The harmonization of accounting settlements regarding the financial reports in accordance with the European Directives

Antonescu, Ligia and Antonescu, Mihai

C.N.E. Ghe Chitu, Craiova, University Spiru Haret, Craiova

2007

The harmonization of accounting settlements regarding the financial reports in accordance with the European Directives

Ligia ANTONESCU Doctoral trainee-C.N.E. "Ghe Chițu" Craiova
Mihai ANTONESCU PhD-D.G.F.P. Dolj

Abstract: *Romania's integration into the European Union raised the necessity of adapting Romania's accounting settlements to the European Directives and the to the International Financial Reporting Standards, in order to achieve the standardization of working accounting methods.*

This is accomplished by the transposition into the national legislation of the IVth and of the VIIth Directive of the European Economic Communities settled by the Order of the Minister of Public Finances no 1752/2005 and the continuation of the gradual implementation of International Financial Reporting Standards, settled by the Order of the Minister of Public Finances no 1121/2006.

Key-words: **accounting information, International Financial Reporting Standards, annual simplified financial reports, annual consolidated financial reports.**

The accounting information constitutes a sort of raw material and the finite product for every commercial enterprise not only for exercising functions but also for performance management. Under these circumstances, the present preoccupations are concentrated on the standardization of accounting working methods in order to achieve the integrated data processing of new technologies, inclusively those in the domain of artificial intelligence.

At present, Romania is facing some irreversible processes of great interest regarding the application of new accounting in order to obtain high quality accounting information, in accordance with nowadays requirements. These settlements are adapted to the requirements of integration of the informational economic systems to the exigency of the European Union, especially as far as economic-financial reports with new informational elements are concerned.

Starting from the need to assure the accordance of national accounting settlements with those of the European Union, and beginning with the financial exercise in 2006, commercial enterprises have been drawing up financial reports on the basis of some accounting settlements in accordance with the European Directives.

Many EU member countries apply national accounting settlements in accordance with the European Directives, in drawing up individual financial reports, and the International Financial Reporting Standards are used in drawing up consolidated financial reports.

The accounting Law no 82/1991, republished (published in Romania's Official Monitor Part I, no 48/14.01.2005) stipulates the application of accounting settlements in accordance with the European directives and the application of International Financial Reporting Standards (IFRS).[1]

[1] According to O.M.P.F. 1121/2006 (Off.M. no 602/2006) by International Financial Reporting Standards we understand the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS), and the afferent Interpretations (SIC-IFRIC Interpretations), the consequent amendments to those standards and to the afferent interpretations and to future afferent standards and interpretations, as they are approved by the European Union, translated and published in Romanian.

International Financial Reporting Standards

Passing to the application of IFRS, starting with this year, implies a complex process which is usefully accompanied by an adequate effort of the financial environment in order to achieve the gradual market preparation and the evaluation of its impact on financial reports.

Drawing up financial reports in accordance with IFRS represents a highly important moment for Romania's accounting system, not only from the point of view of the harmonization with EU legislation but also taking into account the fact that firms in Romania use an accounting framework recognized at world level, based on the concept of fair and accurate image.

By the Order of the Minister of Public Finances no 1121/04.07.2006, published in the official Monitor no 602/12.07.2006 there ere established the types of entities which apply the IFRS starting with 2007.

The commercial enterprises whose movable assets at the date of the balance are admitted to transaction on a regulated market and which draw up financial reports have the obligation to apply the International Financial Reporting Standards starting with the year 2007.

Credit institutions continue to apply the International Financial Reporting Standards in drawing up consolidated financial reports.

The financial reports obtained by the application of International Financial Reporting Standards are subject to financial audit, according to the law.

For 2007, the other entities of public interest defined according to the Order of the Minister of Public Finances no 907/2005 regarding the approval of categories of juridical persons who apply accounting settlements in accordance with the International Financial Reporting Standards and with the European Directives can apply the International Financial Reporting Standards (IFRS) in drawing up individual financial reports or consolidated financial reports for their own information needs.

All entities which are obliged to apply or have chosen to apply the International Financial Reporting Standards must ensure the continuity of application of IFRS.[2]

Juridical persons who apply the accounting settlements in accordance with the International Financial Reporting Standards are subject to financial audit which is done by financial auditors, physical or juridical persons authorized according to the law.

The annual financial reports – on the occasion of a merge, a division or cease of activity drawn up by juridical persons who apply the settlements in accordance with IFRS as well as the entities of public interest, as defined by the law – are also subject to financial audit.

The 4th Directive of the European Economic Communities

The accounting Law no 82/1991, republished (published in Romania's Official Monitor Part I, no 48/14.01.2005) stipulates the application of accounting settlements in accordance with the European directives and the application of International Financial Reporting Standards (IFRS).

