

## THE PROFIT AND LOSS ACCOUNT THROUGH THE ROMANIAN ACCOUNTING REGULATIONS. FROM EUROPEAN TO INTERNATIONAL

MARIANA MAN, LIANA GĂDĂU \*

**ABSTRACT:** *The paper analyses the profit and loss account from the Romanian accounting regulations' perspective in terms of format, structure, content, which is subject to the approval of OMPF no.3055/2009 harmonized with the European accounting directives. Even if from the name it appears the compliance with the European accounting directives, the Romanian profit and loss account brings elements from the international standard IAS1. Moreover, if we compare the structure of profit and loss account chosen by the Romanian policy makers with the structure proposed by the IV Directive, the list model, with the classification of operating expenses by nature, we conclude that they are similar, with small features found in the present order, an order which was also analyzed in the paper.*

*We tried to explain and argue the preference of Romanian policy makers for the list model of profit and loss account, with the classification of expenses by nature, but also the necessity to present, in the explicative notes, the classification of expenses by purpose, which is actually a combination of regulations between the IV Directive and the IAS1 standard.*

*In the second part of the paper we considered interesting to analyze the content of certain elements related to the profit and loss account, namely: the extraordinary elements, the cost of sold goods and services of the Analysis of operating result to capture both Romanian specific features, as well as the elements of IAS1 standard, the net turnover indicator, the items of gain and loss, the stocks variation element and the element Result on action.*

**KEY WORDS:** *the profit and loss account - financial statements; the format and structure of the profit and loss account; the content of profit and loss account; performance indicators*

**JEL CLASSIFICATION:** *M40; M41.*

---

\* Prof., Ph.D., University of Petrosani, Romania, [man\\_mariana2006@yahoo.com](mailto:man_mariana2006@yahoo.com)  
Lecturer, Ph.D., "Spiru Haret" University of Bucharest, Romania, [lianagadau@yahoo.com](mailto:lianagadau@yahoo.com)

## 1. INTRODUCTION

The Romanian profit and loss account follows the format and structure presented by the IV Directive, but also brings elements from IAS1 norm: "The presentation of financial statements", and specific Romanian elements. We focused the research around these issues, in an attempt to explain the choice made by the Romanian policy makers.

The paper analyzes the profit and loss account taking into account the Romanian accounting regulations in terms of format, structure and content.

In order to analyze these issues and to capture relevant features related to them, we extended the study of research, by analyzing through comparison the profit and loss account from the two accounting referential the IV Directive and the international accounting standard, IAS 1 "The presentation of the financial statements".

We tried to emphasize the similarities, but also the differences, advantages, but also the limitations of the analyzed problems, to formulate conclusions, but also personal opinions and proposals.

## 2. THE FORMAT AND STRUCTURE OF THE PROFIT AND LOSS ACCOUNT

In Romania, the profit and loss account is regulated from the content, format and structure points of view through OMFP no. 3055/2009 regarding the accounting regulations harmonized with the European accounting directives.

From the scheme versions proposed by the IV Directive for profit and loss account, *the Romanian policy-makers chose and impose the list-scheme, with the classification of the exploitation expenses after nature.*

*If we compare the profit and loss account structure chosen by the Romanian policy-makers, with the structure proposed by the IV Directive, for the list model, with the classification of the exploitation expenses after nature, these are similar, with small features found in the present order.*

Thus, the scheme list of profit and loss account proposed by the IV Directive allows the separate presentation, through different positions, of both the amount of profit tax from the current result, and the extraordinary result of the activity. As derogation from these provisions, the Directive allows the presentation also of the cumulative total amount of taxes on the two activities, current and extraordinary, in one position. If you choose the second variant of the presentation, the Directive requires companies to disclose in the notes to financial statements, the extent to which income tax affects both the result of ordinary activities and the result of extraordinary activities.

For Romanian regulations, the particularity regarding the structure of the profit and loss account is that Romanian policy-makers chose the second option (which is more than a derogation from the first version - the class), with the presentation of the profit tax and the cumulative explanations in the notes (Pântea, et al., 2006).

We consider the first option proposed by the IV Directive, with the separate disclosure of the profit tax for two types of activities, current and extraordinary, a

variant which allows the presentation of the element "*The net result from ordinary activities*", more efficient, which helps in analysis, especially where extraordinary items would produce more and their value would be more significant.

Returning to the comparison of the profit and loss account structure, between the model proposed by the IV Directive and that required by the national regulations, we note that another feature is that the Romanian model category includes operating revenues, a distinct position from the structures presented by the IV Directive, namely, "The production realized and capitalized by the entity for its own purpose" (which emphasizes the incomes from the fixed assets production).

