ABSTRACT:
Within the framework of the normalization phenomenon, the quality of the accounting information has improved as the companies have stepped up with their competitiveness parameters, compared to the opponents on the local and international markets by means of the accounting information they have access to. The main explanation of the phenomena of normalization, harmonization, convergence, internationalization is the augmentation of the global processes of the international markets, capital and the national economies that verge on to building a single system from the perspective of the global economic development. The exposure on the financial markets has an impact upon most organizations, either direct or indirect. When an organization is visible on the financial markets, it is very likely to have losses but also gains or profit. This specific exposure is the venue to strategic or competitive benefits.

Keywords: accounting normalization, financial situations, convergence, International Standards of Accounting and Reporting, financial risk.

1. Introduction

The object and target of the accounting normalization are the implementation of identical accounting norms in the same geographic and political space and building homogeneous accounting practices, while according to C. Perochon “the object of the accounting normalization can be drawn attention to by the financial accounts or the charts of accounts.” An important step in reaching a higher stability on the financial markets is to promote a single global set of accounting standards.

A common critique, made by those that question the usefulness of IFRS financial statements for investors and analysts, is that the financial statements have become too complex. These state that it is difficult for investors and analysts to understand some of the information provided in the financial statements and to assess the relative importance of information. Some critiques refer to "excess of information".

We have identified a series of complexity sources, such as: business operations becoming more complex, complexity of regulation framework, entity’s and stakeholders’ change of attitudes. As the working group says, ever more complex reporting requirements are not a primary source of complexity in financial reporting, but rather a consequence of modern business operations’ complexity and diverse needs of the investors. The concern for the

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3 I. Ionaşcu, „Dinamica doctrinelor contabile contemporane”, Economica PH, 2003


5 KPMG, “IFRS – are you ready? The race is on,” 2010
difficulties that investors and analysts have to cope with in understanding financial statements stem, partly, in a failure to understand the financial statements prepared in accordance with IFRS. Some critics argue that financial statements should be easy to understand for all investors, inclusively the so-called "mum and dad investors". However, IASB has made clearly known the fact that IFRS financial statements are directed to investors, since they are quite sophisticated financially. In its conceptual framework from 2010, for financial reporting, IASB states that "Financial reports are prepared for the users that have sufficient knowledge concerning business and economic activities and that examine and analyze information with due care" and it is added: "...sometimes, even the well-informed and careful users need to seek the assistance of a counselor in order to understand the information on complex economic phenomena "2. However, accepting that the target public for IFRS financial statements is narrower than some critics might expect, we agree that the usefulness of these financial statements to investors and analysts could be strengthened by providing greater focus on these in the company’s financial report.

Legitimate concerns about the usefulness of the company’s annual report as a whole and the usefulness of the financial report, as well as their components as two different reports indicate that there are two main reasons: the growing trend for financial and material information so-called “inconsistent information (templates)” to be included in financial statements, and the inclusion in the annual report of additional information that are not required by IFRS.

There has been a tendency for the inclusion of immaterial information in the financial statements. IFRS are clear on this point: the companies are obliged to comply with the requirements for recognition, assessment and submission demanded by IFRS if the failure to do so would lead to omissions or misstatements that could influence the economic decisions the users make based on the information in financial statements. Unfortunately, an ever greater number of companies choose to include all the information contained in IFRS, without applying this materiality test. This could be due to a number of reasons, but most likely it is the fear of making a decision, which later proves to be wrong and could subject the Managing Board to litigation and/or to avoid prolonged talks with the company’s auditors. There is also a growing trend within companies to include templates (standardized information) in their financial statements. This information required to be disclosed under IFRS needs the exercise of judgment, for example, disclosure of information concerning the sources of estimated uncertainties, which the companies, in cooperation with their auditors "standardize", in order to reduce the risk of litigation. Through the "purification" of this information, companies make financial statements less useful to investors.

