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ACCOUNTING WITH TWO SPEEDS: IAS / IFRS VERSUS EUROPEAN DIRECTIVES

Theoretical article

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Abstract

Accounting is one of the most important links in the economic system and must be supervised closely. The increasing globalization of capital markets demonstrates the need for uniformity of accounting, which is achieved by normalization and harmonization of Romanian accounting regulations.

Romanian accounting is changing day by day since the early 1990s. This is the time when Romania is facing the national and international convergence or harmonization and conformity of national accounting regulations with the IAS/IFRSs. But, is not just our case…This process is followed by more and more countries, at international level, and all this for having some high quality accounting standards.

The pace of change that Romania has suffered lately in this field is much faster than that of the development of economic performance. Joining the EU has long aimed the alignment with the regulations applied by countries that already had this step, the European Directives.

Introduction

"In a world characterized by accelerating change, next year is closer to us than it was next month at a time May cozy. This radically changed life can be assimilated by decision makers. Their temporal horizon should be extended. " (Toffler, 2000)

Why I started with this piece?

Despite the fact that Alvin Toffler wrote this book in 1970, the concepts covered are now more current than ever. This is why I opted for a theme as "Accounting with two speeds: IAS / IFRS versus European Directives" ... to make a review of the changes that have occurred in the regulations and accounting practices in our country, Romania, from the beginning accounting reform ... but also because the European Union is a topical issue that must be known and understood, because it directly concerns us, Europeans.

How accounting is one of the most important links in the economic system it has to be followed closely. The increasing globalization of capital markets demonstrates the need for uniformity of accounting, which is achieved through normalization and harmonization of Romanian accounting regulations.

Accounting with two speeds

“Choosing and designing an accounting system must take into account that any accounting system is perfect for a country's economic reality. [...] Designing a national system is a complex political-strategic process in which is taking into account the geography of international accounting and particular interests of each country." It requires constant adjustment with everything that is new in the field. (Apostol, 2010)

For Romania to achieve desired regulations to unite the three "branches" national - European - international, aiming to provide solutions for all needs, both domestically and internationally. Romanian accounting reform involved the continuous alignment of national accounting regulations with European Directives and International Accounting Standards.

This process has been gradually, as we have said so: normalization, harmonization, convergence, compliance and accounting internationalization.

"Normalization is the deliberate application of accounting rules to solve problems correctly on the production and use of accounting information." (Horomnea et co, 2006)

Harmonization is "the process by which rules or norms, different from one country to another, sometimes divergent, are refined to be made comparable." (Feleaga, 1990)

Convergence, however, involves a process that would achieve the same result in financial reporting, whether rules and procedures used in data collection and processing generating this information is different. Also in this stage appears the notion standardization the agreement of the participants in this field on the use of identical or similar accounting methods. (Roberts, Weetman, Gordon, 1998)

Compliance requires consistency in action and content rules presentation and preparation of financial statements, can be understood as the harmonization of national regulations with regional and international standards.

The internationalization of accounting is a starting point all the international harmonization of accounting rules and practices.

Regarding European Directives must be remembered that there are certain obstacles that must be overcome in the process of European harmonization: national traditions, language barriers, and various game options and information management techniques.

In the context of globalization, typical business environment must be able to perform an analysis of the financial information of different corporations. However, this is very difficult because of the lack of a common language in accounting, internationally. The same events or transactions take different interpretations in accounting systems in different countries, in different languages creating a sort of Tower of Babel, which underlines once again the poor compatibility of the rules applied to them. (Feleaga, 2006) "For more than 30 years of global accounting cacophony seems to diminish, with the creation of the international accounting standards (IASC)."

There is a necessity in this sense because financial markets listed companies must prepare two sets of financial statements, those made in accordance with European Directives, not being accepted in these markets.

The European Commission itself recognizes, in 1995, the need for globalization of accounting standards by aligning European norms promoted by IASC, European Federation of Accountants suggesting even detrimental IAS enforcement directives in the event of inconsistencies between the two. IASC objective was to achieve uniformity of accounting principles used to prepare the financial statements of companies and other organizations worldwide.

Besides IAS, IASC, became in 2001 the IASB issued new international body normalizing products namely IFRS (International Financial Reporting Standards). The adoption of IFRS is more than a change in accounting rules as a new performance evaluation system, a new system of procedures adopted by the entire organization.

With all that apply IAS / IFRS Accounting Directives will remain the basic legislation for unlisted companies not applying international standards for the listed will have an important role in the mechanism of adopting international standards as set out in European regulations and in

