# The Reform of the Romanian Accounting System – between the Need and Reality of the Process

Manea Marinela – Daniela
*"Valahia" University of Târgoviște*
m_manea7@yahoo.com

## Abstract

*The Romanian's account modernization process began long ago, somewhere around 2000 under the conditions of Romania's pre-accession to the European Union. The present article aims to analyze the approach taken by highlighting the main evolutionary stages from the harmonization and convergence of Romanian accounting to its normalization and standardization.*

**Key words:** International Financial Reporting Standards, the globalization process, the accounting normalization, the convergence process, the Romanian accounting regulations.
**J.E.L. classification:** M41

## 1. Introduction

Differences in accounting systems being known both at European and global level, in order to ensure an efficient exchange of financial data, there was a need for an accessible and identical accounting structure for everybody in the accounting world. The phenomenon of globalization, characterized by a movement of international capital and a new configuration of global economic relations, has led to a process of compatibility of national accounting systems. And, although progress has been made lately in terms of the rapprochement between the European and American accounting systems, the process is still at the beginning. At a closer look, we can see that the two IASB and FASB normalizers have so far regulated only the cost of inventories, the accounting treatment of asset exchanges, changes in accounting policies and the determination of earnings per share. But as the process is open, we will follow the continuity of the process.

## 2. Theoretical background: The need of harmonization, convergence and normalization of national accounts

In the context of globalization, in order to efficiently exchange financial data, accounting has recorded new valences and changing orientation and continuous improvement delimited in 3 main directions (Mateș, Ștet & Szabo, 2006, p. 1):

- meeting the multinational companies needs of information;
- validation of accounting information within the national accounting system;
- setting a system of unitary financial indicators at international level to be followed by all states.

The change and improvement of the accounting involved the steps of harmonization convergence and account's normalization.

As a process, *harmonization* consists in improvement of rules, norms, techniques and accounting terminology so they become compatible and comparable to give the same interpretation of events and accounting transactions.

*Accounting convergence* is aiming identifying quasi-general objectives that both companies and accountants around the world can pursue in compiling and presenting information within the set of financial statements, without the convergence process to impose treatments, rules and procedures to implement final product - annual financial statements. The process of accounting convergence serves information users in the following order of priority: current and potential investors, employees, financial creditors, suppliers, customers, government and its institutions, citizens.

*Accounting normalization* is the process where the presentation of synthesis documents, accounting methods and terminology is harmonized (Feleagă, 1999). Normalization as a process is manifested in the wide majority of countries of the world and consists in elaboration of the rules and the application of norms to harmonize working methods, accounting terminology and the way of presenting synthetic documents. The objectives of this approach are concentrated in the following (Feleagă, 1999, p. 179):

- ensuring the regulation of accounting practices with a direct impact on the improvement of accounting;
- the ability of information users to make rational decisions based on accounting information;
- creating a climate of confidence between the capital owners and the business administrators;
- mediating between the different parties involved in economic life and in particular, between producers of accounting information and auditors that certify the quality of information ensuring its social credibility;
- granting a certain protection to the auditor by limiting his responsibilities;
- consolidation of accounting information at the level of the groups of companies;
- ensuring the development of national statistics.

Depending on the scope of application, accounting normalization may be: international, regional/continental, national, or company level. The international standardization regulation has been entrusted to the International Accounting Standards Board (IASB), which has developed and published global financial reporting standards, the observance and application of which allows for the preparation of relevant, timely, credible and transparent annual financial statements. On a regional/continental level within the European Union, normalization has been achieved through the issuance of European Accounting Directives applicable by all Member States. At national level, accounting normalization can be entrusted to state institutions, professional organizations, or both.

In Romania, accounting normalization was entrusted to a public authority, the Ministry of Public Finance. This, based on a conceptual framework of accounting and a general accounts plan, has adopted regulations that, together with the accounting doctrine, have grounded Romanian accounting law. The three processes - normalization, convergence and accounting normalization are found in the Romanian accounting practice in five normative acts, the first two aims at the harmonization of the Romanian accounting with the international one, the following three aims the approach of the convergence of accounting as follows:

- OMFP no. 94/2001 for the approval of Accounting Regulations harmonized with the Fourth Directive of the European Economic Communities and the International Accounting Standards, Official Gazette no. 85/2001;
- OMFP no. 306/2002 for the approval of the Simplified Accounting Regulations, harmonized with the European Directives, Official Gazette no. 279 bis/2002;
- OMFP no. 1752/2005 for the approval of Accounting Regulations in compliance with the European Directives, Official Gazette no. 1080 bis/2005;
- OMFP no. 3055/2009 for the approval of Accounting Regulations in compliance with the European Directives, Official Gazette no. 766 bis/2009;
- OMFP no. 1802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, Official Gazette no. 963/2014.

Normalization is generally associated and sometimes confused with standardization, since both use conventions/principles and methods recognized and accepted by accounting theory and practice, the difference being determined by various levels of importance given to certain accounting components. We will approach next the reform recorded by Romanian accounting after 2000.