The concerns about information excess in annual and financial reports come from a great number of sources. The inclusion of immaterial information in financial statements,
previously mentioned is one. Another aspect is to include information that is not required under IFRS reporting in another section of the annual report. Another representative source regarding the "excess of information" in the financial report is given by the submission of potentially irrelevant information required by IFRS. When IASB establishes new standards or modifies the existent standards will be usually added to the amount of necessary information. IASB rarely submits these requirements of financial information disclosure to a critical assessment concerning their relevance to investors and analysts. One of the reasons for failing to do so is the lack of a "conceptual framework" to assess disclosures. In this context, IASB has signalled the intention to develop a "framework for information disclosure", as part of the conceptual framework project.

Finally, the difficulties encountered by investors and analysts in understanding the information in financial statements may be caused by the accounting standards that are poorly designed. The poorly designed standards, when applied, cannot produce information on complex transactions that is transparent and easy to understand and can have as effect the perception of complex financial statements. The poorly designed standards are often the result of including the requirements based on rules and of other requirements derived from the compromises made with the electors of standardization bodies. When the detailed rules are included in accounting standards, this is due to the concerns about less prescriptive requirements (known by the name of "principles"), which the formulators abuse of in the financial statements preparation. Ironically, the ones that desire to engage themselves in an opportunistic behavior find rule-based standards easier to "fool" than the principle-based standards, such as those in the United States of America. The requirements that reflect compromises are sprung from the desire to achieve a result that could not be the ideal approach of the standardization bodies, but which will lead to an improvement in the financial reporting. IFRS are not free from rule-based requirements as they are neither free from requirements led by compromises. Many of these standards have been improved as early as the beginning of IASB in 2001. However, certain deficiencies that are the cause of complexity in financial reporting are maintained. Since its inception, IASB has endeavored to develop IFRS by using an approach based on principles and has seekd to reduce to minimum the adverse impact of outcomes based on comprise. However, the convergence program with FASB threatens to undermine its attempts to do so, due to the tendency of FASB to rather support rules, and due to the inevitable compromises resulting from the combination of the two types of independent standards to reach to convergent solutions. To the interest of creating more transparent and easy to understand financial statements, IASB should try and resist this thear in designing its standards, specifically IASB should discontinue the convergence project with FASB as soon as possible.


In compliance with the conceptual framework of IFRS, the purpose of the financial accounts is to provide information about the financial position, performance and the changes in the financial position, useful in the decision-making process. The information

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1 IFRS Foundation, “Standardele Internaționale de Raportare Financiară emise la 1 ianuarie 2013,” Translation made by CECCAR members
pertinent to the **financial risks** is not a target per se of the financial accounts, as IASB stipulates. But they are factors with a direct involvement upon the financial position and performance. A correct management evaluation helps with the strengthening of the financial position and to increasing performance, which are essential matters for the users of the financial accounts.

The importance of managing the financial risks is emphasized by the international standards via issuing standards to assist the users of the information, thanks to the fact that the evaluation and management techniques have evolved in the recent years. From their perspective, the companies implementing them are supposed to report quantity- and quality-related information about certain financial risks which they are exposed to. The standard that regulates these requests is IFRS7 Financial instruments – disclosures, which became effective as of January 1st, 2007. Certain requirements included in it are partly replacements for the IAS32, while others (such as the quantity and quality information concerning the financial risks) are new and have turned into a challenge for many companies. To the best compliance with the requirements in this standard, the companies are supposed to:¹

- be aware of the fact that the standard calls for information on how the results would have been influenced provided that the market conditions (for example, the interest level, the exchange rate, the merchandise, the capitals) had changed from the reasonable possible values to the values on the reporting day;
- evaluate the need for developing new systems and processes of collecting information requested by the demanding requirements of IFRS7;
- verify whether the systems used for generating the necessary information have an appropriate level of internal control so as to be used in the financial reporting, including the audit;
- be aware of the fact that IFRS enforces the presentation of information used by the company management for risk measurement and management;
- devise a communication plan that clearly links the strategy of holding the financial instruments, the manner in which the risks associated to them are managed, as well as how they are incorporated in the general strategy of building value.

