

## Considerations Regarding the Need for Normalization in Accounting, in Public Institutions

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### Abstract

*Various techniques, methods and processes have been developed in Romania that respect the basic accounting principles and through which entities can provide real and complete information to different categories of users in order to make decisions. All accounting rules required, through state intervention, necessarily by a legal rule are accounting regulations which must be observed, both for the preparation and presentation of accounting information, with the help of professional accountants, by assuming responsibility toward the public as a result of professional judgment. This work covers issues relating to the need for professional judgment, in accounting, including in the case of accounting policies and changes, legislative provisions and, in this respect, ways of implementing them and presenting information.*

**Key words:** Professional judgment, changes in accounting policies, local public administration.

**J.E.L. classification:** M41

### 1. Introduction

Globalization has a significant influence on the increasing complexity of the economic and financial activity of entities and the situations that they have to cope with. As a result, various techniques, methods and processes have been developed which comply with the basic accounting principles and through which entities can provide real and complete information to different categories of users for decision-making purposes.

The issuance of accounting rules is a social decision, or where appropriate the individual or simultaneous product of a political action, logical reflection or empirical outcome.

In Romania, a major impact is the emergence of accounting law No 82 of 1991, which established a new account plan and a financial reporting system. The accounting, according to that law, "must ensure chronological and systematic recording, processing, publication, transparency and retention, archiving information on financial position, financial performance and cash flows, for disclosure to users of information". Therefore, accounting shall communicate specialized information to a clearly defined market after recording, quantifying, processing and preserving accounting information.

We can appreciate that there is a fundamental objective in the accounts (the real picture), and the possibilities for realization are shaped by the contribution of accounting professionals as a result of the professional judgment. Thus, the three elements involved in the management decision (Nicolescu and Verboncu, 2007, p. 208) I am the decision maker, the accounting professional, who ensures that he has met judgment requirements for decision-making, that he has made an appropriate selection of principles, rules and practices applied in preparing and presenting financial statements, and that he has made the best estimates.

In this context, the importance of cohabiting professional accountants with decision-making factors at the organizational level is justified, as well as professional judgment and some procedures to exercise it in public institutions in terms of accounting policies and estimates, determine the effects and presentation of information. in the notes to the financial statements.

## 2. Literature review

The problem of accounting professionals' judgment and their exercise in accounting influences the quality of accounting information. The information values of accounting should be recovered and exploited in an integrated communication process with management systems and internal control, the external environment and the underlying strategic guidelines.

A logical circuit of any human action is identified in the fundamental functions of the the management process that can be successfully carried out only on the basis of the relevant information, received over time (Leustean, 2012, p. 6).

As an area of activity, accounting is research-focused, specific methods are important for the accounting profession and it is indialbe to attract the best professionals (Albu, 2012, p. 6-11).

Accounting is science-based, but it is not a precise science, because the relevant acquisition of information requires professional judgment for each case. Users believe that the field of accounting matters most.

The undisputed accounting privilege is that it provides modern management with a multiple of accounting information (Horomnea, 2011, p.22). Management must seek balance between relevance and reliability, since an accounting standard is a specific element that has a cultural component in its development.

In our view, the assumption of perfect knowledge is illusory, for technical and economic reasons. The information helps to reduce the uncertainty and complexity of actions, highlighting the possibilities and limitations of alternative solutions. If there is freedom and respect, there must be professional judgment, because accounting is a pattern of representation of reality, but of an economic, legal, real nature, which is constantly evolving (Ionascu, 1997, p. 136). Accounting means increasing the dependence on the correct values, when these values can be established with precision.

In addition, the professional judgment and experience of those who issue the accounting information are crucial to accounting standardization, based on principles and conventions (Ionascu, 2003, p. 118). Professional judgment is based on ethical behavior, theoretical and practical knowledge, leading to performance in the effective management of public financial resources.

## 3. Research methodology

The research undertaken is aimed at a combination of deductive and inductive research and provides an approach to the involvement of professional judgment in the accounting of public entities, in the choice and observance of accounting policies, accounting standards and estimates, which are theoretically debated. The research carried out shall respect the methodology of research into economic sciences, as it is subject to the limits of research in time and space.

Also, during this paper we meet interpretive elements, addressed from a neutral point of view, but also critical elements, because we approach different concepts, regulations and practices in the field, in a critical manner, getting involved through a personal opinion.

The main sources of documentation we used for scientific research were made by studying the literature in the field, consisting of books by Romanian and foreign authors, articles recognized in international databases, regulations in force, websites, accounting documents which addresses the issue studied.

As research techniques we mention the analysis of the used literature, the analysis of the national legal framework regarding the accounting policies and the accounting in the public sector.

The scientific approach is positivist, the research being oriented towards the accounting field, formulating explanations for the valences of professional judgment and changes in policy and accounting estimates, implications resulting from the presentation of information in public institutions to improve practical accounting.

In terms of finality, the research is both explanatory (as a method of collecting data, documents) and investigative, exploratory, of the role and necessity of the professional accountant in the action of changing accounting policies and estimates.

The scientific research is motivated by the importance of the quality of the financial-accounting information generated for the interested users, in our case for the local public administration authorities, implicitly the increase of the performance.

#### 4. Findings

The essential factor that imposed the normalization of accounting is the increase of the social role of accounting information in the elaboration of economic decisions.

The accounting method, in order to achieve its purpose, uses a series of procedures and rules that allow the provision of information on economic phenomena and processes that take place within the entity.