## 3. Reality of Romanian accounting reform during 2000 – 2014

After 2000, when Romania was preparing to join the European Union, it was necessary to switch to a new accounting system of Anglo - Saxon origin. The old system and the French inspirational reform initiated after 1989 did not longer corresponded to the Romanian realities. The strong interference of taxation in the accounting regulations (King et al., 2001), that belonged to a period between 1991 and 2000, called for a more relaxed relationship in the light of the new Anglo - Saxon reform. In addition, the annual financial statements of Romanian companies had to be harmonized with IAS stipulations.

However, after 2000, the level of compliance to the IAS of the financial statements elaborated respecting the national regulations was low (World Bank, 2003); and this was so because two sets of regulations were emitted: the first, with strong IAS/IFRS influences, applicable to the listed companies on the Bucharest Stock Exchange (OMFP no. 94/2001), the second, harmonized with the European Directives (OMFP no. 306/2002) for simplified financial statements. The low level of application of the regulations with IAS/IFRS influences (only 20 national companies, 72 trading companies listed on the Bucharest Stock Exchange, and 105 trading companies listed on the RASDAQ market were included in the sample of application of the order OMFP no. 94/2001), the strong influence of taxation manifested in the accounting practice of the entities elaborating simplified financial statements, according to OMFP no. 306/2002, poorly trained accounting professionals but also the low pressure exerted by users are just as many institutional factor that created difficulties in the adoption of IFRS, according to some previous studies on this matter (Ionașcu et al., 2011, p. 33; Albu & Albu, 2012, p. 345).

The preparation of the adhesion to the EU initiated another stage in the reform of the Romanian accounting by the emission of new regulations, in agreement with the European Directives (OMFP 1.752/2005). However, a series of IFRS influences have been preserved, even though the normative act was translating European Directives. Later on, the Romanian norm-provider considered that OMFP 1.752/2005 calls for supplementary rule, but also for some clarifications, so it was replaced by OMFP 3.055/2009, the changes brought being according to IFRS. Consequently, Romania is undergoing a process of convergence with IFRS, in the framework of its national accounting regulations. The convergence process is still going on, because OMFP 1.802/2014 follows the same line – conformity to the European Directives, yet with IFRS influences (Albu & Pălărie, 2016, p. 636).

During the period 2006-2014, the most important benefits brought by the process of compliance of the Romanian regulations with IFRS, from the perspective of the account preparers are: the possibility to use the fair value, the increase in accounting quality, but also a greater relevance of the information for its users (Albu & Albu, 2012, p. 346; Gîrbină et al., 2012, p. 193; Sacarin et al., 2013, p. 416), and last but not least, the possibility to access to the lower cost of financing (Sacarin et al., 2013, p. 417).

Regarding the pieces of information generated by the set of financial statements and the users of these pieces of information, the issue is very complex, at least from the next perspectives:

- while in some European jurisdictions, for example in France, the information provided by accounting is considered useful to all the financial statement users, in the Anglo-Saxon area, and according to the vision of IFRS, the investors/creditors of capital are the main information users. In The Romanian area, in the context of a poor development of the Bucharest Stock Exchange, the investors/creditors of capital do not hold the place and do not exert their adequate role;
- from the multitude of users of the Romanian individual financial statements, agreed by IFRS and taken over by the local norms (investors and creditors, managers, trading partners, State, employees, great public, diverse analysts, etc.), the main accounting information beneficiary is the State, directly interested in collecting fees and taxes to support the budget with continually increasing needs/expenses to cover; Under these circumstances, the State, by the Public Finances Ministry – the main regulator, permitted a series of interventions of the fiscal rules in the national regulations, limiting the capacity of the accounting professionals of applying the professional reasoning/accounting estimates in the elaboration and presentation of financial statements. Regulations (how they are issued, MFP's expectations for compliance with rules, and how they are applied) are considered the main culprits for this situation. Preparers are influenced by tax

reporting issues (World Bank, 2008). Moreover, in small and medium-sized entities, the accounting professionals are not perceived as part of the business environment, but rather as residual elements of it, with preoccupations in the sphere of the fiscal problems, such as: tax payment, declarations elaboration, etc.;

- it is acknowledged that users prefer IFRS financial statements when making decisions (World Bank, 2008). For the entities listed at the Bucharest Stock Exchange, whose financial reports are realized according to the provisions of IFRS (OMFP 1.286/2012), the approach is one based on the information taken over from the financial statements, sufficient and pertinent for the investors' decision-making. The situation becomes more complex in the case of the small entities, where the information quality depends on the accounting professionals elaborating it. In the latter case, the capital providers agree that the information provided by the financial statements is insufficient to make decisions, so they will call for supplementary elements such as business plans, budgets, information on the business environment where the entity operates, etc.

