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Abstract

The accounting standardization process is in progress at international regional level, more and more countries have reached the same conclusion of enforcing high quality accounting standards like IAS/IFRS. At international level, on one hand it is thought to implement IASB's international standards and on the other hand, to converge American standards with IASB standards.

There are various reasons for Romania adopting the IASB reference system, but most of them are subordinated to the central aim, respectively EU accession. There are also some secondary reasons required by the IAS/IFRS transition, which in our country is less present than in more economic developed countries. In our country accountancy is subordinated to the taxation system, financing still comes prevalent from banks and very few Romanian companies are listed on foreign capital markets.

According to this, starting with 2006 the International Financial Reporting Standards (IFRS), as presented and published by the International Accounting Standards Board, shall be applied in Romania by the following categories of companies: trade companies applying OMF no. 94/2001, loan institutions, assurance and reassurance companies, institutions supervised by the National Commission for Movable Assets, independent public companies and other state owned companies, companies to be consolidated by a company applying IFRS standards, companies, which at the end of the previous year fulfilled two of the following three criteria: turnover exceeding EUR 7.3 Million, total assets over EUR 3.65 Million, average number of employees over 50, as well as other companies subject to the Finance Ministry's approval.

Keywords: romanian accounting rules, IAS/IFRS, romanian accounting normalization body, capital market

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1. Introduction

1.1 Accounting information – role and evolution under globalization and development of financial capital markets

Each historical period has a corresponding economic development level, and accountancy has its sources exactly in the evolution of civilization and economy.

The beginning of the 20^{th} century stands for the development of large corporations and the set up of groups of companies. An important element for these evolutions is the fact that many companies turned from the bankers toward investors and capital market in respect of financing.

The period 1973-1989 stands for the proper development of accounting harmonization process at regional and international level and therefore we could call it - *searching for comparatives*.

The period 1989–2000 stands for the proper normalization period, when accounting standards were issued and applied. We could call this period - *searching for uniformity*.

The standardization process is in progress starting from 2000 and up to now, when more than two continents have reached the same conclusion of enforcing high quality accounting standards like IAS/IFRS. At international level, on one hand it is thought to implement IASB's international standards (in Europe, Australia and New Zealand and many countries on other continents, among them Japan – the second greatest power on the capital market) and on the other hand, to converge American standards with IASB standards. Why not to call this current period - *towards reaching singleness*.

2005 stands for the transition to the standardization process, meaning that legislators in almost all countries will enforce international accounting standards as unique accounting reference system for listed companies and not only for them.

The current economic environment evolves under globalization circumstances, and it stands for the markets' globalization trend. Companies tend to become multinational, to extend themselves and to be more integrated, both at horizontal and vertical level, while groups of companies compete in weaving a denser relationship network based on participations and contractual relationships and on acquiring new companies and entering new markets. As Abbas Ali Mirza[6] used to say metaphorically speaking, future ensures a generation of companies „so integrated in the whole world, that they would no longer be multinational, but non-national".

Under these circumstances, information has a primordial role. While its circulation has been facilitated by technological development, and physical distance no longer is significant being reduced through new transportation techniques, the new communication means granted to information new valences. Internet provided electronic transactions, which unsuspectedly increased transaction speed and volume. Thus, the content of the transmitted information has changed significantly.

As part of the economic information, the accounting information evolved as well and its whole circuit has been continuously modernized in the rhythm of the global changes. Thus, it had to adapt to the swing of capital markets worldwide and to aim toward a unique international accounting language, for the taste and understanding of its users.

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[6] Abbas Ali Mirza take over in the paper "Reform after Reform: Romanian Accounting in face of a New Challenge" by N. Feleagă

Why do we need a unique accounting language for transmitting the accounting information? There are many answers and they resulted from many research works and from the recent international accounting expertise, based on the current globalization and last years increase on capital markets and on the companies' great interest in obtaining financing from these markets.

In Europe, a continent with ancient civilizations, where one can find the sources of modern accountancy, the desire to obtain global power and influence has been expressed by creating the European Community, which also impacts on accounting regulations. The need for European accounting harmonization, which was materialized through the European accounting directives, has been amplified and transformed into a need for global accounting harmonization, strengthening the European Union's position in respect to enforcement of IAS standards. The current globalization, the European corporations' desire of being listed on capital markets outside the Union, and the refusal of capital markets in USA to accept financial reporting prepared according to other reference systems than the American one, led to the European bodies' decision to enforce IFRS for companies listed in the European Union starting from 2005.

1.2 Romanian Normalization Device and the Interest in the IFRS implementation in the European Union Accession

After the 2nd World War, Europe was practically divided into two parts: Western Europe and Middle and Eastern Europe. These two blocks evolved very differently. West-European countries developed spectacularly from the economic point of view. They quickly became powerful countries and they initiated an integration process. On the other hand, the communist regimes in Middle and East European countries promoted a centralized economy, which was not in line with the companies' real needs. These completely different economic evolutions have generated completely different accounting systems.

As part of the communist block, Romania aimed toward the market economy only after 1989, when the regime has been overthrown. The need for accountancy normalization rose again after almost 50 years of darkness.

After the 1989 revolution, the legislators within the Romanian Ministry of Finance have performed a thorough study of the 4th European Directive. In view of Romania's EU accession they had a deadline for the harmonization. The continental system represented the key for the Romanian legislators. The Company Accounting System (SCI) served as exchange and formation instrument, which at that date was a significant instrument in defining a coherent accounting system, of continental inspiration, adapted to the European directives and harmonized with the standards reviewed by the International Accounting Standards Committee (IASC). During this period they have set up an Accounting Advisory Committee.

There are various reasons for Romania adopting the IASB reference system, but most of them are subordinated to the central aim, respectively EU accession. But there are also some secondary reasons required by the IAS/IFRS transition, which in our country is less present than in more economic developed countries. In our country accountancy is subordinated to the taxation system, financing still comes prevalent from banks and very few Romanian companies are listed on foreign capital markets.

2. Romanian position regarding the european union strategy in ifrs adoption

2.1 European Union's Position in View of the Current Stage of Accounting Information

1995 stands for an important international event in the European accountancy world. Karel van Hulle, EU Single Market Commissioner, announced that the European Union abandoned its initial aim of developing unique European accounting standards, different from IAS. According to the announcement called „Accounting harmonization: a new strategy vis-a-vis international harmonization”, member states could allow „global players” to use IFRS, as long as these standards comply with the Accounting Directives, and their implementation in European countries. Through this new direction the European Union stopped the evolution of national and supra-national accounting standards and really contributed to the globalization of financial reporting and harmonization of accounting principles.

Few years have passed between this announcement and its transformation into a rule. During this period the European Union's representatives consolidated the rule's position within the preparation of international accounting standards by the professional body IASB. Especially because in the same year 1995, IASC and IOSCO came to an agreement through which IASC started its assignment for finalizing what we call “the whole central set of standards”. This “central set of standards” has been an important accomplishment in 2000, because IASC was expected to normally fulfill its contractual duties and nobody knew if IOSCO was going to keep its implicit and explicit commitments. The accountancy world has waited for over 4 years for IOSCO's approval in respect of IASC standards, which represents an important stage in globalization of financial reports. The expected report from the global legislators of the value commissions was approved in May 2000. After an accurate assessment and evaluation of IASC standards, IOSCO's working group, number 1 regarding Accounting and Reporting in Multinational Companies, sent its report to IOSCO's Technical Committee. This Committee recommended to IOSCO members to use 30 IAS standards for transactions with shares of listed transnational companies and for public offers of multinational companies.

This approval shows that IOSCO's member organizations authorize multinational companies to use the 30 IASC 2000 standards for the preparation of their financial statements in view of offers and stock exchange quotations of transnational companies, but together with reconciliation, declarations and additional information, if the case.

After the European Union's Announcement in 1995, eyes turned to Europe, especially because some countries in the European Union (Austria, Belgium and Germany) already enforced this proposal. At European Community level it has been accepted that Accounting Directives should be adjusted in order to eliminate conflicts with IAS standards - if any. The Contact Committee has started comparative studies, its task being to study the compliance between European Directives and IAS standards. These studies have been continued by FEE, which supported the Contact Committee by publishing a debate paper for stimulating discussions regarding the European financial reporting strategy.

Based on the IAS standards published to that moment, the Contact Committee came to the conclusion that there are no major conflicts between the two categories of standards. Conflicts have been identified only after the publication of new IAS standards and they were or will be solved by approving new European regulations.

