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## **FINANCIAL-ACCOUNTING SETTLEMENTS APPLYING IN 2008**

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### Summary:

As a result of the adhesion of our country to the European Union, the adaptation of the EC financial-accounting legislation has emerged as a necessity, new settlements starting to apply with the beginning of the financial exercise 2006.

The improvement of the Romanian accounting system has as a main objective the harmonization of the national legislation with the European directives in the domain, in order to accomplish and answer the requests of the European Union, as well as to align itself to the International Accounting Standards, a situation imposed by the process of economic globalization and by the development of the capital market.

The improvement of the accounting activity manifests itself especially by the efforts to insure a common framework, approved at international level, to draw up and present financial reports, by which to offer relevant and credible information to shareholders, to potential investors, to employees, clients, suppliers as well as to other commercial, governmental or institutional beneficiaries as well as to other users interested in the financial-accounting information at the level of economic operator.

An essential objective is represented by the perfecting of the business environment, within the framework of which the accounting and financial audit system has a main position, insuring correct information, rigorously obtained, on the basis of international standards and certified as a result of the audit processes with a view to the normal unfolding of economic activities in all the sectors of the national economy.

## FINANCIAL-ACCOUNTING SETTLEMENTS APPLYING IN 2008

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As a result of the adhesion of our country to the European Union, the adaptation of the EC financial-accounting legislation has emerged as a necessity.

The process of adaptation of financial-accounting legislation to the EU norms began in the pre-adhesion period, when, by O.M.F.P. no 1752/2005 there were introduced new accounting settlements according to the IV<sup>th</sup> Directive of the European Economic Communities 78/660/EEC regarding annual accounts of certain types of commercial societies, settlements, settlements that were applied for the financial exercise of the year 2006 by all juridical persons foreseen at article 1, line (1) from the Accounting Law no 82/1991, republished in 2005. Mother-societies that complied with certain conditions, starting with the financial exercise 2006 also had to draw up annual consolidated financial reports according to accounting settlements in accordance with the VII<sup>th</sup> Directive of the Council of Europe.

Subsequently, by O.M.F.P. no 2001/22.11.2006 these settlements were modified and completed taking into account the provisions of the Directive 2006/46/EC of the European Parliament and of the Council of Europe. By O.M.E.F. no 2374/12.12.2007 there were brought new changes and completions of the accounting settlements applicable starting with the financial reports of the year 2007.

By O.M.E.F. no 2374/2007 there were brought new modifications and completions of the accounting settlements applicable starting with the financial reports of the year 2007.

These accounting settlements bring new elements concerning:

- the responsibility of the management of the commercial society as far as the drawing up and the presentation of the financial situations are regarded;
- the closing of the financial exercise;
- the applied accounting treatments and the evaluation of the balance sheet elements;
- the completion of the general accounts plan with new accounts;
- the introduction of a new chapter “Accounts function”.

### **1. The responsibility of the management of the commercial society as far as the drawing up and the presentation of the financial situations are regarded**

Starting with the financial exercise 2007, the annual financial reports as well as the consolidated annual financial reports must have clearly inscribed the surname and first name of the person who drew them up, his/her function (economic manager, chief-accountant or other person authorized to fulfill this function, person authorized according to the law, member of the Corps of Expert Accountants and Authorized Accountants from Romania), as well as the number of registration in the professional organism, in case it is needed.

The annual financial reports, the administrators’ report and the audit report or the verification audit, if in case, are published according to the law.

The consolidated annual financial reports, approved accordingly, and the consolidated report of the administrators, together with the opinion presented by the person responsible with the audit of consolidated annual financial reports, are published by the entity that drew up the consolidated annual financial reports, according to the legislation in force.

The accounting organization and management are done in distinct compartments, ran by the economic manager, the chief-accountant or by another person authorized to fulfill this

function. These persons must have graduated university economic studies. The accounting can be organized and lead on the basis of service agreements in the domain of accounting, concluded between physical or juridical persons, authorized according to the law, members of the Corps of Expert Accountants and Authorized Accountants from Romania.

The responsibility for the inadequate application of accounting settlements is incumbent upon the economic manager, the chief-accountant or another person authorized to fulfill this function, together with the subordinate staff. In the case in which accounting is lead on the basis of service agreement, the responsibility for the accounting management is incumbent upon the authorized physical or juridical person, according to the law and agreement provisions.

The persons appointed as fiscal representative/ authorized agents, according to the Fiscal Code and to the Fiscal Procedure Code manage their own accounting depending on their status of physical or juridical persons, according to the case. In the case where there are juridical persons, these persons draw up annual financial reports and periodical accounting reports.

The permanent headquarters in Romania that pertain to juridical persons with premises abroad represent from an accounting point of view subunits without juridical personality that pertain to these juridical persons and are obliged to draw up annual financial reports and periodical accounting reports requested by law.