The users of the financial accounts are interested in the information on the risks derived from the financial instruments to which the entities and used techniques are exposed while identifying, evaluating, monitoring and controlling such risks. The IFRS requirements on the risks reporting are as follows:

**IFRS 7 – “Financial instruments: disclosures”** applies to all the risks inferred from all the financial instruments, with a few exceptions. It became effective for the annual periods starting with January 1st, 2007 or after that date. It is recommended to apply prior to that date.

One of the objectives of this standard is to “request the entities to provide in their financial accounts presentation of information that will allow the users to evaluate: […] the nature and the extent of the **risks** deriving from those financial instruments to which the entity is exposed during the respective period and on the reporting day, as well as the

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manner in which the entity manages such risks.”¹ The risks that this standard refers to include, but are not limited to the risk of credit, risk of liquidity and the market risk (fig. 1).

For each risk generated by the financial instruments, the standard compels the companies to present certain quality information (risk exposure, objectives, strategies, the risk management processes and the methods in use) and also quantity information (data regarding the exposure at the end of the reporting period, specific information for each type of risk).

The standard gives the possibility to the company to perform an analysis of the market risk sensitivity by using VaR (value at risk) or other own methods that will reflect the interdependencies among the risk variables. This sensitivity analysis is one of the most imperative requirements set by IFRS7. This includes an analysis of the financial risks inherent to the financial instruments, including a presentation for each type of risk and its effects upon the profit or loss. The methods and the hypotheses used in the analysis above need to be explained, and all the changes versus the anterior period and all the reasons have to be also submitted. VaR can be a sure replacement of this sensitivity analysis, as already mentioned.

**IAS39 – “Financial instruments: recognition and measurement”** outlines the coverage against the risks, while introducing the instruments, the elements and also the coverage accounting. The risk coverage involves the assignment of a financial instrument, derivative or non-derivative, as a redress for the variation of the fair value or of the hedging cash flows.

The requirements of the international standards to report certain risk-related information are the result of the changes occurring in the quality of the accounting information, mainly the increase in the accuracy of measurements.

The information that needs reporting, in terms of such requirements, is different from the data in the financial accounts and relies on the management rationale, thus becoming subjective. This type of reporting provides a useful picture of the manner in which the entity deals and manages the risk and results into information of a predictive value.

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¹ IFRS Foundation, “Standardele Internaționale de Raportare Finanțiară emise la 1 ianuarie 2013,” Translation made by CECCAR members, p. A263
IFRS can be noticed to regard the credit risk analysis and the market risk’s as essential as the liquidity risk analysis. The purpose of the requests is to inform the users of the financial accounts and help them in the decision-making process. Providing pertinent information is a major challenge for companies, since the annual reports are the main channel of communicating useful information that is the guide for the decisions about investments, credits and other issues.

3. The Risks of Conversion to IFRS

Coming from an opposite perspective, the conversion to IFRS has its own risks by its very nature. In fact, they generate operational risks, by the possibility of having errors, difficulties in implementing or interpretation – the erroneous application of the standards can lead to a global financial risk, with a significant impact on the information quality, comparability in results and the measurements of the analysts.

The operational risks that can occur when an entity applies the international standards can be reduced to minimum by a well performed risk management and better yet by the involvement of this risk into the plan of conversion from the national to the international standards. A study conducted by Deloitte has revealed that the most common weaknesses in the management of this type of project are:

- the underestimation of the resources to be required;
- absence of understanding of the impact upon the information technology and finance;
- a company structure lacking efficiency;
- the expectations and roles that are not clearly formulated.¹

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Likewise, the acknowledgment of the existence of weaknesses is a first step in consolidating the plan of conversion to IFRS. The establishment of the areas which the international standards have an impact upon – the reporting, the processes and systems, taxes, legal, internal control, the relations with the investors, the training, the project management – it also helps to discern the extent of the conversion and attracts the attention towards the areas that are called in question.