The major problem is the changing financial reporting environment, both at global and at European level. The European Union intends to accomplish a Single Market, in which companies will be multinational and they would like to prepare their financial statements based on global standards, which do not need adjustments from one capital market to another. In front of these developments, the European Accounting Directives should not represent a barrier, but they should be adapted to the moment.

The European Commission granted the proper importance to enforcement of accounting standards in two ways, on one hand through the Action Plan regarding Financial Services and on the other hand through the Announcement regarding the trend in financial information. As a result of the European Summit in Lisbon and the Announcement regarding the „European Union's strategy regarding financial information: the trend", in June 2000, the European Commission presented an European Proposal, which aimed to make IFRS standards compulsory. Thus, all listed companies in the European Union should prepare consolidated financial statements according to IAS standards starting latest in 2005. This strategy aimed to be settled in the European law through an IAS and IFRS recognition system called „enforcement mechanism".

The Announcement stipulated the enforcement infrastructure, consisting of various elements, as following:

(1) transparent accounting standards,
(2) timely interpretations and implementation guidance,
(3) statutory audit,
(4) monitoring by supervisor
(5) effective sanctions.

Each of these elements should act efficiently: the system will be as powerful as munch protection it will provide to investors and creditors.[7]

It is important to highlight that, while in 1995 the Announcement aimed to provide an answer to a certain problem raised by a few groups of companies listed outside the Union's boundaries, the new Strategy has a much more ambitious purpose, respectively to implement the regulations in order to build the European capital market. For accomplishing this purpose, financial reporting and information in Europe should be more comparable.

In February 2001, the Proposal of the European Council and Parliament regarding Settlement of enforcement of international accounting standards introduced the requirement that all companies listed in the European Union should prepare consolidated financial statements according to IFRS standards starting latest 2005. It also proposed to set up the Accounting Regulatory Committee (ARC), entitled by the Commission to implement the standards at political level, and the European Financial Reporting Advisory Group (EFRAG), a group of accounting experts to act as liaison between the European Union and IASB.

Because a path has already been opened for accounting harmonization at regional level (European accounting directives), it became imperative to ensure the Directives' comparability with IFRS standards. Thus, in 2001 the European Council and Parliament issued a new Directive. This adjusted the 4th, 7th and 8th Directives for implementing new valuation regulations for individual and consolidated financial statements of companies, inclusively banks and other financial institutions, and introduced the fair value for the valuation of certain financial instruments.

[7] Fédération des Experts Comptables Européens, Enforcement Mechanisms in Europe a Preliminary Investigation of Oversight Systems, April 2001, page 4

2.2 Limitation of member states' option regarding application of the European strategy

The ECOFIN[8] Council improved the proposal's wording in respect to the „path” in the European Union, by completing it with provisions regarding special situations in which enforcement of IFRS standards in the European Union could be delayed until 2007. A temporarily exemption shall be granted to companies with shares currently transacted in USA, which apply US GAAP, as well as to companies, which issued bonds, but not share capital; those companies shall be harmonized with IAS standards starting with 1.01.2007.

In the following year the proposal became final and it was approved and published as „IAS Regulation”. Before its publication, EFRAG, which studied the differences between the Directives and IFRS standards, recommended the „block” enforcement of IAS standards and SIC interpretations. The initial enforcement excluded IAS 32 and 39 and the corresponding interpretations, until they will become final. A deadline has been set for enforcement of all IFRS standards, respectively 31 December 2002. A new directive has been sent for approval for the following issues: elimination of conflicts between Directives and IAS/IFRS standards, to ensure that IFRS alternative accounting treatments are valid for European companies as well, to renew the fundamental structure of Accounting Directives for compliance with modern expertise and to be flexible enough for future changes in IFRS standards.

The new Regulation defines the legal frame for IFRS standards implementation in the European Community in order to ensure a high level of transparency and comparability of the financial statements and the efficient functioning of the capital market and of the Single European Market. Companies to enforce IFRS standards and the conditions for applying them in the Union's member states are expressly stipulated, so that member states are either pledged to enforce IFRS standards for certain categories of companies, or they can require or allow IFRS standards enforcement for other categories. The European accounting directives have been adjusted and modernized to avoid conflicts with the international standards.

Following variants are available:

1. companies transacted on European capital markets in member states have to prepare consolidated financial statements according to IAS/IFRS standards enforced by the European Union;
2. companies, which are not transacted on European capital markets in member states have two options, according to each state's regulations:
    a) preparation of yearly financial statements according to IAS/IFRS standards or according to the modernized accounting directives;
    b) preparation of consolidated and/or yearly financial statements according to IAS/IFRS standards or according to the modernized accounting directives.

2.3 Recent evolutions for enforcement of International Accounting and Reporting Standards – IAS/IFRS in Romania in view of EU accession

A compulsory stage that Romania has to pass for European Union accession is also the legislative harmonization in the accounting field.

Most recent evolutions in enforcing IFRS standards in Romania could be summarized as following:

[8] ECOFIN consists of European Ministries for Economy and Finance

February 2001 – the Finance Ministry gradually implemented the reform of Romanian Accounting Regulations, initially by adopting Ordinance no. 94/2001 issued by the Finance Ministry for approving Accounting Regulations harmonized with the 4th Directive of the European Economic Communities and with the International Accounting Standards. This has been followed by a series of other ordinances specific for banks, assurance companies and bodies supervised by the National Commission for Movable Assets.

October 2001 – enforcement of OMF no. 1982/2001 regarding accounting regulations harmonized with IAS standards and EU Directives for loan institutions.

February 2002 – enforcement of OMF no. 306/2002 regarding accounting regulations harmonized with IAS standards and EU standards for small companies.

December 2002 – enforcement of OMF no. 1742/2002 regarding accounting regulations harmonized with IAS standards and EU standards for institutions under supervision of the National Commission for Movable Assets, for stock exchange listed companies, brokers, investment funds etc.

July 2003 – enforcement of OMF no. 815/2003 regarding disclosure of companies' semi-annual reports

October 2003 – enforcement of the Finance Ministry's Decision regarding interaction between the taxation standards and the new accounting standards, handling a series of matters in respect of reconciling book profits with taxable profits.

December 2003 – the Finance Ministry published OMF no. 1827/2003, which explains the future enforcement of international standards in Romania, thus creating an advantage for the harmonization with European Union's legislation. Another advantage consists in the fact that Romanian companies will use an accounting frame recognized at global level, based on the fair and accurate image – a measure expected by the entire business community.

According to the ordinance mentioned above, starting with 2006 the International Financial Reporting Standards (IFRS), as presented and published by the International Accounting Standards Board, shall be applied by the following categories of companies:

- trade companies applying OMF no. 94/2001;
- loan institutions;
- assurance and reassurance companies;
- institutions supervised by the National Commission for Movable Assets;
- independent public companies and other state owned companies;
- companies to be consolidated by a company applying IFRS standards;
- companies, which at the end of the previous year fulfilled two of the following three criteria: turnover exceeding EUR 7.3 Million, total assets over EUR 3.65 Million, average number of employees over 50, as well as other companies subject to the Finance Ministry's approval.

Financial auditors, members of the Romanian Chamber of Financial Auditors, will audit the financial statements of companies applying IFRS standards.

The Finance Ministry issued Ordinance no. 1775/29 November 2004 regarding certain accounting regulations, which delays with a year the actual enforcement of International Financial Reporting Standards. The ordinance also stipulates that juridical persons fulfilling criteria mentioned in Ordinance no. 94/2001, with its subsequent changes and additions, shall apply these regulations beginning with 1 January 2005, as following:

a) companies with shares transacted on a regulate market and companies/national companies, which restate the 2004 financial statements, shall actually use the mentioned accounting regulations beginning with 1 January 2005;
b) the other juridical persons fulfilling criteria mentioned in Ordinance no. 94/2001, with its subsequent changes and additions, other than those mentioned at point a), have the option to use either *OMF 94* or *OMF 306*.

2.4 Identification, presentation and explanation of differences between IAS/IFRS and national OMF, based on significant companies

The present evolution of the Romanian accounting rules proves the manifestation of significant efforts towards the convergence to international accounting standards.

It can be noticed the existence of some similitudes between the Romanian accounting norms and IFRS, but also a series of differences that we identify, present and explain in the following paragraph.

Segment reporting

Without being incompatible with the IFRS system, Romanian regulations (*OMF 94*) do not define the geographical sector. In respect of the activity field, the definition is a bit particular: „The *activity field* (according to turnover) represents the distinctive part of a company, which provides a different product or service or a group of related products or services, especially for clients outside the company."[9]

The reporting shall be made under explanatory notes. Without many details, *OMF 94* only requires turnover on activity fields and/or geographical fields when the company developed activity in two or more activity fields or on two or more geographical segments during the financial year. These activity fields or geographical segments should be considerably different in respect to related benefits and risks. For identifying the source and nature of risks and benefits related to the activity fields and respectively geographical segments, *OMF 94* recommends usage of the internal financial reporting system.