As we mention before, the Romanian policy-makers chose the list scheme of the profit and loss account, with the operating expenses classified by nature.

However, in the annual notes to the financial statements it is presented a model that emphasize the "analysis of the operating result", in which the operating expenses are classified by their destination (OMFP no. 3055/2009, art.335 ). **The conclusion** we draw is that *the Romanian accounting rules require the classification of the expenses after their nature in the profit and loss account, a model taken from the IV Directive, but also require the presentation in the explicative notes of an analysis of the operating result with the classification of the operating expenses after their destination.*

We will try to explain the choice made by the Romanians policy-makers, the two poles of references being found in the IV Directive's regulations and IAS1 standard.

Thus, if the IV Directive leaves a wider freedom to organizations in choosing the scheme for the profit and loss account, the list or account format with the classification of expenses by nature or destination, the IAS1 even if does not provide a scheme for the presentation for this financial statement, it restrict at two the number of options, by choosing between the methods of classification of expenses by nature or the method of classification of expenses by destination.

The Romanian policy-makers have reviewed all the options and found that the version which is most relevant and reliable for the enterprise's performance, useful in estimating future cash flows is shown above (the main form list of the classification of expenses by nature, but also the presentation in the explicative notes of the classification of expenditures by destination), which is actually *a combination of regulations between the regulations of IAS1 and the IV Directive regarding the format of profit and loss account.* In this way, the compliance with the accounting regulations of Directives and the international norm IAS1 regarding the format of the profit and loss account was meet (Berheci, 2010).

If the Romanian policy-makers would have chosen the list format of the profit and loss account, with the classification of the operating expenses by destination, only the compliance with the IV Directive, would have been realized, being harmonized with the purpose of the OMFP no.3055/2009 order for the "approval of the accounting regulations conformed to the European Directives". In order to respond to the IAS 1 requirements, it should present supplementary information regarding the nature of the operating expenses in the explicative notes (condition imposed by IAS 1).

Another explanation of the chose made by the Romanian policy-makers can be found in the significance of the indicators that the two scheme of the profit and loss account focus on.

Therefore, *the scheme list with the classification of the expenses by nature* – emphasizes indicators such as: turnover, the exercise production etc, which provides useful information to financial analysts, and in general to factors involved in creating and distributing of wealth (investors, creditors, employees, etc.), *a more open model to estimate future cash flows*. (Măcriș, 2011)

The other model, *with the classification of expenditure by destination* – through the following indicators: the expenses of core activity, of production, indirect expenses of manufacturing, general expenses of administration, is more useful to the management by reporting the different costs to the sold production, *generating information that regard the efficiency of the production activity, necessary especially in the firm management*.

We summarized in the below table the advantages and limitations of using the method of classification of expenses by their nature, respectively by their functions.

**Table 1. The advantages and limitations of using the method of classification of expenses by nature, respectively by their functions**

<b>The method of classification of expenses by their nature</b>	<b>The method of classification of expenses by their functions</b>
<p><b>The advantages:</b></p> <ul style="list-style-type: none"> <li>- Allows the use of profit and loss account in the calculation of intermediate balances, allows macroeconomic aggregate calculations;</li> <li>- The information from the classification of expenses by nature is useful in the estimation of the future cash flows for the enterprise;</li> <li>- This method is easy to apply because it does not require the allocation of operating expenses on functional classification. This model is suitable to the needs of small and medium-sized enterprises or to the large ones that do not exceed certain thresholds of indicators used in European boundaries: the turnover, the total assets and the number of employees. However, the Romanian specialist generalized the structure by nature to all the enterprises, regardless of their size;</li> <li>- This method provides more objective and verifiable information;</li> <li>- Facilitates the cash flow projections</li> </ul> <p><b>The disadvantages (limits) of this method:</b></p>	<p><b>The advantages:</b></p> <ul style="list-style-type: none"> <li>- This presentation often provides more relevant information to users than the classification of expenses by nature, but the allocation of costs by functions can be often arbitrary and involves considerable professional reasoning;</li> <li>- This model of analysis offers information on performance management regarding the business, the distribution and administration functions, so it is more relevant in the analysis of the financial performance than the other models which says almost nothing about the performance of enterprise;</li> <li>- The presentation of expenses by function permits the determination of the gross margin, as a difference between the turnover and the cost of sold goods or provided services. These indicators provide important information used in the comparison of the enterprise efficiency.</li> </ul> <p><b>The limits of the method:</b></p> <ul style="list-style-type: none"> <li>- This model, even more relevant in the analysis of the financial performance, is less reliable, because the allocation of costs depends on how the enterprise management defines its function. Moreover, if managers make organizational changes and adjust the functions, then the</li> </ul>