The anticipation of the potential risks and the development of response plans to these, plans that will prioritize the risk in terms of impact and vulnerability lead to an efficient risk management, especially if we consider that their effects go beyond the accounting sector.

In the risk management, an important role is played by the audit department of the companies, which is responsible for providing an objective assurance and a proactive monitoring of the potential risks that the company can run into. Some of the key areas where the audit department should involve are: the internal control exerted upon the financial reporting, the post-compliance events.

The implementation of International Financial Reporting Standards in Romania has emerged as an objective necessity given that a part of the national domestic enterprises have exceeded the national frame. Access to external financing made it necessary to provide financial statements in a manner accessible to users regardless of their specificity. Identifying the best solution for the presentation of financial information implied identifying existing alternatives and choosing the best solution. The options were American standards U.S. - GAAP, already used by some of the businesses that operate on the American markets, European directives until Romania joined the EU, then becoming mandatory, and the standards issued by the IASB.

At present, Romania follows Order no. 1802/2014 that abrogated Order no. 3055/2009. The new accounting regulation according to the 4th and 6th Directive of CEE states that the same rules should be applied to all the economic agents with difference of the number of elements of the financial annual statements according to their size, exactly like in the Order no. 3055/2009.

Businesses must provide the legislation that stood at the basis of their accounting policies, or the accounting regulations complied in the 4th Directive of European Economic Committees, approved by Order no. 3055/2009 and now by Order no. 1802/2014, or IAS/IFRS if the enterprise compiles IFRS statements.

Within the enterprise, the way performance is measured is different according to the level of responsibility. For instance, the performance of a chief of a production entity (workshop, section) can be measured by the efficient use of resources in production (if the expenses are low), if this was the main objective of management. For the Sales Manager performance will be measured by increasing the turnover in a specific period, in turn for the Head Manager performance will be measured in terms of gain and liquidities, as global objectives.

For better shaping financial performance we have to use a system of indicators that describe the strategic orientation of the enterprise, the characterization of internal and external relations, the efficacy of the activity, the capacity to adapt to market demands.

Different situations of the enterprise targets: the field of activity, the growing phase, the capacity of debt, the sensitivity to refinancing or capitalization, management methods, the
specifics of the value chain, the growth rate. The use of financial and economic indicators represents the way the financial and economic performance is reflected. Financial specialists have to ensure the financial balance of the organisation, a balance between working capital and the need for working capital. Achieving this balance reflects the efficient conduct of the business and its maintenance over several successive financial years reflects the organization’s success in economic and strengthen its market position. When earnings and payments are not synchronized, the treasury registers a positive or negative value. Positive treasury translates into financial unbalance and means monetary deficit covered by loans at high costs. In order to avoid this situation, treasury management plays a major role.

**Risk vs. Uncertainty**

There is a big difference between risk and uncertainty. The level of risk is directly related to the probably of a certain outcome. Higher-risk paths are associated with a lower probability of actually occurring. Organizations undertake risky directions when the outcomes are so desirable that the probability of failure makes it worthwhile. If an outcome is so uncertain that no probability can be assigned to it, then the situation falls of the risk scale. In today’s climate, many companies face uncertainty. In most instances, however, certain actions can be assigned a probability of occurring that translates that uncertainty into risk. And risk can be evaluated in the context of an organization’s risk posture.

However, there are occasions when the probabilities, and therefore the risks, are unknown, and an organization faces true uncertainty. In this case, tools like scenario planning and sensitivity analyses can help frame decision-making. When reviewing a possible investment, most organizations develop financial projections that show the anticipated financial performance of the project and the impact of the proposed project on the whole organization. The answer to the question “Can we afford this?” is often different from the answer to “Is this a good use of our scarce resources?”