The Romanian *OMF 94* only requires ventilation of turnover, while *IAS 14* is much more exigent. It requires information regarding sector assets and liabilities, expenses for purchase of sector assets (tangible and intangible assets), expenses considered assets' depreciation for sector purposes, etc.

At first sight, in the Romanian economic environment an information according to *IAS 14* could prove inadequate due to lack of redundancy. But for 2005 and 2007 a development of regulations regarding sector reporting is necessary (especially regarding transfer pricing, effects of changes in accounting methods applied to sector information, changes in sector structure, etc.).

Interim financial reporting

In Romania interim financial information has been treated by Ordinance no. 815/2003 issued by the Finance Ministry for approval of the companies' Reporting system as at 30 June 2003[10]. According to this Ordinance, companies should prepare and submit

[9] Finance Ministry - *Accounting regulations for companies*, Editura Economică, Bucharest 2002, p. 102
[10] Romania's Official Gazette no. 518/17 July 2003

financial reporting as at 30 June 2003 to the territorial units of the Finance Ministry. Interim financial statements should ensure disclosure of comparatives.

Based on this regulation, companies supervised by the National Commission for Movable Assets, as well as publicly owned companies, should submit interim financial statements to the National Commission for Movable Assets in maximum 45 days after the reporting period (June 30). These financial statements should be accompanied by the auditors' report (review report of the financial statements prepared according to International Standards for Auditing) or the censors' report.

Intangible and tangible assets according to OMF 94

OMF 94 has an original approach in respect of accounting treatments. On one hand it presents general aspects, which could be accepted as basis accounting treatments, and on the other hand it presents „special rules regarding assets", without considering them as alternative accounting treatments. We are in a case, where „national prevails in front of international".

According to point 5.13 of *OMF 94,* an intangible asset is recognized only when:

- it could bring future benefits to the company,
- its costs can be evaluated reliably.

The Romanian classical approach stipulates that property right (with the three attributes: *jus utendi, jus abutendi, jus fruendi*) is „a subjective right, which means juridical appropriation of a thing in a certain social form, which allows private persons, companies or state or its bodies, to possess, use and dispose of that thing, either direct or indirect, as the result of capitalization of the principal rights of its owners, subject to the legislation in force".[11]

Could we witness a 180º direction change? Yet *OMF 94* speaks about patrimony, which represents a person's rights and obligations with economic value. Property, in its juridical meaning, becomes a too restrictive notion for the accounting legislation.

In view of *IAS/IFRS* enforcement, the concept of "owned asset" used in *IAS 16* for defining tangible assets, shows that a transaction's economic importance outruns its juridical form.

Tangible assets are tangible goods used in many production cycles. These are lands and fixed assets. *OMF 94* generally preserves tangible assets' old classification:

- ♦ land and constructions;
- ♦ technical installations and tools;
- ♦ other installations, machines and furniture.

According to the law[12] a "fixed asset" is a good or complex of goods fulfilling both following conditions:

- they have a greater value than the legal limit;
- they have a lifetime of over one year.

Under *IAS/IFRS* enforcement, the second condition is a bit obsolete, because recognition is also given by „using the good for a couple of periods." In our opinion, the restriction regarding value has only tax purposes, because an amount of approximately EUR

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[11] Mircea N. Costin, Mircea C. Costin – *Dicționar de drept privat*, vol. II, Editura Lumina Lex, Bucharest, 2004, p. 169

[12] Law no. 15/1994 regarding depreciation of capital materialized in tangible and intangible assets, republished with all subsequent changes and amendments

375 is not significant for a company operating in a preferment market economy. This provision represents the exception in the Romanian accounting system, a proof being *OMF 94's* definition for non-current assets: „company's assets for long-term usage”.

OMF 94 does not detail ownership, but only stipulates that they are used (possession) in the company's activity (pick the fruits), especially expressing prevalence of economic aspects in front of the juridical form. Non-current assets are used for a long period.

Basically, valuation of tangible and intangible assets follows the general rules for evaluating balance sheet items.

According to *OMF 94*, „book value” represents the gross historical value. According to *IAS/IFRS*, it represents the value for which an asset is accounted for the balance sheet, less cumulated depreciation to date, as well as cumulated depreciation losses, respectively net (book) value. Therefore we should be very careful and precise in using notions.

In comparison to the requirements of *IAS 16* regarding initial recognition of a tangible asset, all those presented above are basis treatments. The alternative accounting treatment proposed by *OMF 94* concerns inclusion of interest expenses and expenses with exchange rate differences in the acquisition costs. *OMF 94* only allows capitalization of interest expenses and of expenses with exchange rate differences related to interests regarding loans, which finance acquisition, construction or production (direct attributable), subject to fulfilling all provisions of *IAS 23* and *SIC 2*.[13]

The alternative accounting treatment allowed by *IAS 21* regarding inclusion of unfavorable exchange rate differences in the assets' book value is not allowed by *OMF 94* because „provisions of *SIC 11* are not fulfilled.” This reason is obviously controversial and superficial.

In respect of inclusion of unfavorable exchange rate differences in the purchased assets' book value, we should demonstrate that the company did not possess the necessary hard currency amount for settling the debt („the debt cannot be settled”). Also, we should demonstrate that the company could not cover the exchange risk („no risk management measurements can be taken”). Romania has a functional market economy, and trying to demonstrate these two conditions could rather seam a Utopia and therefore enforcement of the alternative accounting treatment allowed by *IAS 21* is considered an accounting error. In practice, situations, which could allow enforcement of alternative accounting treatment under *IAS 21 Effects of exchange rates variation* are very rare, as following: currency crisis due to exchange restrictions applied by the state or central bank, together with lack of instruments for covering currency risks, regardless of associated costs.

Also, we could consider that it is only a delay in enforcement of the alternative accounting treatment allowed by *IAS 21*, as long as the „company's reporting currency undergoes an important depreciation or appreciation”. According to this statement we should have applied *IAS 29*. Accordingly, as long as *IAS 29* is not applied (due to the „tangible” reason that cumulated inflation on three consecutive years is approximately or exceeds 100%), we cannot apply the alternative accounting treatment allowed by *IAS 21*. This statement is much more reliable in supporting non-enforcement of this treatment in Romania.

[13] Loan costs directly attributable to acquisition, construction or production of a tangible asset should be capitalized as part of the asset. The company should continue to capitalize such costs, even if the asset's book value exceeds its recoverable value. In case of depreciation losses, the asset's book value should be reduced with these amounts. By enforcing the allowed alternative accounting treatment, the company should apply it for all tangible assets, not only for some of them.

OMF 1784/2002, OMF 2332/2001 and *OMF 1827* expressly stipulate that *IAS 29* shall not be applied (was not applied).

But based on last years' inflation rate (40,6% in 1998, 54,8% in 1999, 40,7% in 2000, 30,3% in 2001, 17,8% in 2002, and 14,1% in 2003) and on Government's forecasts, we can anticipate that the alternative accounting treatment allowed by IAS 21 shall become implicitly not applicable.

Due to non-enforcement of *IAS 29,* unfavorable exchange rate differences are considered year's expenses (basis accounting treatment) and they are not capitalized in the costs of purchased assets (alternative accounting treatment).

It is true that before *OMF 94* there were transit provisions in Romania (closing norms), which pledged companies to capitalize interests and related exchange rate differences, but they are no longer applicable.

Therefore, *OMF 94* and subsequent regulations made the basis accounting treatment compulsory for years 2000, 2001, 2002 and 2003, by considering unfavorable exchange rate differences as year's costs, and the alternative accounting treatment allowed by *IAS 21* proved to be inappropriate.

A special attention should be granted to prudent enforcement of alternative accounting treatments. Net book value should be compared with the minimum between replacement costs and net realizable value resulting from selling or using the asset.

a) *Subsequent valuation* means evaluation during stock take and i*n* balance sheet.

a1) stock take valuation. Assets are evaluated to their current value (inventory value), according to the good's utility, shape and market price.

a*2) balance sheet valuation or closing valuation.* It is based on the prudence principle, and *OMF 94* regulations are the best representation in this respect. „At year-end patrimonial elements are evaluated and disclosed in balance sheet to their addition value, respectively book value in accordance with stock take results.