<p>- This model does not say anything about the performance of the management in achieving the enterprise functions.</p>	<p>information can not be compared over time;  - Does not allow the forecast for the future cash flows. Therefore IAS 1 requires to companies to present the additional information on the nature of expenses, including the expenses with depreciation and personnel.</p>
--	--

Source: Man, M.; Gădău, L. (2010) *The profit and loss account in different approaches. Advantages and disadvantages, Annals, Economic Series, Univ. "1 Decembrie 1918", Alba Iulia*

In conclusion, the model for profit and loss account chosen by the Romanian policy-makers contribute to playing a more complete picture of enterprise's performance, show greater openness to financial analysis, in estimating the forecast, and meets the information needs of a wide range users.

### 3. SOME ISSUES OF INTEREST ON CERTAIN ELEMENTS RELATED TO THE CONTENT OF PROFIT AND LOSS ACCOUNT

#### 3.1. The extraordinary items

We consider necessary to see how extraordinary items are addressed by the three accounting referential: the IV Directive, IAS 1 standard and the Romanian accounting standards and regulations through OMFP no.3055/2009, observing from here also the importance of these elements given by these accounting referential.

*The IV Directive considers the extraordinary incomes and expenses* those categories of items that are generated differently than in the ordinary activities of the society. The drawback is that it does not come with other explanations or examples for such items. Even in such circumstances, the Directive considers important these elements, by allocating own structures in the profit and loss account (extraordinary revenues and expenses, the result of extraordinary activities), more in the notes to financial statements should be presented explanations on the nature and size of these elements when they have a significant value and the evaluation of the results ( The IV Directive, Article 29).

*The national regulations* define these elements as revenues and expenses arising from events totally different from ordinary activities, so with accidental character (not expected to recur frequently or regularly). To determine whether an event is clearly delimited by the current activities of the organization, is determined the nature of the element or the transaction corresponding to the activity undertaken by the company in general, rather than the expected frequency of these events that take place. Therefore, an event or transaction may be extraordinary for one entity, but not for another, due to the differences between the current activities of those entities (OMPF 3055/2009, art. 34 and 251). The Order no. 3055/2009 presents examples of this type of items: expropriation, natural disasters, and income subsidies for extraordinary events.

The Romanian accounting regulations also require the separate disclosure, by distinct structures in the scheme of profit and loss account of these types of items.

Another conception of the presentation of extraordinary incomes and expenses is found in the international accounting standards. Thus, since 2005, they have eliminated the extraordinary items category, because the IASB has concluded that in order for some elements to be treated as extraordinary elements, they have to result from the normal risk that the entities are facing, and this should not guarantee their presentation in a separate section of the profit and loss account (Roberts, C., et al., 2006).

We maintain our view that this type of element, as the tax on the extraordinary result must be presented separately from the other elements that contribute to the business results.

### 3.2. The item Cost of goods sold and services rendered

Another remark refer to the item "*cost of goods sold and services rendered*" from the format of the results' analysis, from the explanatory notes, element whose structure is classified as: basic expenses, costs of complementary and indirect production costs, which is affected by the Romanian accounting peculiarity in the sense that this breakdown is not found either in the accounting Directives, no in the IAS1 norm (Ristea, 2006).

We presented at the same time the Analysis of operating result, according to the Romanian accounting regulations and the Statement of the result by classifying operating expenses by destinations (functions), according to the requirements of the international standard IAS1 in order to capture the particularities mentioned above:

**Table 2. The content of Analysis of operating situation according to the Romanian regulations, comparison to the result with the classification of operating expenses by their destinations as required by the IAS1**

The analysis of operating result	The classification of operating expenses by their destination (situation which can be detailed)
1. <i>The net turnover</i> 2. <i>The cost of sold goods and provided services</i> 3. The expenses of basic activity 4. The expenses of auxiliary activities 5. The indirect expenses of production 6. <i>The gross result of net turnover</i> 7. Distribution expenses 8. General administrative expenses 9. Other operating incomes 10. The operating result	1. Incomes 2. The sale costs 3. Gross profit 4. Other incomes 5. Distribution expenses 6. Administrative expenses 7. Other expenses 8. The result before taxation

Source: Order OMFP no. 3055/2009 and IAS1 revised, 2007

If the structure of profit and loss account under the provisions of IAS1 is compared with the structure imposed by the Romanian perspective, regarding the modality of presentation of revenues, it is found that in IAS1 the presentation in a

single line element of *revenues from current activity* is sufficient, while the Romanian regulations classifies and details the Revenues from the current activity by takeover in the Directive:(the net turnover, incomes regarding the running costs, production performed by the entity for their own purposes and capitalized, incomes from investments, interest income, etc), thus achieving a distinction between operating and financial activities, delimitation that helps in analyzing, something that is not listed in the scheme of profit and loss account under IAS1.