areas that IFRS do not cover them, will continue to cover the most important aspects.
However, these directives requires upgrading because certain accounting concepts and practices have evolved considerably since their adoption, they remain the same. Besides this, the directives should ensure balanced processing enterprises which do not apply to those applying IFRS. The main changes that would require European directives are related to "adapt the format of presentation of the balance sheet and profit and loss on IFRS; possibility of revaluation of all assets, including intangible assets; ability to measure assets at fair value; an adaptation of IFRS provisioning rules for risks and expenses; obligation consolidation of subsidiaries that have very different activities; opportunity to submit additional financial statements; suppression condition to hold a stake in the capital of a company, in order to strengthen the quality of its subsidiary. "
IAS / IFRS are intended as a general guide, easy to use and interpret, and are based on principles instead leaving professional judgment. There are countries where IAS are applied in the manner in which they were issued by the IASC / IASB, countries develop national standards in line with those issued by the IASC / IASB and countries where regulations are published both national and international standards.
Regarding the opinion of professional accountants in our country, they found that application of the regulations compliant with European Directives would be a step back. However, in the current socio-economic context, this step is a natural one in view of EU accession, being necessary to achieve the final step, namely to adopt IFRS. IAS / IFRS are not considering reflection tax law, sought work early in the Romanian accounting reform, removing the perception that the annual financial statements are useful to a greater extent government institutions rather than businesses.
If you were to make a comparison between the two types of rules we consider aspects such as: the conceptual accounting principles, users, definition and objective of financial statements, definition and valuation statements, annual report structure.
If setting concepts underlying the preparation and presentation of financial statements in accordance with IASB conceptual framework is based on, an accounting of European accounting rules do not have it, having as starting points doctrine accounting, legal regulations and jurisprudence.
In terms of generally accepted accounting principles differences are: IASB also provides the concept of materiality, over form, linking expenditure to income, while the European Directives has the nominalism principle, materiality and intangibility of the opening balance sheet.
The principles are the foundation of accrual financial statements and business continuity. If the first is present in both and has the same content, the second, according to the IASB believes that to produce these documents must start from the assumption that the company is continuing its work and will not need to reduce their activity and nor desired. "European Standard considers this principle as a basic assumption in the preparation and presentation of financial statements."
If IASB explicitly states the users of financial statements, European Directives are "happy" with emphasizing that the focus is on meeting the needs of investors and others.
Elements of financial statements in accordance with IASB are applied in our five: balance sheet, income statement, cash flow statement, statement of changes in equity, accounting policies and explanatory notes and providing objective information about the financial position, performance and changes in financial position, having great utility for external users in making decisions. European rules, however, contain only three mandatory elements of financial statements (balance sheet, profit and loss account and the annexes) and two optional cash panel gives financing change, statement of the equity, in order to restore the true image and heritage financial situation of the company.
If European Directives does not list the components of financial statements starting with the basic concept and elements related to heritage, the IASB considers the following: assets, liabilities, equity, expenses and income.
IASB considers that the material components of the financial statements can be evaluated at historical cost, current cost, realizable value and present value, while European standards see the evaluation being done only on the basis of historical cost, based on the values of the cost of acquisition or production, as appropriate.
A final difference between the two rules is on the annual report, which "view" international norms include financial statements, management report and auditor's report, and European legislation considers financial statements, management report and the minutes on the decision AGM approving the balance and distribution of earnings.
All these changes faced by Romanian accounting regulations are "consistent" with the reaction to the "professionalism accounting in Romania was already familiar with humor, transposing them all in typical joke: the only certainty today is change, change and change again."
But reform of the Romanian accounting system is a complex process, imposed by globalization and European integration, with the need to provide time and space comparability of financial information and the transition to a common global accounting language.

Conclusions

"Any political change itself brings changes in other areas: some for good, others for evil. Nothing and nobody is perfect, but strive for perfection. Romania is one of the most representative examples of this. " (Diaconu, 2006)

The year 1989 was in the hands of Romanian accounting unleashing state leaders. It was "proclaimed", so to speak, freedom accounting in the context of the general. Therefore we tried a "breaking" of everything reminiscent of times past. It needed a "revolution" in this area.

And it was reform ... reform that continues today ... because we live in the age of speed that involves changes over changes that should be considered especially when talking about rules and regulations.

It began by making the Accounting Law. But up to this point were many contradictions that have done good and bad of this reform. It was necessary to implement an accounting system. Lacking time to make one of your own, we tried taking more or less an existing one. Certain considerations led to this system "influences" French.

But we must not forget the long-term goal of Romania at that time, EU accession, which involved the alignment step with the regulations applied by countries that already had this step, the European Directives.

And because this alignment could not be a fire, it took several stages: normalization, harmonization, convergence, compliance and accounting internationalization.

Multinational firms, however, have turned, in time to foreign financial markets, local sources available to them, being insufficient in relation to their needs. It is customary for them to list their shares on foreign exchanges and international capital market influence is often more important than national.

And this means double work for listed companies. Participation in the capital markets is not permitted on financial statements made on Romanian regulations; it takes a second set of circumstances, to be drawn on the basis of international norms. Double work is needed for these companies, but it is hoped that in time there will be no need.

Romania went through these stages gradually, reaching today the fourth: compliance, but not only with European standards but also international standards IAS / IFRS, mostly. At the international level there are three dominant accounting systems: continental, Anglo-Saxon and not least the US. If over the years sought to merge what I assume the first two systems, the US, however, turns out to be perhaps the most difficult and important to adopt.

Since the application of different rules can lead to different results and even to different interpretations, it takes a "tongue" Common accounting to pass any border, in order to make comparisons between different organizations in different countries.

So this would be the answer to the question What will be the next move of Romanian accounting setters?

A single set of accounting rules applied by all countries of the world, allowing comparability and credibility of accounting information. We must do therefore, after aligning European Directives to IFRS, a continuity in this respect by IFRS conformity with US GAAP.

And this will be done sooner or later, and requires a new change and Romania, but to assist the companies listed on the Stock Exchange, and more. All entities must be on equal footing in terms of rules and practices to achieve uniform economic system.

So the prospect of joining the EU accession was only one of the normal steps that we had to make to "give a hand" accounts to our country to create a uniform language across the globe.

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