At each balance sheet date:

- monetary elements in hard currency are reported to closing exchange rate; exchange rate differences, favorable or unfavorable, are registered as revenues or expenses;
- non-monetary elements are reported to the exchange rate at the transaction date; and
- non-monetary elements recorded to fair value and expressed in hard currency are reported to the exchange rate in force when assessing those values."

While book value represents the basis accounting treatment stipulated by *OMF 94*, the alternative accounting treatment has two variants:

- recognition of non-financial assets to revalued value, based on fair value at revaluation, less cumulated depreciation and/or value depreciation or losses; *OMF 94* stipulated a special account within capitals - *1175 „Retained earnings representing excess from revaluation reserves"* - for the retained earnings representing favorable differences from revaluation reserves[14], according to *IAS 16*;

[14] „Revaluation excess included in capital elements can be directly transferred into the retained earnings, when this excess is accomplished. The entire excess is realized at asset's disposal or. However, part of the excess could be realized as long as the asset is used in the company; in this case, the excess represents the differences between the depreciation computed based on the reevaluated book value and the depreciation computed based on asset's initial costs. Revaluation excess is not transferred to retained earnings through the profit and loss account." – *Ordinance no. 94/2001 issued by the Finance Ministry for approving Accounting regulations harmonized with the 4th Directive of the European Economic Communities and the International Accounting Standards*, paragraph 5.40. alin. 2

- valuation based on inflation (paragraph 5.35. pct. b), which is valid during the period for implementation of the accounting system development program. *OMF 94* stipulated special accounts for inflation adjustments: *1051 „Revaluation reserves related to the opening balance sheet in the first year of enforcing inflation adjustments",* for adjustments concerning the first *IAS* year, inclusively *IAS 29*, respectively *688 „Expenses with inflation adjustments"* and *788 „Revenues from inflation adjustments"*, for adjustments concerning the current year, another than the first enforcement year.

Because revaluation according to *IAS 16* has not been recognized by the Romanian Finance Ministry as basis for depreciation calculation, and because enforcement of *IAS 29* was optional and had no impact on balance sheet, the only viable variant regarding alternative accounting treatment for tangible assets (revaluation of intangible assets has not been an issue) has been enforced based only on *HG 403/2000* and *HG 1553/2003*. For the legal reevaluations of tangible assets, companies use account *105 „Revaluation reserves"* and they are presented separately in the balance sheet.

b) Valuation at disposal from the patrimony or at commissioning. At the disposal of non-financial assets, they are evaluated and deducted from financial administration at their addition value. The part, which is not recovered out of their addition value, represents expenses related to the year in which they have been disposed of.

c) Subsequent expenses

Although *OMF 94* does not stipulate them expressly, we can only say that they follow *IAS 16* provisions. Subsequent expenses related to a tangible asset already recognized „should be added to its book value, when it is estimated that the company will obtain future additional economic benefits in comparison to the initially estimated performances. All other subsequent expenses should be recognized in the period they have incurred."[15] But there are also other regulations, which clarify these matters. „For complex fixed assets (consisting of many elements) and for fixed assets evidenced on sections (methane gas distribution pipes, roads, energy lines, etc.), there should be an inventory number for each element. In this cases, besides inventory numbers, we should also use additional numbers for numbering the fixed asset's elements, for instance 1.001/1, 10.001/2, 10.001/3 etc. […]."[16] Accordingly, repair of an element or its replacement represents a year's expense.

We should also mention here the legal provisions[17], which stipulated capitalization of expenses made for modernizing fixed assets. Consequences:

- they actually improve the fixed asset's performances in comparison to the initial parameters;

- they ensure additional revenues in comparison to those accomplished with the initial fixed assets;

- modernization of buildings and constructions should increase comfort and ambient.

Subsequent expenses estimated for dismantling and moving the asset, respectively restoration costs at the end of the fixed assets' lifetime, should be recognized in initial costs

[15] *Practical guide for enforcement of International Accounting Standards*, under the coordination of the Finance Ministry, Editura Economică, Bucharest, 2001, p. 21

[16] Ordinance no. 425/1998 issued by the Finance Ministry for approving Methodological norms for preparation and use of common documents without special regime, regarding financial and accounting activity, and their models – Inventory numbers registry

[17] Government Decision no. 909/1997 for approving Methodological norms for enforcement of Law no. 15/1994 regarding depreciation of capital materialized in tangible and intangible assets, amended and completed through Government's Ordinance no. 54/1997

and distributed in the income statement through depreciation expenses during their utilization.

Profit tax according to OMF 94

IAS 12 is known as a complex standard, due to the difficulties in understanding and practical enforcement of its provisions in Romania. The main problem in accounting for profit tax consists in recognition of its current and future tax consequences:

- future recovery of assets' book value and liquidation of debts disclosed in the company's balance sheet; and
- transactions and other events related to the current period, recognized in the company's financial statements.

OMF 94 has no specific provisions regarding profit tax, meaning that *IAS 12* is fully accepted. Subsequent regulations [18] confirm it. It is interesting that related „solutions have been approved" regarding enforcement of legal provisions in respect of profit tax, together with the Accounting regulations harmonized with the European directives and the International Accounting Standards. This shows that in order to become laws current practices should be regulated. This was necessary for explaining matters regarding enforcement of *IAS 12*, but also for „settling" certain „solutions.

Change of accounting methods and value adjustments

Change of accounting methods represents an exception, because the permanence principle stands for continuity in applying the same rules and standards regarding valuation, book registration and disclosure of patrimonial elements and results. *OMF 94* (paragraph 5.3. alin. 2) stipulates that such changes are only allowed if required by law, an accounting rule or they result in more relevant or reliable information regarding the company's operations. Such changes should be explained in the notes, justifying the reason and the effects on the period's reported results and on their actual tendencies.

Correction of errors will impact of the financial statements of the year when they have been incurred and, as an exception, they can be corrected in the year when they are ascertained (art. 26 pct. 12 of Law no. 82/1991, accounting law).[19]

OMF 94 created the frame for changing accounting policies and correcting fundamental errors. Enforcement for the first time of IAS also helped, excepting *IAS 29* (which is also a change of accounting policies), by creating dividing account 117 Retained Earnings into synthetic accounts of 2nd grade, as following:

1172 Retained earnings from first enforcement of IAS, excepting IAS 29;

1173 Retained earnings from accounting policies changes

1174 Retained earnings from correction of fundamental errors.

All three categories above are mentioned in the „Statement of own capitals". Enforcement of an allowed alternative accounting treatment should be presented in Notes to „Accounting principles, policies and methods".

[18] Decision of the Finance Ministry no. 9/2003 for approving of solutions regarding certain legal provisions in respect of profit tax, together with Accounting regulations harmonized with the European directives and International Accounting Standards, Official Gazette no. 781 bis/2003

[19] According to *OMF 1784* pct. 26, „Possible errors like revenues and expenses, assessed in accountancy after approval and submitting of the yearly financial statements are corrected in the year they are assessed." Companies applying *OMF 94* should correct errors according to *IAS 8.*

Effects of exchange rates variation according to OMF 94

Under point 5.13 *OMF 94* stipulates that alternative accounting treatment allowed by *IAS 21* regarding inclusion of unfavorable exchange rate differences in the related assets' book value, cannot be applied because provisions of *SIC 11* are not fulfilled.

In respect of inclusion of unfavorable exchange rate differences in the purchased assets' book value, we should demonstrate that the company did not possess the necessary hard currency amount for settling the debt („the debt cannot be settled”). Also, we should demonstrate that the company could not cover the exchange risk („no risk management measurements can be taken”). Romania has a functional market economy, and trying to demonstrate these two conditions could rather seam a Utopia and therefore enforcement of the alternative accounting treatment allowed by *IAS 21* is considered an accounting error. In practice, situations, which could allow enforcement of alternative accounting treatment under *IAS 21* are very rare, as following: currency crisis due to exchange restrictions applied by the state or central bank, together with lack of instruments for covering currency risks, regardless of associated costs.

Also, we could consider that it is only a delay in enforcement of the alternative accounting treatment allowed by *IAS 21*, as long as the „company's reporting currency undergoes an important depreciation or appreciation”. According to this statement we should have applied *IAS 29*. Accordingly, as long as *IAS 29* is not applied, we cannot apply the alternative accounting treatment allowed by *IAS 21*. This statement is much more reliable in supporting non-enforcement of this treatment in Romania.

OMF 1784/2002, OMF 2332/2001 and OMF 1827 stipulate that IAS 29 shall not be applied.[20]

But based on last years' inflation rate (40,6% in 1998, 54,8% in 1999, 40,7% in 2000, 30,3% in 2001, 17,8% in 2002, and 14,1% in 2003) and on Government's forecasts, we can anticipate that the alternative accounting treatment allowed by IAS 21 shall become implicitly not applicable.