## 4. Instead of conclusions …

The Romanian accounting reform has gone through the harmonization stage, currently being in the process of convergence with IFRS. Indeed OMFP no. 1.802 / 2014 takes over the syntagms and concepts of IFRS at the level of theory, but the Romanian accounting practice has many stages to cover until we can declare that it complies with IFRS. We can mention at least the following situations:

- accounting estimations as a process may require revisions when changes occur in the circumstances on which the estimate was based, as a result of new information or better experience. As our professional accountants are looked upon as residual business items, they are not allowed to apply the estimation approach to accounting;
- accounting policies require revisions/modifications when the change results in financial statements that provide reliable and relevant information about the effects of transactions and events on the entity's financial position, financial performance or cash flows. An accounting policy review is therefore the entity's decision in the context of IFRS. Although OMFP no. 1.802 / 2014 in paragraph 62 (1) a) assumes the concept of the free review of accounting policies, at the initiative of the entity, however, in paragraph 62 (1) b add: "*Changes in accounting policies may be determined by a decision of a competent authority and imposed on the entity (regulatory change*)." As the Romanian regulator - the Ministry of Public Finance has added this clarification, few professional accountants will be left to the management to apply the amendment to point a);
- shaping of the fair value is the privilege of the accounting specialists and requires estimations, respectively the application of the professional reasoning in the three evaluation stages/recognition criteria. If the first criterion is based on the price of an *irrevocable sale contract within transaction that occurs on objectives conditions,* on the market, for those assets traded on the market but for which there are no firm sell commitments, things are becoming complicated. For the latter actives, for the purpose of estimating the fair value, the starting point is the *price of the most recent transaction*, under the condition that no significant change in the economic environment between the transaction date and the estimated date has occurred. On the third stage, when we do not have a firm sale contract or information on the price of the most recent transaction, shaping the fair value is done through *the sales* comparison method. This technique determines the value of an immobilized asset by comparison with an identical replacement that has a known selling price, corrections being made based on the differences between their essential characteristics. The method is a complex one, since the price of the immobilized asset analyzed is obtained after applying some plus or minus corrections to the price of the comparable immobilized asset. In view of the above, the question arises: will it allow the accountant's management to model fair value or will appeal to professional assessors such as OMFP no. 1.802/2014 specifies at art. 102:*„Reevaluation of tangible assets is carried out at the fair value of the balance sheet's date. The fair value is determined on the basis of evaluations usually carried out by authorized assessors, according to the law?"*

Under these circumstances can we talk about professional reasoning and its application by Romanian accounting specialists in line with IFRS assurances? Did not we have just taken over some provisions of international scriptural norms that we do not actually apply in accounting practice? This remains to be seen …..

## 5. References


- Albu, N., Albu, C.N., 2012. "IFRS in an emerging economy: lessons from Romania", *Australian Accounting Review,* vol. 22(4): p. 341 – 351;
- Albu, N., Pălărie, I., 2016. "Convergence of Romanian accounting regulations with IFRS. A longitudinal analysis ", *Financial Audit*, no. 6(138): p. 634 – 641;
- Dănescu, T., Spătăcean, O., Mateiu, M., 2013. "Research on the transition to IFRS of investment firms", *Financial Audit,* no. 12: p. 25 – 36;
- Feleagă, N., 1999. *"Comparate accounting sistems",* vol. I, Economics Edition, Bucharest, 1999, p. 15;
- Gîrbină, M., Minu, M., Bunea S., 2012. "Perceptions of prepares from Romanian banks regarding IFRS applications" *Accounting and Management Information Systems*, vol. 11, no. 2: p. 191 – 208;
- King, N., Beattie, A., Cristescu, M., Weetman, P., 2001. "Developing Accounting and Audit in a Transition Economy: the Romanian Experience", *European Accounting Review*, vol. 10, no. 1: p. 149 – 171;
- Ionașcu, I., Ionașcu, M., Munteanu, L., 2011. "Motivations and consequences of IFRS implementation: perceptions on the Romanian institutional factors", *Financial Audit*, no. 12: p. 33 – 41;
- Mateș, D., Șteț, M., Szabo I., 2006. "Standardization of contemporary Accounting systems in globalization condition", *Annales Universitatis Apulensis Series Oeconomica*, vol. 1, no. 8, p. 1-5;
- Sacarin, M., Bunea, S., Gîrbină, M., 2013. "Perceptions of accounting professionals on IFRS application at the individual financial statements: evidence from Romania", *Accounting and Management Information Systems,* vol. 12, no. 3: p. 405 – 423;
- Word Bank, 2008. *Romania – Report on the Observance of Standards and Codes (ROSC): accounting and auditing,* Washington, DC: World Bank;
- Word Bank, 2003. *Romania – Report on the Observance of Standards and Codes (ROSC): accounting and auditing*, Washington, DC: World Bank;
- OMFP no. 94/2001 for the approval of Accounting Regulations harmonized with the Fourth Directive of the European Economic Communities and the International Accounting Standards, Official Gazette no. 85/2001;
- OMFP no. 306/2002 for the approval of the Simplified Accounting Regulations, harmonized with the European Directives, Official Gazette no. 279 bis/2002;
- OMFP no. 1752/2005 for the approval of Accounting Regulations in compliance with the European Directives, Official Gazette no. 1080 bis/2005;
- OMFP no. 3055/2009 for the approval of Accounting Regulations in compliance with the European Directives, Official Gazette no. 766 bis/2009;
- OMFP no. 1802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, Official Gazette no. 963/2014.