Abstract

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.

Keywords: accounting, fiscal and accounting policies, accounting harmonization, accounting standardization, normalization, accounting standards financial reports.

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Today’s accounting has to be kept according to a recognized set of international rules adopted at national level. The need for international recognition derives from social and economic globalization in which we live today, and national adoption is

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necessary due to differences in social, cultural and economic relations between countries of the world. Naming the set of internationally accepted standards is the Standards and their main content is based on a number of general principles.

In Romania the problem of adopting international standards began in 1990's even though the international and European concerns were older. The transition to market economy and democratization of social life Romanian accounting opened for acceptance of Accounting International Standards that later became the International Accounting Standards of Financial Reporting.

In the last 20 years have been some attempts more or less successful to “harmonize” the Romanian accounting with these standards. According to these standards public information must have four qualitative characteristics: understandable, relevant, reliable, and comparable and also to satisfy the information needed by external users.

In this context, the aspect we are addressing is comparison and we highlight that information gains value if it can be compared in time and space, quality insured by adopting IAS/IFRS standards.

The Standby agreement 2009-2011 made with the International Monetary Fund, European Union and World Bank states that “State enterprises are a significant fiscal burden that prevents the private sector from growing. The post –communist privatization process in Romania slowed down for the last couple of years, leaving state companies ineffective in the key economic sectors like: transports and energy”1.

The commitment made by Romanian Government in the Letter of Intent to the International Monetary Fund, from March 10, 2011, states that there will be reforming regarding state enterprises, especially those in key sectors in order to generate growth, like the energy and transports system.

Currently at global level we can talk about an intense process of accounting normalization, so that European directives issued by the CEE are heavily outweighed by the internationalization of capital markets. In this respect, we foresee the need to meet external user information, ensuring greater comparability of financial information and the creation of a single European market through the adoption of international accounting standards issued by international regulators without coercive power, that allow freedom of transposition to the legislation of the members of European Union.

Over time it has been shown that adopting the accounting standards IAS / FRS is a difficult process that is gradually implemented especially in written law countries such as Romania where professional ethics is often ignored, considering only mandatory written laws. On the other hand though the Norms represent an evolution in the accounting normalization process is not the absolute truth, as proved by certain standards (IAS 39 Financial Instruments: Recognition and Measurement) that stirred negative reactions thus modifying the rule or creating new rules (IFRS 9 Financial Instruments).

1 Stand-by agreement 2009-2011 with the International Monetary Fund, European Union and World Bank, the 7th evaluation, Report of team paragraph D, Structural Reform, point 23
And the list of disadvantages adopting the accounting standards of IAS / IFRS in the EU can continue with high costs, because there important differences between the accounting rules and standards of a nation (recognition and measurement of items in the financial statements).

As for adopting IAS / IFRS in Romania, starting the First of January, 2007, the standards apply to companies whose securities are admitted to trading on aregulated market and who prepare consolidated financial statements, as well as credit institutions starting with the financial year 2012 by Order No. 9 of the National Bank of Romania („BNR”).

So we can talk about a slow national implementation process of IAS / IFRS that not even now has been finalized. We recognize, however, an approximation of the accounting regulations approved by Order no. 3055/2009 of MFP to adopt much of the international accounting treatment prescribed by the Standards. However at present between national rules and IAS / IFRS standards there are differences in recognizing and evaluating elements of financial statements, differences that affect an entity's financial position and performance.

M. Ristea said that the need of convergence and uniformity in accounting implies its normalization. The globalization of the economy showed that closed economies of different countries characterized by separate national markets have been replaced by a global market. In a closed economy businesses ensured their financial resources required for development from existing banks on the national market.

Niculescu, Lavalette (1999) considers that the new features of the international economic environment have made that information become a strategic weapon and those who know how to obtain, interpret and exploit rapidly acquire high development capacity consolidating its competitive advantages.

In these circumstances, investors should have access to qualitative, understandable and comparable accounting information which presents the business and its results. To this regard, the alignment to international accounting rules sets a proper framework for improving the quality of accounting information by insuring greater transparency on financial markets.