Due to non-enforcement of *IAS 29,* unfavorable exchange rate differences are considered year's expenses (basis accounting treatment) and they are not capitalized in the costs of purchased assets (alternative accounting treatment).

It is true that before *OMF 94* there were transit provisions in Romania (closing norms), which pledged companies to capitalize interests and related exchange rate differences, but they are no longer applicable.

Therefore, *OMF 94* and subsequent regulations made the basis accounting treatment compulsory for years 2000, 2001, 2002 and 2003, by considering unfavorable exchange rate differences as year's costs, and the alternative accounting treatment allowed by *IAS 21* as being inappropriate.

Consolidated financial statements and combinations of entities according to OMF 94

Analyzing the Romanian economic environment, presently we can observe needs for general financial information on groups of companies, through consolidated accounts.

The current environment has the following characteristics:[21]

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[20] Ovidiu Bunget – *About enforcement of alternative accounting treatment allowed by IAS 21*, in the Magazine *Accounting, Expertise and Business Audit* no. 8/2004, p. 35

- existence of certain national financial and industrial groups, whose managers desire to know the group's image and power;

- certain multinational corporation penetrate through their subsidiaries, and they will ask the Romanian subsidiaries to prepare yearly accounts for consolidation purposes;

- future development of national financial market, stock exchange, change of companies' financing structure, from bank financing to public financing;

- development of capital markets, which will pledge listed companies leading a group to present group accounts together with the other statements;

- offering shares to various investors and quotation on foreign financial markets will be subject to accurate disclosure of the group's situation;

- purchase of majority packages in state owned companies proposed for privatization by foreign groups.

Companies applying *OMF 94* together with *OMF 1827* and which have investments in other companies, which they control or influence significantly, have to prepare consolidated financial statements beginning with 1 January 2005. In Romania there are already companies, which prepare financial statements according to IAS/IFRS, because they are part of a multinational group, which prepares consolidated financial statements or because various international financing bodies have requested them. But there also companies, which voluntarily started preparation of financial statement according to IAS/IFRS. They are aware that only a „presentation card," written in an international language could help them to be accepted in the international economic environment as viable business partners.

Information regarding transactions with related parties according to OMF 94

In Romania there are only few regulations regarding related parties. *OMF 94* has no specific provisions regarding related parties and transactions with related parties. But, according to *IAS 24*, companies preparing financial statement should disclose in the notes information in this matter.

According to paragraph 5.80. of *OMF 94* „Following information should be disclosed for each subsidiary, associated company or other entity in which the company holds strategic participations considered to be significant for that company's activity:

a) name of the subsidiary, associated company or other entity in which the company holds strategic participations;
b) address and set up country;
c) nature of activity;
d) type of shares and percentage owned by the reporting company;
e) date of the last financial year;
f) profit or loss of the year;
g) total capital and reserves at year-end.

OMF 94 requires details regarding salaries of administrators and directors active during the financial year; also, company's liabilities regarding pensions for former directors and administrators should be detailed, showing the total value for the above mentioned categories. Also, the company should disclose the amount of advances and credits granted

[21] Adriana Tiron Tudor – *Consolidated financial statements in view of IFRS enforcement in Romania*, in „Harmonization or convergence in the International Accounting Standards”, Bookkeepers' Congress in Romania, Bucharest, 3-4 September 2004, Editura CECCAR, p. 846

to directors and administrators during the financial year, showing the interest rate applied, the loan's terms, reimbursed amount to date, any other future liabilities like guarantee assumed by the company in name of its administrators and directors, as well as total values for each category.

3. Capital markets and the need for accounting information. The present stage of romanian accounting information towards eu accession

3.1 Evolution of European capital markets

The last century brought new players on the financial markets. They are the stock markets, which play an important role in international financing. Their role is in quantity and quality, different from what we have seen after the 2nd World War[22]. Capital markets have increased amazingly in respect of quantity. Presently they are in the heart of global economy, although in the last decades they also registered significant downs due to various agents, which hit certain parts of the world's economy.

Capital markets developed spectacularly from their emergence and up to now. The evolution of world capital markets in the last 10 years shows that the value of transactions on these markets represents almost double of the first year in the reference series (1995). During the analyzed period (tables no. 1 and 2), the number of companies listed on the world's main capital markets almost doubled and the connection between accounting information and capital markets is more powerful than ever.

The most important increase of transaction value is present on American capital markets, while Asia-Pacific is on top regarding increased number of companies listed on the regional stock markets. Although during the analyzed period Europe was not on top neither regarding stock capitalization nor regarding the number of listed companies, development of its capital markets complies with the global trend. Thus, in 10 years, the two parameters computed in our analysis classify Europe on a well-deserved place 2, sometimes 3, together with Africa and Middle East.

Table no. 1

Evolution of market capitalization (millions USD) on the main regional capital markets between 1995-2004:

Regional capital markets	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
American Continents	7644195.1	9385624.1	11857117.8	13552534.5	18041638.6	16450126.3	14852426.1	11931253.0	15643120.4	18 205 881,4
Europe - Africa – Middle East	4358084.2	5193290.1	6350118.8	8086916.2	10221267.8	9588015.5	7775272.9	6465542.4	9042108.8	11 074 907,0
Asia - Pacific	5121318.8	4950381.1	3513897.2	3796363.6	6712794.9	4918507.8	3968482.5	4437315.7	6517070.7	7 887 639,6
TOTAL	**17123598.1**	**19529295.2**	**21721133.8**	**25435814.3**	**34975701.3**	**30956649.6**	**26596181.5**	**22834111.1**	**31202299.9**	**37 168 428,0**

Source: World Federation of Exchanges

[22] World Federation of Exchanges, The Significance of the Exchange Industry, July 2004

Table no. 2

Evolution of the number of companies listed on the main regional capital markets between 1995-2004:

Regional capital markets	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
American Continents	10821	11525	11664	11341	11328	10549	9626	11602	11019	11150
Europe - Africa – Middle East	6377	6598	6804	7546	7703	9306	9112	12287	12452	9316
Asia - Pacific	7854	8245	8586	8687	8865	9445	17681	17736	17932	17583
TOTAL	**25052**	**26368**	**27054**	**27574**	**27896**	**29300**	**36419**	**41625**	**41403**	**38049**

Source: World Federation of Exchanges

Based on the fact that our study refers to the European Union and the European continent, by eliminating the last two regions from the group Europe - Africa – Middle East, for the period 1995 –2004 we can observe the same increasing of the number of companies listed on the main European stock markets. We should mention that the number of listed companies between 2003 -2004 in Europe - Africa – Middle East decreased not due to the non-quotation of a number of over 3000 companies, but due to the fact that the World Federation of Exchanges do not have information on the number of companies listed at the end of 2004 on BME Spanish Exchanges (Barcelona, Bilbao, Madrid and Valencia).

We consider that the number of companies transacted on the main European capital markets is relevant for the current evolution of the accounting harmonization process, taking place in the European Union. Thus, table no. 2 shows that at European level IFRS will impact on the financial statements of a significant number of capital companies, representing over 20% of the companies listed on the world's most important capital markets. These companies have to prepare financial statements according to IFRS standards beginning with the financial year 2005.

Evolution of number of domestic and foreign companies listed on the main European capital markets between 1995-2004 Table no. 3

Exchange	1995			1996			1997			1998			1999		
	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies
Athens Exchange	186	186	0	200	200	0	210	210	0	229	229	0	262	262	0
BME Spanish Exchanges(Spanish Exchanges for 1990-2001)	939	930	9	929	920	9	980	971	9	1,135	1,123	12	1,884	1,867	17
Borsa Italiana	254	250	4	248	244	4	239	235	4	243	239	4	270	264	6
Budapest SE								0			0			0	
Copenhagen SE	252	242	10	249	237	12	249	237	12	254	242	12	242	233	9
Deutsche Börse	1,622	678	944	1,971	681	1290	2,696	700	1,996	662	452	210	851	617	234
Euronext	1529	1044	485	1,509	1036	473	1534	1076	458	1,736	1,285	451	1,634	1,192	442
Irish SE	89	80	9		0		102	83	19	100	79	21	101	78	23
Istanbul SE	205	205	0	228	228		259	258	1	278	277	1	286	285	1
Ljubljana SE		0		45	45		78	78	0	90	90	0	130	130	0
London SE	2,502	1,971	531	2,494	2,041	453	2,513	2,046	467	2,423	1,957	466	2,274	1,826	448
Luxembourg SE	283	55	228	278	54	224	284	56	228	276	53	223	277	51	226
Malta SE		0		0	0			0		7	7	0	9	9	0
OMX Helsinki SE	73	73	0	115	113	2	126	124	2	131	129	2	150	147	3
OMX Stockholm SE	223	212	11	229	217	12	261	245	16	276	258	18	300	277	23
Oslo Bors	165	151	14	172	158	14	217	196	21	484	479	5	215	195	20
Swiss Exchange	449	216	233	436	213	223	428	216	212	424	231	193	412	239	173
Warsaw SE	65	65	0	142	106	36	143	143	0	198	198	0	221	221	0
Wiener Börse	148	109	39	83	83	0	138	101	37	128	96	32	114	97	17
Total region	8,984	6,467	2,517	9,328	6,576	2,752	10,457	6,975	3,482	9,074	7,424	1,650	9,632	7,990	1,642