In the elaboration of the accounting norms is taken into account what implies a conceptual or deductive approach, according to which the principles are justified by a reasoning and the pragmatic side, which starts from experiences or tradition (Ristea and Dumitru, 2004, p. 9) in order to establish the norms.

The accounting norms are presented before the accounting process in the form of principles, accounting policies, procedures, they constitute a reference system for the performance of the financial statements by accredited professionals. The normalization process aims to apply uniform accounting rules in the same geopolitical space. All the accounting norms imposed, through the state intervention, obligatorily through a legal norm are accounting regulations that must be observed both for the elaboration and for the presentation of the accounting information.

The formulation of accounting policies is recorded (Jalbă, 2010, p.203) within the generally accepted principles and conventions, dependent on the true image, as a fundamental objective of accounting. Undoubtedly, in a standardized and regulated accounting, the system of norms and regulations comes into play. Concretely, in the public administration, the accounting policies are elaborated and assumed by the head of the entity or the patrimony administrator.

Variables able to determine accounting policies in the choice and application of methods include, in particular, the distinction between income and liabilities, expenses and assets, depreciation, provisioning and reversal of provisions, valuation of fixed assets and inventories, accounting for long-term contracts, consolidation methods and analytical results, accounting for leasing contracts. The ordering and formalization of the accounting policies, at the level of the entity, can be concretized by a disposition of the head of the entity, and their disclosure can be made in explanatory notes or as an annex to the financial statements. As a result, accounting standardization through similar rules and terminology leads to an identical presentation of the financial statements for all institutions and to an assurance of users, in terms of consistency and rigor with which the accounting was performed.

The objectives of accounting normalization aim at elaborating the chart of accounts and the monograph of the main economic-financial operations, establishing the model for presenting the financial statements, establishing the principles of accounting, defining the information presented, developing a unitary terminology.

Regarding the reporting period, the shorter it is (for example, monthly financial statements), the more difficult it is to determine the values of assets and liabilities, income and expenses, as a result of subjective reasoning, which makes monthly reports to be less reliable compared to quarterly and annual reports. The Handbook of Accounting Policies and Procedures is a necessary and mandatory working tool for each entity to establish the conditions under which certain operations that have an impact on the entity's accounting are carried out, as a protector in the accounting relations with external users of the situations financial.

The freedom to choose the accounting policies and the accounting treatment to be applied in the presentation of the financial position and financial performance, remains at the choice of the public institution.

We can say that in the process of accounting normalization we operate with certain specific concepts, of which the most classic are the accounting rules, postulates and principles. They are based on a wide acceptance, and in our opinion represent a set of theoretical statements, which apply to accounting, seen as a representation of a reality.

In conclusion, if the entity's accounting policy is developed on the basis of the fundamental accounting conventions, they may not be published in the financial statements, but must be accompanied by a written statement from the authorizing officer, certifying compliance with approved accounting policies, the institution, in preparing the annual financial statements. In the case

of accounting policies based on conventions that differ from those provided for in that standard, together with the reasons for their application and their valuation in value terms, they must be presented in detail in the financial statements. The disclosure of accounting policies does not exonerate the management of the entity responsible for violating the established rules of accounting or the erroneous reflection of information in the reports. Users can assess whether the chosen accounting policies are appropriate following their effect on the results for the reported period and the future.

As a result of the inherent uncertainties, some elements of the annual financial statements cannot be accurately measured, but only estimated (non-performing debts, stock validity, benefits).

Therefore, the professional accountant, based on the recent and reliable information available and the professional reasoning, estimates the priority element, which can present subjectivism in the interpretation of the information. We can appreciate that in making accounting estimates a high level of specialized knowledge, experience and professional judgment is required. However, in order to create information and ensure its transparency, we should not limit ourselves to rules and definitions that could be challenged.

The role of the professional accountant in accounting is to make realistic approximations, based on a high degree of competence and professional value, and also ensures the achievement of information in decision making, an important factor influencing the socio-economic environment.

## 5. Conclusions

In the decision-making process, the satisfaction of the citizens is an objective of any activity of the local public administration, therefore, the importance of accounting on the social environment should be appreciated, as quality financial accounting information is required. Accounting information presented in a clear and concise manner without significant errors must be relevant to users and help them to assess events from different reporting periods, and also to face their own assessments, confirming or correcting them.

The need for professional judgment in accounting is mandatory to assist decision makers in making the necessary decisions including those on changes in accounting policies or revising estimates. Why? Because it is a process that involves taking responsibility for users. Through the audit activities performed at public institutions and authorities, the continuous improvement of professional accountants is promoted, and at the same time the professional reasoning is evaluated.

In the process of normalizing accounting through similar rules and terminology, a uniform presentation of financial statements is made, and the authorizing officer, by written declaration, certifies compliance with the approved accounting policies at the institution level, and also ensures that the data presented in the statements consolidated financial statements reflect the true picture of reality. The need for information is diversified, and in this context the accountant must find urgent solutions adapted to the new information requirements, which will favor the image of the public institution without conflicting with the law.

The existence of various uncertainties in which the entity operates, makes many items in the financial statements can not be measured, but only estimated. In this context, the entity's management options for one of the multiple accounting treatments and policies do not converge to a true picture of reality, but rather to a convenient image.

In this case, the quality of the financial accounting information becomes distorted and raises doubts about the comparability and consistency of the information provided to users. Depending on the interests pursued by the management of the entity and the legal, economic and financial innovations, for which the normalization has not found solutions, still, the results of the financial statements can be modeled and opportunities towards subjectivism can be created. The accounting information fails to fulfill its assigned functions, only partially, even if the standardization bodies give a special importance to the synthesis documents.

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