 2003).

The enterprises that aren't listed might benefit from less exigent national accounting standards, according to the European Directives and the International Financial Reporting Standards. This approach is also seen in other European countries, where the IASs are applied only to the listed enterprises and the not listed enterprises have an accountancy based on national accounting standards, considered in some cases, like Switzerland that considers them as "simplified IASs" (Raffoournier, 2001).

In order to assimilate the letter and the spirit of the international standards (IAS-IFRS) a separation of the accountancy from taxation is necessary. The separation of the accountancy from taxation would mean that the harmonization in the accountancy, as a follow-up of the managerial policy, would be different from the taxation harmonization for calculating the income taxes. In the Romanian accountancy, the financial result is calculated starting from the accounting result, to which the non deductible expenses are added and the deductible expenses taken out. The method of accounting the income taxes used now is a deniable method. It's important that the temporary differences generated by the difference in time of the accounting and financial elements are accounted.

The liberty of the professional reasoning and the accountancy and legislation influenced by taxation can't live together. The legislators must know that the economical useful life of

assets is decided by the managers, so is the impairment method, and that in some cases, they would rather impair the assets reported to the production and not to time, that the value to be impaired is given by the difference between the historical cost and the residual value (estimated by the experts from the enterprise), that, finally, in the Balance Sheet and in the Profit and Loss Account the impairment that most suits its use must be stated (Feleaga, 2001). So the impairment law is only a taxation law made to calculate the income taxes.

Implementing the international standards (IAS-IFRS) in the Romanian business medium will be very attractive to the foreign investors. But this is not an essential condition. It's important that Romania has a stabile legislation, an administration less affected by bureaucracy, a simplified taxation for the enterprises as well as taxation advantages that will attract foreign investors and will make the economy stronger.

Assimilating the international standards (IAS-IFRS) in the Romanian accounting medium should make a shift in the mentality of the professionals. Opening towards the international accountancy will create the possibility to use the professional reasoning. Only in this way we can elaborate and fundament coherent accounting policies that will give quality information with the use of the financial situations for a large number of users. The theses of the accounting policies should be elaborated and founded on the European Directives and the International Financial Reporting Standards.

The international standards (IAS-IFRS) will be in conflict with a series of statements from the Romanian accounting laws. In the speech given at the XIIIth Congress of the Romanian Accountants that took place in Bucharest during 20th -21st of September 2002, David Illingworth, president of the institute of chartered accountants in England & Wales (ICAEW) suggested that the Romanian government and the national Romanian authorities should "get rid as soon as possible of these differences, taking into account that this opportunity will never come again" (Illingworth, 2003).

Based on what we recently debated, we state that this won't be easy to accomplish because of the social, political, cultural and religious differences between the accounting cultures. It's important that the old mentalities from communism won't be kept and there should be an opening towards the new accounting system that proves to be profitable and that is an answer to the changes on the international level.

3. INSTEAD OF A CLOSING

In conclusion we can say that the reform of the Romanian accounting system is an important step in harmonizing the Romanian legislation with the European Directives and the international standards (IAS-IFRS). It's switching to a more profitable accounting system, a flexible one where the first is the professional judgment, opened to foreign investors by presenting more transparent and relevant financial situation. The efforts to elaborate a new accounting system will not be easy. And it must be successful.

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