Exchange	2000			2001			2002			2003			2004		
	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies	Total	Domestic Companies	Foreign Companies
Athens Exchange	310	309	1	314	313	1	324	323	1	332	331	1	341	339	2
BME Spanish Exchanges(Spanish Exchanges for 1990-2001)	2,385	2,354	31	3,024	2,991	33	3,015	2,986	29	3,223	3,191	32			
Borsa Italiana	297	291	6	294	288	6	295	288	7	279	271	8	278	269	9
Budapest SE	59	58	1	58	57	1	48	47	1	50	49	1	47	46	1
Copenhagen SE	235	225	10	217	208	9	201	193	8	194	187	7	183	176	7
Deutsche Börse	983	742	241	983	748	235	934	715	219	866	684	182	819	660	159
Euronext	1,216	1,216	NA	1,195	1,195	NA	1,484	1,114	370	1,392	1,046	346	1,333	999	334
Irish SE	96	76	20	87	68	19	76	62	14	66	55	11	65	53	12
Istanbul SE	316	315	1	311	310	1	288	288	0	285	285	0	297	297	0
Ljubljana SE	149	149	0	151	151	0	135	135	0	134	134	0	140	140	0
London SE	2,374	1,926	448	2,332	1,923	409	2,824	2,405	419	2,692	2,311	381	2,837	2,486	351
Luxembourg SE	270	54	216	257	48	209	245	48	197	242	44	198	234	42	192
Malta SE	10	10	0	12	12	0	13	13	0	13	13	0	13	13	0
OMX Helsinki SE	158	154	4	155	152	3	149	147	2	145	142	3	137	134	3
OMX Stockholm SE	311	292	19	305	285	20	297	278	19	282	266	16	276	256	20
Oslo Bors	214	191	23	212	186	26	203	179	24	178	156	22	188	166	22
Swiss Exchange	416	252	164	412	263	149	398	258	140	419	289	130	409	282	127
Warsaw SE	225	225	0	230	230	0	216	216	0	203	202	1	230	225	5
Wiener Börse	111	97	14	113	99	14	129	109	20	125	104	21	120	99	21
Total region	10,135	8,936	1,199	10,662	9,527	1,135	11,274	9,804	1,470	11,120	9,760	1,360	*7,947*	*6,682*	*1,265*

This analysis of the evolution of the number of foreign and domestic companies on Europe's main capital markets shows that the European Union's decision to enforce IFRS beginning with 2005 is fully justified and shall find partisans within the approximately 8000 companies listed in Europe at the end of 2004 (table no. 3). Over 6650 European companies and over 1250 foreign companies listed on European capital markets should have enforced international accounting standards beginning with 1 January 2005.

3.2 Conditions to be fulfilled by Romania in view of accession, inclusively regarding development of capital market and accounting harmonization

The situation in Romania is far away from the global and European situation of capital markets. This has at least two reasons:

- the capital market is under-developed, both the stock capitalization and the transactions volume being very reduced,
- the stock market has been used as main privatization instrument for state owned companies and hardly as a source for financing and assessing economy's financial health.

Through high interest rates due to inflation, banking authorities have stifled stock market's development. On the other hand, the Romanian stock exchange presented a low efficiency for the majority of bonds and shares issuers in Romania. The stock market alone could not create the premises for attracting capital financing. The development of a bonds market is compulsory as well and it would allow access to cheaper financing than bank loans, it would consolidate companies through substantial investments and also it could generate a high interest for the domestic population and investors.

The set up and development of capital market in Romania in the '90-is represents an essential element for the restructuring of the economic system and for the creation of mechanisms and institutions specific to an economy with competitive markets. These processes are investigated chronologically in two large stages:

I. 1992–2001 - set up the capital market's fundamental institutions.

II. 2002–2007 – institutional consolidation and capital market restructuring.

The first stage (1992–2001) has been a long gradual process, which led to the set up of organizations, preparation and implementation of regulations and set up and pursuit of capital market specific behaviors. The key moments in this first stage are the following:

1995 - reopening of the Bucharest Stock Exchange (BVB), an important moment for the debut of capital market's most important institution.

1996 - inauguration of Electronic Stock Exchange Rasdaq (BER) (inter-dealers electronic market) according to the American model NASDAQ. It is a communication network between merchants and brokers. Rasdaq is the result of the need for an institutional and technical frame for transactions on a secondary share market, according to the Privatization Program.

1997 - futures contracts have been transacted for the first time on the Stock Exchange for Monetary Assets and Merchandises Sibiu (BMFMS). The Stock Exchange for

Monetary Assets and Merchandises Sibiu is the first Romanian stock exchange, which transacted (and still transact) futures contracts and options on futures contracts.

The institutional reconstruction of capital market was not easy in this stage, starting from the legislative frame, together with the issue of educating people in the spirit of certain long forgotten or not known notions, process that still continues today.

The institutional structure of the stock market built in this stage is still up-to-date until accomplishing the restructuring process (developed in the next stage).

This stage stands for an imperfect legislative frame (neglecting the rights if minority investors), modest performances, reduced cash and low reaction speed in satisfying investors' needs.

The second stage, in progress, started in 2002, subject to Romania's preparations and negotiations in view of EU accession. The capital market's legislative and institutional reform has been started. Corporate governance could have a key-role in the functionality of the future consolidated capital market.

Capital market's restructuring started in 2002, when the legislative frame presently governing this field has been enforced. Subject to Romania's preparations and negotiations in view of EU accession, authorities launched the capital market's legislative and institutional reform through harmonization with the European Union's Directives in accordance with its current development stage.

The new legislation is based on the community's norms within the National Program for Romania's Accession to the European Union, the conclusions of the World Bank's Report regarding the Romanian capital market, the corporate management principles issued by the Organization for Economic and Cooperative Development (OECD), as well as on the expertise of other member states or EU candidates.

The National Commission for Movable Assets issued the Consolidated law for capital market, which combines the existing legislative frame, respectively the law regarding movable assets, financial investments services and regulated markets, as well as the law regarding regulated markets for merchandises and derivative financial instruments.

The future of the Romanian capital market could stay under enforcement of the Consolidated law for capital markets, which foresees the merger between stock exchange and RASDAQ and ensures a unique legislative frame for both secondary markets.

Based on the evolution of Romania's primary capital market, the Bucharest Stock Exchange, from its set up in 1995 until 2004 (table no. 4), one can observe that its evolution was not significant. The number of listed companies did not increase very much, but stock capitalization increased impressively lately, due to the low interest of Romanian companies for capital market financing, which in a certain way justifies the Romanian legislators' decision to delay IFRS enforcement for one year.

Table no. 4

Evolution of market capitalization (millions USD) and the number of companies listed on the Bucharest Stock Exchange between 1995-2004:

Romanian Capital Market (BVB)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of listed companies	9	17	76	126	122	110	60	60	57	55
Market capitalization mil USD	100,4	60,8	626,5	356,6	313,7	364	1103,1	2 489,0	3 403,5	10 964,7

Romania's objectives in view of EU accession

During the European Council from 16-17 December 2004, Romania received the political confirmation regarding closure of accession negotiation, thus closing the first stage of its EU accession calendar. Also, during the same summit, state and govern presidents reconfirmed the calendar's two temporal benchmarks – conclusion of the Accession Treaty in April 2005 and actual accession on 1 January 2007**.**

According to a CURS survey from August 2004, Romania's EU accession represents the main objective of the entire Romanian society, being supported by 75% of the Romanian voices. This support is doubled by the consent of all Romanian political parties regarding EU accession.

Accomplishment of the accession calendar represents a major political objective for the Romanian political class, supported by the entire Romanian society.