For economic agents, the 4th and the 7th Directives have been transposed into national legislation, by accounting settlements in accordance with the European Directives, approved by the Order of the Minister of Public Finances no 1752/17.11.2005 (published in Romania's Official Monitor Part I, no 1080/30.11.2005).

According to the Order of the Ministry of Public Finances, financial reports in 2006, drawn up according to accounting settlements in accordance with the 4th Directive of the European Economic Communities are handed in depending on the following size criteria:

-total assets-3.650.000 Euros;

-total revenues-7.300.000 Euros;

-the medium number of employees during the financial exercise-50.

---

[2] The Order of the Minister of Public Finances no 1121/2006 regarding the application of International Financial Reporting Standards, Off. M. no 602/12.07.2006

The framing according to size criteria is done on the basis of indicators determined by financial reports of 2005.

An entity which drew up annual simplified financial reports will elaborate annual financial reports depending on size criteria only if, during two consecutive financial exercises it exceeds the limits of two of the three above mentioned criteria.

An entity which drew up annual financial reports will elaborate annual simplified financial reports depending on size criteria only if, during two consecutive financial exercises, it doesn't exceed the limits of two of the three above mentioned criteria.[3]

Annual Financial Reports include: balance, loss and profit account, the report on the modifications of the proper capital, the report on treasury flows and explanatory notes.

The annual simplified financial reports comprise: a short balance, a loss and profit account and explanatory notes.

According to accounting law, the annual financial reports will be accompanied by a written declaration of the administrator, of the credit chief accountant or of another person who has the obligation to administer the unity, by which he/she assumes his/her responsibility for the drawing up of annual financial reports and confirms that the accounting policies used at the elaboration of financial reports are drawn up according to applied accounting settlements.

The accounting policies represent the principles, the bases, the conventions the rules and the specific practices applied by an entity in the elaboration and presentation of annual financial reports. These policies must be elaborated by professionals in the economic and technical domain, specialists in the strategies adopted by the entity and in the activity unfolded, but not forgetting to take into account the activity's specificity.

General accounting principles must be observed in the elaboration of accounting policies.

The elements presented in annual financial reports must offer a fair and accurate image of the assets, of the debts, of the financial position, of the profit and loss of the entity.

These elements are evaluated in accordance with the general accounting principles: the principle of the activity's continuity, the principle of separate evaluation of assets and debts, the principle of intangibility, the principle of non-compensation, the principle of prevalence of the economic on the juridical and the principle of the threshold of meaning.

The deviations from general accounting principles established by OMPF no 1752/2005 can be accepted under exceptional circumstances. Any deviation or exception must be presented in explanatory notes, as well as the reasons which determined them, together with an evaluation of the effect of those deviations on the assets, on the debts, on the financial position and on the profit and loss.

The explanatory notes must comprise information regarding the evaluation methods applied to different elements from annual financial reports and the methods used for calculating the value adjustments.

By the 7th Directive of the European Economic Communities there are regulated the form and the contents of annual consolidated financial reports, as well as the rules of elaboration, approval, audit and publication of the annual consolidated financial situations.

The annual consolidated financial reports comprise: the consolidated balance, the consolidated profit and loss account and the explanatory notes to annual consolidated financial reports. These documents constitute an ensemble.

The consolidated balance comprises the assets and the debts of entities included in consolidation, by summing up the similar elements.

The consolidated profit and loss account comprises the revenues and expenses of entities included in consolidation, and the sum of any profit or loss that can be attributed to branches included in consolidation, owned by persons other than entities included in consolidation are presented separately in the consolidated profit and loss account.

---

[3] The Order of the Minister of Public Finances no 1752/2005 regarding the approval of accounting settlements according to European Directives, Off. M. Part I no 1080 bis of the 30th of November 2005.

The annual consolidated financial reports are drawn up in a clear manner and in accordance with the provisions of the new settlements. These must offer an accurate image of the assets, debts, financial position and of the profit and loss of entities included in these financial reports.

An entity must elaborate annual consolidated financial reports and a consolidated report of administrators if this entity - called mother-society in organized in commercial societies, societies/national companies or other entities which according to special laws, can own shares in the capital of other entities, - is included in a group of entities and complies with one of the following conditions:

- it owns the majority of voting rights of shareholders or associates in another entity, named the branch;
- it is a shareholder or associate of another entity and the majority of the members of administration, management and supervision boards of the entity (the branch) who have had these functions during the financial exercise, during the previous financial exercise and till the moment of elaboration of annual consolidated financial reports have been chosen only as a result of exercising their voting rights;
- it is a shareholder of associate of a branch and owns the control over the majority of voting rights of shareholders or associates of that branch, as a consequence of an agreement signed with other shareholders or associates;
- it is a shareholder of associate of a branch and has the right to exert a major influence on that branch, on the basis of an agreement signed with the entity in cause or on the basis of a rider from the constitutive act or status, if the legislation applied to the branch allows this kind of contracts or riders;
- the mother-society owns the power to exert or effectively exert a major influence or control on one branch;
- it is a shareholder or associate of a branch and has the right to name or revoke the majority of the embers of the majority of the members of administration, management and supervision boards of that branch;
- the mother-society and the branch are lead on an unified basis by the mother-society.