### **3.3. The item net turnover**

Also, if we compare the definition of net turnover under the provisions of IV Directive and regulations found in Romanian (OMFP no.3055/2009), we find that the range of its coverage is much broader, (the interest due to finance leases under certain conditions, including other operating incomes). Related to this indicator we cannot find no notes in the IAS1 norm.

### **3.4. The elements of gains and losses**

Another important observation *is that even if the gains and losses are not considered separate elements* (such as assets, liabilities), which are included in the category of incomes or expenditures, *however, the Romanian regulations have reviewed the importance of the Romanian regulations elements thus bringing them additional clarification of the preceding OMPF 1752 / 2005*, namely the distinct positioning of these elements in the profit and loss account's structure, namely the items "Other operating incomes "and "Other operating expenses"(more precise brought OMFP no. 3055/2009 compared to the previous order OMFP 1752/2005 with the same name, on the elements of gains and losses, art.252, 262).

### **3.5. The element "Stocks variation"**

A more delicate issue that has generated controversial debates concerning the positioning of the elements of revenue in the profit and loss account scheme it is the element "*Change in inventories items*".

We presented the simplified scheme of profit and loss account, aspect related to the operating activity, according to the Romanian accounting regulations and the proposed standard for classification of expenses according to IAS1 to see where is positioned the element "Stocks variation" and to have a base for discussion of the remarks made on this element.

According to the IV Directive and regulations of the OMPF no.3055/2009 harmonized with European Directives, this element is positioned among the items of incomes, namely, in the category of operating incomes.

According to the IAS1 regulations, specifically, in the model proposed by the standard with the classification of expenses by their nature, the item "Variation of the finished products and production in progress" is positioned immediately after the

incomes, so it's debatable whether such a presentation should suggest if it is income or not (Malciu & Feleagă, 2005).

**Table 3. The simplified scheme of profit and loss account, according to the Romanian accounting regulations, along with the profit or loss account of the year with the classification of expenses by nature, according to IAS1**

<b>The simplified profit and loss account, according to the Romanian accounting regulations</b>	<b>The profit or loss account with the classification of expenses by nature</b>
1. The net turnover 2. The stocks variation of the finite products and the ongoing execution of products 3. The production realized by the entity for personal purpose 4. Other operating incomes 5 Expenses with brut materials and consumables 6. The employees expenses 7. The adjustments of value regarding the tangible and intangible immobilizations 8. The adjustments of value regarding the current assets, if these excess the adjustments of value which are normal for the respective entity 9. Other operating expenses	Incomes Other incomes The stocks variation of the finite products and the ongoing execution of products Expenses with used brut materials and consumables Expenses with the employees benefits Expenses with depreciation Other expenses Total expenses Profit before taxation

Source: Order OMFP no. 3055/2009 and IAS1 revised, 2007

Therefore, we consider that a number of additional clarifications were needed on this particular element, especially from the IAS 1's perspective, IAS1 not make any statement to that effect.

In our opinion, it is important to mention (a fact that is presented in the Romanian accounting regulations, OMFP no. 3055/2009, an observations which is not presented by neither IAS 1, nor the IV Directive) that the element "The variation of the finished products and production in progress" is, during the period, a correction of the production expenses, in order to reflect the fact that either the production increased the inventory levels of stocks or the additional sales have reduced the inventory levels (OMFP nr.3055/2009, art.256).

Thus, the "Stocks variation" should be considered more that *an element of cost* of the obtained production, because practically reflects the production cost, as an expression of some consumed benefits and not obtained benefits.

### 3.6. The element "Result per share"

A final note that we do is related to the element "Result per share". This item is not reflected in the profit and loss account format proposed by the IV Directive therefore Romanian regulations in order to comply with the Directive did not provided this indicator in the profit and loss account format that must be prepared by the Romanian companies.



Given the importance of this indicator, particularly for financial analysts, and evolution towards the normalization of financial statements in Romania, according to a growing international accounting standards, we support the need to introduce this measure, as the last item in the format of the Romanian profit and loss account format through future changes to be made to the current national accounting rules, as it is stipulated by the IAS1.