According to the summit from 16-17 December 2004, on medium term Romania has a series of priority action directions for ensuring a successful accession:

- to ensure the necessary conditions for concluding the Accession Treaty on the occasion of the Council for General Business and External Relationships, which will take place in April 2005. Presently, Romania prepares the Accession Treaty. After this Treaty, Romania's statute will change from candidate country to acceding country.
- after concluding the Accession Treaty, to prepare itself for observing the European institutions' activity. Thus, Romania will have its own representatives in the Council's working committees and groups, it will participate in activities within working groups administrated by the Commissions and it will be invited to send its national parliament members as observers to the European Parliament. Also, Romania will participate in the Regional Committee and in the Economic and Social committee.
- to intensify European communication campaign (in view of debates at EU level for bringing citizens closer to the Union and for disputing Euro-skepticism).
- to ensure continuous internal training. After finalizing negotiations, Romania enters into a strict monitoring stage by the European Commission, which will check fulfillment of engagements undertaken by Romania, by preparing a yearly Monitoring Report until the actual accession. Thus, in view of accession, Romania shall focus on priority fields like: consolidation of legal reform, corruption dispute, administration reform, preservation of positive track record in economy.

According to the European Treaty's provisions, the dialogue between Romania and the European Union develops within the Association Councils, the meetings of the Association Committee and of the regional Association Under-committees, as well as the Mixed Parliamentary Committee Romania-EU (set up on 20 April 1995). The Council's 10th reunion took place in Luxembourg, on 15 June 2004. The Romanian part presented the stage of accession preparations and negotiations, and the evolution of the commercial changes with the European Union. The Association Committee's latest meeting took place in Brussels, on 24 November 2004.

3.3 Bodies Involved in Establishing the European Strategy and the Romanian Strategy

At Union's level, the bodies involved in the normalization process are the following: The European Commission, The European Parliament, The European Union's Council. These superior forums have delegated part of their duties to certain specialized bodies.

The European Commission as independent political institution representing the interests of the European Union leads the institutional system: it proposes laws, policies and actions programs, being responsible for implementing the decisions of the European Parliament and Council. It also represents the Union at international level.

The European Parliament and Council have legislative duties, they prepare and issue laws through a common procedure.

IFRS enforcement mechanism at European Union's level is based on „IFRS Regulation", which stipulates that IFRS standards can only be enforced and applied in the European Union if they comply with the criteria mentioned in the Regulation. These criteria will be analyzed based on a procedure consisting of the following stages:

- technical evaluation of the process by EFRAG;
- enforcement by ARC;
- applicability decision issued by the European Commission;
- enforcement by the European Parliament and Council;
- translation in each of the European Commission's official languages;
- publishing as regulation in the European Official Gazette beginning with 1 February 2003.

Thus, for accomplishing accounting harmonization at Union's level, the Contact Committee for Accounting Directives, the European Commission's counselor in this field has been replaced by other bodies beginning with 2001. Presently there is a two level approval and enforcement mechanism for the implementation of IFRS 2005 Regulation. These two levels are the following:

- *The Accounting Regulatory Committee* (ARC), which deals with the regulation's political part and consists of various professional bodies representing member states, being chaired by the European Commission.
- *The European Financial Reporting Advisory Group* (EFRAG), which consists of a Supervising Committee and a Technical Committee. EFRAG deals with the technical part of accounting regulations.

The central pawn in this informational system is the European Commission. It regularly communicates with the Accounting Regulatory Committee about IASB's projects in progress and all other documents issued by this body. The communication aims to coordinate pros and cons at the level of the European legislators with those within IASB and to facilitate discussions regarding enforcement of resulting standards. The Commission's intention not to propose enforcement of a certain standard should also be communicated to ARC in due time.

EFRAG, a technical body, assists ARC in its work. EFRAG has the following duties:

- to effectively participate in the process developed by IASB;
- to assist European institutions in identifying conflicts between European directives and IAS/IFRS standards and to recommend proper adjustments;
- to assist European institutions in accepting or refusing enforcement of certain IAS/IFRS standards or corresponding interpretations by the European Union;
- to identify aspects in which IASB's guidance toward a certain standard in the European Union is not enough and to notify IASB about available solutions;
- together with the European value commissions to implement a specific orientation relevant for the listed European companies.

Besides its role regarding improvement of coordination between the European Stock Commissions, the *Committee for European Stock Resources* (CESR) is also an advisory committee, which assists the European Commission and EFRAG's Technical Committee in problems regarding financial reporting of listed companies and implements them at stock exchange level.

Romanian Accounting Normalization Body is a public one. It couldn't be different because Romanian legislative background is based on code laws (particular to the European continental countries) and after 1989 a French inspired accounting model was implemented. *General Department for Accounting Regulation* of the *Finance Ministry* is charged with the elaboration of norms that ruled the accounting of the organization which develop their activity in Romania.

In 1999, anticipating the EU intentions in the harmonization field, some institutions has put into practice an Accountancy and Audit Perform Project whose main target was the implementation of the international accounting standards (presented in paragraph 2.3)

Although the Accountancy and Audit Perform Project of the Finance Ministry has tried a change of attitude regarding the Romanian accounting doctrine by its reorientation towards the IASB standards, its supposes an opening towards the anglo-saxons concepts but this hasn't led to the transfer of the regulation power of some private bodies.

In its accounting regulation activity the Finance Ministry is advised by an *Accountancy Consultative College*. As an opening to the international practice the Romanian Government has decided this year to found an independent supervised body, *Accounting and Financial Reporting Council*, to assure the correlation between the national rules and practice in the accounting and financial audit field and the EU standardization. This institution coexists with the two liberal accounting professional organizations: *The Romanian Body of Experts and Authorized Accountants* (CECCAR) and *Romanian Chamber of Financial Auditors* (CAFR) that have a role limited to counseling their members, without having a decisional power in the Romanian normative accounting system.

National Securities and Exchange Commission plays a simple consultative role. In our opinion its role is insignificant in the elaboration of accounting national rules.

3.4 Case Studies. The Ascertainment of Some Inconsistencies Highlighted from the Romanian Accounting Practice which Make the Distinction from the IFRS Application

We try to highlight the inconsistencies noted in the Romanian accounting practice on the bases of some case studies presented as follows.

IAS 21

For illustrating the differences brought in Romania by enforcement of International Accounting Standard IAS 21 „Effects of exchange rates variation", we present the case of a Romanian readymade clothing company. This company capitalized exchange rate differences related to a loan contracted for the purchase of non-current assets; we mention that the company's reporting currency is the Romanian Leu (ROL).

In 2001, SC Confecții România SRL contracted a loan in amount of EUR 1,500,000 for a period of 3 years. As at 31 December 2003, the company's liabilities toward the bank amounted to EUR 500,000. For the 2003 financial statements, the company revalued the liability in hard currency according to the exchange rate as at 31 December 2003, of ROL 41,117 / EUR 1. The company had revalued its liabilities in hard currency at the end of 2002, when the exchange rate was of ROL 34,919 / EUR 1.

Unfavorable exchange rate differences as at 31.12.2003 = 500,000 * (41,117 – 34,919) = KROL 3,099,000 KROL

Thus, as at 31 December 2003, SC Confecții România SRL registered in the value of tangible assets an amount of KROL 3,099,000 representing exchange rate differences. This practice is not in accordance with the provisions of Ordinance no. 94/2001 issued by the Finance Ministry. Section V „Accounting principles and regulations", paragraph 5.13 of this Ordinance stipulates that the alternative treatment allowed by IAS 21 regarding inclusion of unfavorable exchange rate differences in the book value of the related assets, cannot be applied.

Balance sheet as at 31 December 2003

-KROL-

Assets	Variant ***Non-capitalization***	Adjustments	Variant ***Capitalization***
Non-current assets	126.830.517	3.099.000	129.929.517
- intangible	3.270.562	0	3.270.562
- tangible	*122.036.217*	*3.099.000*	*125.135.217*
- financial	1.523.738	0	1.523.738
Current assets	49.683.612	0	49.683.612
Prepaid expenses	185.581	0	185.581
TOTAL ASSETS	***176.699.710***	***3.099.000***	***179.798.710***

-KROL-

Liabilities	Variant **Non-capitalization**	Adjustments	Variant **Capitalization**
Short-term liabilities	35.647.693	0	35.647.693
Long-term liabilities	5.255.697	0	5.255.697
Provisions for risks and expenses	0	0	0
Pre-registered revenues	104.460	0	104.460
Share capital	135.691.860	3.099.000	138.790.860
TOTAL LIABILITIES	**176.699.710**	**3.099.000**	**179.798.710**

IAS 38

SC Confecții România SRL has been set up in year 2000, in Romania. The Company registered in intangible assets expenses regarding prospecting and promotion in amount of KROL 2,300,356. This practice ***is not*** in compliance with IAS 38 „Intangible assets", which stipulates that these expenses should not be recognized as intangible assets, but when they are incurred. This has an impact on the relevant financial year.