In view of achieving an international normalization it was necessary to achieve an approximation of national accounting referential. The pace of harmonization was a lower pace compared to economic globalization. Although international accounting reference have evolved, evolution was not enough to keep up with changes in the economy, and the increasing complexity of financial transactions and financial instruments. Companies whose capital was dispersed in several countries or were owned by investors of different nationalities had to submit financial statements in accordance with regulations of several national accounting referential.

This was expensive for businesses and cause confusion among those who sought information on the company's accounting data. A first step to overcome these

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disadvantages has been done by resorting to an intermediary referential. As a result of the power held by the American economy in the world economy, it was chosen as a way of presenting the accounts the American referential U.S. GAAP.

The trust bestowed upon the American standards was justified through their age and prestige, through the fact that big enterprises had adopted the American rules and through the importance granted by SEC\(^4\) to GAAP (SEC thought that only the GAAP could guarantee the interests of American investors). The American rules had a disadvantage though; they were very detailed which made it difficult for them to be applied especially for European users.

Financial scandals of the 2000s, 2001 which took place in the U.S. economy (the most significant example being that of Enron) have shown the shortcomings of the American Accounting system and an inadequacy of U.S. accounting rules on financial innovation development and management of companies.

International accounting standardization is the result of the globalization of national economies, especially financial markets. The conditions being set the development and use of new accounting standards was more than a necessity. This has been reinforced by factors such as increased reliability of accounting data, insurance of better conditions for comparability of accounting statements of companies that search for public loans and to facilitate business access to financial markets.

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 4\(^{th}\) and 6\(^{th}\) Directives.

In this way the accounting system corresponded to cultural, linguistic, political and legal Romanian space (Duţescu, 2001, p. 29). Applying a French accounting system adapted to Romanian conditions (started in 1994) was a first step in the modernization of the Romanian accounting system. This phase ended in 1999 when it began to produce effects Development Program Accounting System in Romania started in 1997. The year 1999 can be considered the year of change in accounting legislation in Romania. In 1999 the Ministry of Finance issued Order no. 403/1999, regarding accounting regulations harmonized with Directive IV of the European Economic Community (EEC) and International Accounting Standards.

This was the starting point for the project of harmonizing Romanian legislation in the field of accounting with IFRS and EU Directives. A first consequence of the application of Order no. 403/1999 has been the implementation of new accounting regulations harmonized with international accounting standards and the Fourth

\(^4\) Securities and Exchange Commission – regulatory organism of the American stock exchange
Directive EEC, experimentally, in a number of thirteen companies and national companies.

The application was carried out as of 2000. After this project there have been fundamental changes in accounting in Romanian legislation:

- **Harmonization of financial reporting for companies considered large, with IFRS requirements and to a lesser extent with 4th Directive of the European Union through the adoption of Order no. 94/2001 "Accounting Regulations harmonized with the 4th Directive of the CEE and the International Accounting Standards" (Order no. 94/2001 which abrogated Order no. 403/1999).** There was such a change of attitude by the Romanian accounting doctrine reorientation towards international accounting referential philosophy which implied a major opening to Anglo-Saxon accounting concepts and practices. At the same time, the very name of the order suggested confusion over Romanian accounting law, which had to absorb both the 4th Directive of the European Union, but also to further pursue the harmonization with International Accounting Standards. In reality there was a compromise by trying to integrate the same piece of legislation, both the European and International accounting legislation. The major difficulty was the harmonizing of those 2 accounting sources that were most of the time different:
  - The influence of European regulations manifested keeping in broad linings the same structure of the 4th Directive;
  - IASB influence manifested, first by the fact that Romanian companies were required to prepare annual accounts in accordance with both the Accounting Law no. 82/1991, republished, and with the Preparation and Presentation of Financial Statements of the IASB and International Accounting Standards; and second, the international influence over the order was shown by applying new accounting principles, retrieved from IAS1 *Financial statements presentation*:
    - The concept of materiality;
    - Principle of substance over form;
    - Principle of separate evaluation of active and passive.