#### **4. CONCLUSIONS**

From the schemes proposed by the IV Directive for the profit and loss account, *the Romanian policy-makers have chosen and imposed the list scheme with the classification of the operating expenses by nature.*

The paper highlighted the fact that the variant proposed by the IV Directive, with the separately presentation of the income tax of the two types of activities, current and extraordinary, was more rational to be chosen, a scheme that helps in various analysis, allows also the presentation of the item "the net result from ordinary activities".

Given that there are different views between the accounting referential regarding the presentation of extraordinary items in the profit and loss account's structure, we made a comparative analysis regarding the definition and description of these elements in the structure of profit and loss account, based on the regulations of the IV Directive, IAS1, OMPF 3055/2009. Regarding these elements, we maintain our opinion that is necessary a separate presentation in the profit and loss account structure from the other elements that contribute to the outcome.

The Romanian accounting rules require for profit and loss classification scheme the list of expenses by nature, taken from the IV Directive model (with some features found in the Romanian model), but require the presentation in the explanatory notes of an analysis of operating results with the classification of expenses by destination.

This choice made by the Romanian policy-makers for the profit and loss account makes us conclude that its presentation format is actually a combination of directives and regulations between the IV Directive and IAS1. In this way we aimed to achieve compliance with accounting regulations in the two referential, an aspect that we emphasize in this paper.

We focused also in the comparative analysis of the structure of profit and loss account of the three referential views: IV Directive, IAS1, and OMFP no. 3055/2009 on the following issues:

- how the incomes are presented: we found that according to IAS 1 is sufficient the presentation in a single line element of incomes from current activities, while Romanian regulations classify these revenues and detail them, achieving a distinction between operating and financial activities, separation which helps in making financial analysis;
- the definition of turnover: we found that the spectrum of coverage of the turnover had a greater acceptance according to the Romanian definitions of this indicator

- harmonized with the IV Directive. IAS1 standard makes no remark on this indicator;
- the stock variation element: This element is considered under IV Directive and the Romanian regulations, an income element, while IAS1 places it immediately after, so it is questionable whether the international standard for such an item falls into the category of revenue or not. We have issued our own opinion regarding this item, namely, considering it as an element of obtained production cost that reflects the cost of production, as an expression of consumed benefits and not obtained benefits;
  - the earnings per share: We consider necessary that this element to be included in the profit and loss account structure according to the Romanian regulations.

#### REFERENCES:

- [1]. **Berheci, M.** (2010) *Valorificarea raportărilor financiare*, Editura CECCAR, București
- [2]. **Choi, F.; Meek, G.** (2005) *International Accounting*, 5<sup>th</sup> edition Pearson Prentice Hall, N.Jersey
- [3]. **Gârbina, M.; Bunea, S.** (2009) *Sinteze, Studii de caz privind aplicarea IAS(revizuite) – IFRS*, ediția aIVa revizuită, Editura CECCAR, București
- [4]. **Jianu, I.** (2007) *Evaluarea, prezentarea și analiza performanțelor întreprinderii*, Editura CECCAR, București
- [5]. **Măcriș, M.** (2011) *Bazele economiei*, Editura Universitas, Petroșani
- [6]. **Man, M.; Gădău, L.** (2010) *The profit and loss account in different approaches. Advantages and disadvantages*, article published in the journal *Annals, Economic Series, Univ.”1Decembrie 1918”*, Alba Iulia
- [7]. **Malciu, L.; Feleagă, N.** (2005) *Reformă după reformă: contabilitatea din România în fața unei noi provocări*, Editura Economică, București
- [8]. **Pântea, I.P.; Bodea, Gh.** (2006) *Contabilitatea financiară românească conformă cu Directivele europene*, Editura Intercredo
- [9]. **Roberts, C.; Weetman, P.; Gordon, P.** (2006) *International Financial Reporting. A comparative Approach*, 6<sup>th</sup> edition, Prentice Hall
- [10]. **Ristea, M., et al.** (2006) *Sisteme contabile comparate*, Editura CECCAR, București
- [11]. OMFP nr.3055/2009 pentru aprobarea Reglementărilor contabile conforme cu Directivele europene (actualizat prin OMFP nr. 2869/2010)
- [12]. Directiva a IVa (78/660/CEE) “Privind conturile anuale ale anumitor tipuri de societăți” (ultima actualizare prin Directiva 2009/49/CEE)
- [13]. Standardul IAS1”Prezentarea situațiilor financiare”, revizuit în 2007, cu aplicabilitate din 2009