The annual consolidated financial reports are drawn up at the same date as the annual financial reports of the mother-society.

When the financial reports of a branch, used at the elaboration of consolidated financial reports, are drawn up at a different reporting date than that of the mother-society there must be done adjustments because of the effects of transactions or significant events which take place on that date and at the date of the financial reports of the mother-society. The difference between the reporting date of the branch and the reporting date of the mother-society must not be more than three months.

A mother-society which draws up annual consolidated financial reports must apply the same methods of evaluation as for its own annual financial reports.

In the consolidated balance and in the consolidated profit and loss account we must take into account every difference which occurred on the occasion of consolidation between expenses with the tax afferent to the financial exercise and to the previous financial exercises and the sum of the paid tax or tax to be paid for these exercises, as far as, in the near future, it is probable that an effective expenditure with the tax for one of the entities included in consolidation appear.

If an entity included in consolidation runs another entity together with one or more entities non-included in consolidation, the entity must be included in annual consolidated financial reports, the consolidation being performed proportionally with the rights in its capital, owned by the entity included in consolidation.

The annual consolidated financial reports must be drawn up using not only accounting policies but also explanatory notes which must comprise information regarding the evaluation methods applied to different elements included in the consolidated balance, as well as methods used for the calculation of value adjustments.

The auditing of annual consolidated financial reports is done by one or more authorized physical or juridical persons in accordance with the law.

The persons responsible with the auditing of annual consolidated financial reports expresses an opinion regarding the degree of conformity of the consolidated report of administrators with the annual consolidated financial reports for the same financial exercise.

The annual consolidated financial reports, adequately approved, and the consolidated report of administrators, together with the opinion expressed by the person responsible with the auditing of annual consolidated financial reports, is published by the entity which drew up the annual consolidated financial reports.

The other institutions with regulation attributions such as the National bank of Romania, the Commission of Supervision of Insurances and the National Assets Commission have elaborated accounting settlements in accordance with the European Directives, transposing the directives specific to the domains of activity corresponding to the regulated entities and supervised by the concerned institutions.

In conclusion, we consider that we must identify the risks which can result from the application of IFRS as a primary basis of accounting, taking into account the novelty and the complexity of International Financial Reporting Standards.

As the same time, the application of International Financial Reporting Standards supposes supplementary costs and resources for the establishment of procedures, accounting policies and evaluations demanded by these, and of those generated by the drawing up of financial reports as well as those linked to the elaboration of IT programs in accordance with the European Directives and with the IFRS.

As far as the application of IFRS is concerned, all the institutions with attributions in the domain of accounting settlement, elaborates proposals in order to establish a national-level strategy regarding the application of IFRS. This imposes taking a series of measures for the improvement of the institutional framework in the domain of accounting and audit.

For the proper application of fiscal legislation, under the conditions of IFRS as an accounting basis, the accounting treatment and the fiscal treatment of operations and the passage from the accounting treatment to the fiscal treatment should be identified and compared. This is a laborious operation taking into account he fact that, irrespective of the applied accounting settlements, the taxation of commercial societies must be equitable, and that fiscal legislation changes depending on the state's fiscal policies.

BIBLIOGRAPHY

1. Epstein B.J., *Interpretarea si aplicarea Standardelor Internationale de Contabilitate si Raportare Financiara (The Interpretation and the Application of International Financial Reporting Standards)*, Editura BMT Publishing House, Bucureşti, 2005.

2. Iancu E - "Aspecte legate de aplicarea IFRS si a Directivelor Europene" (Aspects linked to the application of IFRS and of European Directives), Revista Finanțe publice si contabilitate (The Review of Public Finances and Accounting) nr. 7-8/2005, page 34.

3. Petre G. - "Aplicarea IFRS in România" (The Application of IFRS in Romania), Revista Finanțe publice si contabilitate nr. 7-8/2006, pag. 43.

4. The accounting Law no.82/1991, republished, (published in Romania's Official Monitor, Part I, no.48/14.01.2005)

5. The Order of the Minister of Public Finances no. 907/2005 regarding the approval of categories of juridical persons who apply accounting settlements according to IFRS and accounting settlements according to the European Directives. (published in Romania's Official Monitor, Part I, no. 597/11.07.2005)

6. The Order of the Minister of Public Finances no 1121/2006 regarding the application of International Financial Reporting Standards, Off. M. no 602/12.07.2006

7. The Order of the Minister of Public Finances no 1752/2005 regarding the approval of accounting settlements according to European Directives, Off. M. Part I no 1080 bis of the 30th of November 2005.