According to Ordinance no. 94/2001 issued by the Finance Ministry, Section V "Accounting principles and regulations", paragraph 5.21, *„Companies are allowed to capitalize set up expenses. In this situation, the amount registered in tangible assets will be depreciated systematically over a period of maximum 5 years. Items included in the set up position will be disclosed in the explanatory notes."*

SC Confecții România SRL classified its set up expenses according to OMF no. 94/2001, by capitalizing them. But this practice is not in compliance with IAS 38 „Intangible Assets". Thus, as at 31 December 2003, the non-depreciated value amounted to KROL 920,143 (KROL 2,300,356 – KROL 1,380,213). Yearly depreciation for set up expenses amounts to KROL 460,071 (KROL 2,300,356 / 5 years). For the non-capitalization variant, we considered that besides intangible assets, this treatment also impacts on the results of the previous years included in share capital.

Balance sheet as at 31 December 2003

-KROL-

Assets	Variant ***Capitalization***	Adjustments	Variant ***Non-Capitalization***
Non-current assets	126.830.517	(920.143)	125.910.374
- intangible	*3.270.562*	*(920.143)*	*2.350.419*
- tangible	122.036.217	0	122.036.217
- financial	1.523.738	0	1.523.738
Current assets	49.683.612	0	49.683.612
Prepaid expenses	185.581	0	185.581
TOTAL ASSETS	***176.699.710***	***(920.143)***	***175.779.567***

-KROL-

Liabilities	Variant Capitalization	Adjustments	Variant Non-Capitalization
Short-term liabilities	35.647.693	0	35.647.693
Long-term liabilities	5.255.697	0	5.255.697
Provisions for risks and expenses	0	0	0
Pre-registered revenues	104.460	0	104.460
Share capital	*135.691.860*	*(920.143)*	*134.771.717*
TOTAL LIABILITIES	***176.699.710***	***(920.143)***	***175.779.567***

IAS 12

The following example presents the case of SC Metalconstruct SA, which for the first time enforced Ordinance no. 94/2001 issued by the Finance Ministry (OMF 94) for the restated financial statements as at 31 December 2002.

The company had the advantage of the fiscal facility stipulated by Law no. 414/2002, which allowed recognition of an additional expense of 20% of non-current assets newly commissioned for profit tax purposes. This facility comes together with the company's obligation of retaining in dividends of amounts representing additional profit resulted from this facility. According to the law mentioned above, profit tax rate is 25%.

In 2002 purchase of tangible assets amounted to KROL 17,591,600.
Additional depreciation computed at commissioning is the following:
20% * KROL 17,591,600 = KROL 3,518,320
Decrease of profit tax = 25% * KROL 3,518,320 = KROL 879,580

In 2002 enforcement of this law determined a decrease of liabilities toward state budget in amount of KROL 879,580 regarding current profit tax.

Before preparing financial statements according to Ordinance no. 94/2001 issued by the Finance Ministry, the Company could not book this temporary difference. The only was for disclosing it consisted in transferring this „current tax decrease" in capitals - „Other reserves", because the law settling profit tax did not allow distribution on dividends.

As at 31 December 2002, when the financial statements have been restated according to the International Accounting Standards, respectively through OMF 94 in Romania, deferred tax generated by fiscal facilities has been reflected in the company's accountancy by reclassifying capital elements previously registered in reserves as being deferred tax liabilities (current portion: KROL 124,349).

- KROL -

Liabilities	***Before restatement***	Adjustments	***After restatement***
Short-term liabilities	*78.755.707*	*+ 124.349*	*78.880.056*
Long-term liabilities	*10.935.091*	*+ 755.231*	*11.690.322*
Provisions for risks and expenses	0	0	0
Pre-registered revenues	1.338.149	0	1.338.149
Share capital	*38.505.137*	*(879.580)*	*37.625.557*
TOTAL LIABILITIES	***129.534.084***	***0***	***129.534.084***

Conclusions

Actual enforcement of IFRS standards in Romania shall be accomplished in two significant stages:

I) Between 1 January 2005 – 31 December 2005 – transition period, also called restatement or comparative period. In this stage, the reference system mentioned above (OMF 94/2001 or OMF 306/2002) represents the basis of accounting and the financial statements are prepared according to this reference system.

Following activities take place in this stage:

- recognition of assets, liabilities and capitals according to IFRS requirements;
- recognition of assets and liabilities that are not allowed by IFRS standards;
- reclassification of all assets and liabilities according to IFRS standards;
- revaluation or readjustment of assets, liabilities and capitals according to IFRS standards, using fair value as cost estimate.

All differences resulted from recognition, non-recognition and valuation adjustments will be treated as capital items, thus valuing the concept of capital preservation, which was presented within the general frame of IFRS.

II) The period 1 January 2006 – 31 December 2006 stands for actual enforcement. The first financial statements according to IFRS standards will be prepared during this period, in which information presented in the financial statements as at 31 December 2005 will be restated according to IFRS standards. In order to ensure comparatives, the restatement impacts both on the initial information as at 1 January 2005 and on the final information as at 31 December 2005. In other words, all IFRS standards will be applied retroactively, so that the first financial standards according to IFRS standards will be prepared as at 31 December 2006.

The implications of IFRS enforcement especially concern the following matters:

a) perception of significant aspects and their potential impact;
b) planning, responsibility assignment and problem solving;
c) personnel training regarding the new systems and practical implications of IFRS standards;
d) generate new information and ensure quality;
e) adapt programming systems and procedures according to IFRS requirements;

f) eliminate possible deficiencies in financial operations from IFRS perspectives;
g) prepare budgets and forecasts according to IFRS requirements;
h) development of a communication strategy intended for preparing the market and the parties involved for the potential impact on the main performance indicators according to IFRS standards;
i) evaluation of impact on data used for the national financial reporting.

There are various reasons for Romania adopting the IASB reference system, but most of them are subordinated to the central aim, respectively EU accession.

But there are also some secondary reasons required by the IAS/IFRS transition, which in our country is less present than in economic developed countries. In our country accountancy is subordinated to the taxation system, financing still comes prevalent from banks and very few Romanian companies are listed on foreign capital markets. Among the secondary reasons, we mention:

- harmonization with internationally recognized standards;
- improvement of comparability of international companies' financial statements;
- filling needs of financial analysts and investors;
- improvement of access on international capital markets.

IFRS enforcement represents more than a change of accounting regulations. It is a new performance valuation system – a new system of procedures, which should be enforced at organizational level. This will change the working manner and will possibly dictate decisively changing regarding strategic and accounting management.

IFRS enforcement will also change the whole reporting basis for a wide range of users. The company should allocate considerable time for planning and implementation of the necessary changes and for their integration at company level.

Companies should analyze the differences between IFRS standards and national accounting regulations. Among the differences between IFRS standards and OMF 94/2001 we mention accounting for inflation and accounting of combinations of companies, which have been specifically excluded from OMF 94/2001. Other differences concern requirements regarding financial instruments and deferred tax, which although stipulated by OMF 94/2001, have been hardly applied in practice. Requirements regarding valuation of tangible assets and depreciation of assets have been inconsistent in many cases as well. Also, the impact of IFRS enforcement on a company's financial statements could be influenced by the economic field in which the company develops its activity and by the Romanian accounting regulations applied before. The companies involved should ensure themselves that procedures are implemented efficiently, and that operational activity will continue without disturbance during the transition to IFRS standards.

By enforcing IFRS, companies will adopt a global financial reporting language, which will allow an accurate perception, regardless of the users' identity. Many European companies already observed that by enforcing IFRS standards they have access to international capital markets, they could reduce expenses and unroll international transactions easier. It is improbable that a financial reporting, which is not easy understood by all its users, would offer new business opportunities or additional capital.

Therefore, a significant number of companies, either voluntarily enforce IFRS standards, or they are pledged by the government to do this.

Communication in a single language ascertains a high level of trust and increases access possibilities to the capital market. It also allows multinational groups to apply common accounting principles for all subsidiaries, which could optimize internal communication, as well as the quality of reporting to management. Meanwhile, IFRS enforcement could facilitate purchase and sales procedures, by ensuring a high level of trust, and relevance and consistency of accounting interpretation.

On markets with an increasing competition level, IFRS enforcement allows companies to compare themselves with similar companies at international level and allows investors and other users to compare the company's performance with global competitors.

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