At first glance assimilating international accounting standards didn’t seem so hard. A deeper analysis of IAS 1 *Financial statements presentation* pointed out that an entity may claim that it prepares financial statements according to international accounting standards only if it “satisfies all the requirements of each standard and every interpretation applicable of the Permanent Interpretation Committee”. Analyzing policies and options relating to the preparation and presentation of financial statements, companies had to take into account the letter and spirit of the regulations set out by the Minister of Public Finance no. 94/2001 and therefore the ones presented in the international accounting standard IAS 1 *Financial statement presentation*. According to Article 14 of IFRS, one of the goals of financial reporting is to present the management results, including the way that management used its resources.
Implications regarding implementation of IAS/IFRS in the Romanian accounting system

In order for this goal to be achieved, financial statements must provide information for economic decisions to be made (for example: to keep or to sell an investment, to maintain or replace the management). Thus we can talk about a turning point in the entity’s approach as an agent, a theory resulting from IFRS.

Harmonization with International Accounting Standards required adopting new accounts:

- Regarding the concept of deferred tax (IAS 12 Income tax):
  - 4412 Deferred tax
  - 6912 Expenses with deferred tax
  - 791 Income from deferred tax

- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors:
  - 1173 Retained earnings from changes in accounting policies
  - 1174 Earnings from the correction of fundamental errors

- IAS 37 Provisions, contingent liabilities and contingent assets:
  - 1513 Decommissioning of tangible and other similar actions related
  - 1514 Provisions for restructuring

- IAS 16 Tangible assets:
  - 1175 Retained earnings representing surplus from revaluation reserves

- IAS 21 Effects of exchange rate variation:
  - 107 Reserves from conversion

Both Order no. 94/2001 and order no. 306/2002 have set rules about the form and content of financial statements: Order no. 94/2001 seeking full assimilation of the 4th Directive of the EEC and further harmonization with International Accounting Standards, while OMFP. 306/2002 aimed at harmonizing with EU directives.

Comparing financial statements according to the orders mentioned above it appears that both the Balance sheet and the Gain and Loss account are common financial standards to both legislative stipulations (Table 1.1.)

**Table 1.1. – Financial statements according to OMFP no. 94/2001 vs. OMFP no. 306/2002**

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<tr>
<th>Entities that applied OMFP no. 94/2001</th>
<th>Entities that applied OMFP no. 306/2002 and then OMFP 3055/2009</th>
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<td>2. Gain and Loss account</td>
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<td>3. Changes in equity</td>
<td>3. Accounting policies and explanatory notes</td>
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<td>4. Treasury flow</td>
<td>4. Treasury flow (optional)</td>
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<td>5. Accounting policies and explanatory</td>
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<td>notes</td>
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From the analysis it is clear that, by its actions, the Ministry of Finance (accounting regulator in Romania) has favored European accounting directives restricting the scope of IFRS. Figure 1 presents the analysis of the implementation of IFRS in Romania.
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. 3055/2009 that abrogated Order no. 1752/2005. 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. 1 752/2005.

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, 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.
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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. The indicators that measure performance provide information that helps an individual or a collective to achieve an objective or to evaluate a result. Enterprises work with different indicators, some are needed, others are forced and others because their trendy. For an indicator to be relevant and useful at any decisional level, building it has to be made by following certain rules. This is an assumption based on using qualitative indicators and materialized in: utility, accessibility, relevance, reliability, simplicity, credibility, reactivity, coherence.

In order to measure performance we have to take into consideration the characteristics of indicators, specifying its name, centre of decision, computing method, computing frequency, why we chose that indicator, input of information, the information computed, the normal evolution of the indicator, possible interactions, the decisions that can be made upon it, the way it is presented (rate, absolute sizes). Achieving these methodological demands represents the premises for performance relevance and utility in the decision making process.

In spite of this, the development of performance measurement indicators raises two practical problems, targeting:

1. Choosing indicators and the way to compute;
2. The real significance of the indicators for the enterprise and its partners.

Performance evaluation criteria are in constant evolution, every decade having its own specific criteria, which by default reveals the changes in economic reasoning.

In this 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. Can this kind of demand correspond to a commitment based accounting and based mostly on profit? Under the wand of commitment accounting, „the marriage” of income=earnings, expenses=payments, will never become “official”

Lag time between recognition of income in accounting and cashing, and recognition of expenses in accounting and payment can decide the financial outcome of the organization. In this context, practitioners and theoreticians focused their attention on the treasury result, considered vital information for the organization, because it finances its activity and it assures its durability.

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.
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