4. **Conclusions.**

Any enterprise activity is inextricably linked to the concept of 'risk'. Depending on the specifics of their business, market and political conditions, as well as the business enterprise strategy development is facing with various types of risk. The reasons for the various risks can be economic crises, natural disasters, computer viruses and other phenomena and events that may lead to failure to achieve business goals. However, risks can be managed similarly as processes of production. For the successful existence of the enterprise, the developer must be committed to implement technical innovations to take bold, non-trivial action, which naturally increases the risk. Therefore it is necessary to correctly assess the risk degree and its management, which as result will lead to more efficient market outcomes. Making business without risk is impossible - or no profit which the shareholders require will be possible considering that the enterprise satisfaction of their level of profit on their capital.

The current trend is of **accounting normalization**, but there will be more accounting models, with their own specificity until the international standards of financial reporting are globally adopted. While correlating with features of every accounting model with the evaluation methods of the financial risk, the conclusion to be drawn is that the financing
model and the people interested in the financial accounts of the companies have a special impact upon the models above. The normalized accounting model is no exception from this rule, but it greatly focuses on the risk management and presentation of their impact, which proves to us that there is a sense of awareness in the importance of their pursuit. This is how an explanation is found for the individual companies that mostly use the continental and the Anglo-Saxon accounting models, where each of them focuses on a certain financial risk, namely the credit risk and the market risk, due to the influence of the financing pattern.

In Romania, the individual companies whose securities are transacted on a regulated market need to compile financial accounts that comply with IFRS. As a conclusion, distinct accounting models and a different prioritization of the financial risks are being identified for such companies.

Regardless of the different authors’ vision on agency theory, financial information is a key-element of the relationship between entity and its investors, whether they are shareholders of creditors. The positive agency theory can highlight potential conflicts emerging from these relationships, and the research done on this topic suggests mechanisms for solving these conflicts. Among the conflict sources, asymmetric information is visibly the most important and the different regulations adopted, after getting aware of the problem, contributes to the effects limitation. The conceptual basis of IAS/IFRS standards first retains the approach to "investors" of the agent relationship, while entity has implicit or explicit contractual relations, with a series of partners. Implementing international and domestic accounting standards is very difficult. This calls for a discussion referring to the opportunity of adopting standards from other cultures-mentalities deeply rooted into principles- hence the difficulty to implement.

Implementing IFRS means more than a simple change of accounting regulations. It represents a new assessment of performance that must be implemented into the entire entity. This new system might enforce decisive changes regarding accounting and strategic management, as well as for the potential impact on primary performance indicators. To insure a correct assimilation of the international accounting referential the domestic legal framework has to be stabilized according to accounting standards. Closely related, the governance of the international accounting issues must be addressed as well as national accounting governance issues.

Among them an important role belongs to financial reporting regulations of Romanian enterprises. According to the national framework (OMFP no.3055/2009) enterprises have two sets of financial reports: one according to European directives and one according to IFRS. This double requirement for financial reports by the same enterprise implies difficulties in managing the accounting information as well as additional costs. Hence, a solution to regulate the situation is required, because even for IASB making multiple sets of financial reports by the same entity, for different users although eased by technology, is not a viable solution.

While, Europeans hardly accepted IAS/IFRS, and only for entities listed on their consolidated accounts, Romania accepted the standards as such, at least at the standard level. In comparison with other countries where everyone was a critique (France for example), in Romania very few people had something against them. With Romania's transition to a market economy financial reporting followed a continuous process. However, most of the time, financial reporting focused on providing information
to state authorities, not concentrated on providing information to investors, management, financial institutions and other users of financial statements in an international context. The State had a normalising role of the accounting system because he was a privileged user of financial statements. At the same time, the accounting law no. 82/1991 was highly influenced by the French accounting system, similar to the 4th and 6th Directives.

In the context of economic instability, with a negative impact on organisations dealing with financial blockages or bankruptcy, can performance be measured only based upon the accounting result? We do not think so. It is well known that any organization in order to survive has to balance its earnings with the payments. Thus starts “the beginning of the end”, meaning the end of payments. On the other hand, the accounting policies applied, distort the result. Do profitable organisations have liquidities? Not in most cases. Behind profitability, they hide serious problems of treasury. The actors of financial information are interested in a flowing activity, especially in the organisation capacity to insure a proper speed for liquidities.

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