## **2. The closing of financial exercise**

At the closing of financial exercise, the amounts representing reserves made up of the profit from the current financial exercise, on grounds of legal provisions, is registered by the accounting article no 129 « Distribution of profit »= 106 « Reserves ». The accounting profit which is left after this distribution is taken over at the beginning of the financial exercise following the one for which annual financial reports in the account 117 « Reported result », from where it is will be distributed by means of the other legal destinations. The emphasis in accounting of the destinations of the accounting profit after the general meeting of shareholders and associates who approved the profit distribution, by the registering of sums representing dividends due to shareholders or associates, reserves and other destinations, according to the law. On the registrations done regarding profit distribution we cannot revert to.

The closing of the accounts 121 and 129 is done at the beginning of the financial exercise following the one for which annual financial reports are drawn up. Consequently, the two accounts appear with the corresponding balance in the balance sheet drawn up for the financial exercise which the annual financial reports refer to.

The reported accounting loss is covered from the profit of financial exercise and from the profit of the reported financial exercise from reserves, capital bonus and social capital, according to the decision of the general meeting of shareholders or associates, abiding by the legal provisions. In the absence of express legal provisions, the order of sources from which is covered the accounting loss is chosen by the general meeting of shareholders or associates, respectively by the general meeting of the council of administration.

The correction of errors afferent to previous financial exercises does not determine the change of financial reports of these exercises. In the case of errors afferent to previous financial exercises, their correction does not suppose the adjustment of comparative information presented in financial reports. Comparative information regarding the financial position and the financial performance, respectively the modification of the financial position, are presented in explanatory notes.

### 3. Applied accounting treatments and evaluation of balance sheet elements

The liquidation of the value of immobilized assets with limited periods of economic use is done systematically, reducing their accounting value. The accounting value of these assets is the value presented in the balance sheet, being represented by the purchasing cost, the production cost or by other values that substitute cost, diminished with the cumulated liquidation till that date, as well as with losses cumulated from devaluation.

A sales transaction of the asset and the rental of the same asset results in *financial leasing*, the transaction represents a means by which the locator gives a grant to the lodger, the asset representing a warranty. The entity benefiting by the grant (the lodger) will not recognize in accounting the sale of the asset, not being achieved the conditions of recognition of incomes.

The financing operation will be emphasized by the accounting article:

512 « Current accounts at banks » =167 « Other assimilated loans and debts » and afterwards the interest and other financing costs, according to concluded agreements, will be registered according to the law.

If the transaction of sale and rental of the same asset results in an *operational leasing*, the selling entity accounts for a sales transaction with the registration of taking off the book-keeping record the asset and the amounts cashed or to be cashed. The operation of rental of the asset in an operational leasing regime is accounted for by the user.

With these operations, the contracting entities will present information regarding the unfolded operations in explanatory notes to annual financial reports.

*At the evaluation of the cost of a corporal immobilization*, we take into account the following costs directly attributed to this cost:

-costs representing the employees' salaries, legal contributions and other expenses linked to these contributions;

-material expenses;

-costs with arranging the location;

-initial costs of delivery and manipulation;

-costs of installation and assemblage;

-costs of projection and for obtaining authorizations;

-professional fees paid to lawyers and experts and so on.

In the cost of a corporal immobilization there can also be included the costs initially estimated with the dismantling and its relocation to being taken off the report, as well as with the restoration of the site on which the fixed asset is located, when these amounts can be credibly estimated and when the entity has an obligation linked to the dismantling, the relocation of the corporal immobilization and of renovation of the location.

The estimated costs with dismantling and relocation of the corporal immobilization, as well as those with the restoration of the location are recognized in its value, in correspondence with a commission account (account «Commissions for the change of destination of a corporal immobilization and other actions similar to this one »).

The expenses linked to corporal immobilizations used on the basis of a rental agreement, location management or other similar agreements is emphasized in the accounting of the entity which concluded them, at corporal immobilizations or as expenses in the period during which they were concluded, depending on the afferent economic benefits, similarly to the expenses made in connection with own corporal immobilizations.

The investments made with corporal immobilizations taken on a rental regime, during the rental agreement are also subject to liquidation.

At the expiration of the rental agreement, the value of made investments and of the corresponding liquidation is incumbent to the owner of the immobilization/fixed asset.

Depending on the riders in the rental agreement, the transfer can represent a sale of assets or other means of yielding.

If an entity recognizes in the accounting value of a corporal immobilization the cost of a partial replacement (replacement of a component), then this emphasizes the accounting value of the replaced part, with the afferent liquidation, if it disposes of necessary information.

The entities can proceed to the reevaluation of corporal immobilizations existent at the end of the financial exercise, so that these be presented in the accounting report at their right value, reflecting the results of these reevaluations in the financial reports drawn up for this exercise.

The liquidation calculated for the reevaluated corporal immobilizations is registered in accounting beginning with the 1<sup>st</sup> of January of the year following the one during which the reevaluation was done.

The evaluations made on the occasion of reorganization of enterprises (merges or divisions) do not constitute reevaluation in the sense of the present accounting settlements, these evaluations being done in order to establish the exchange relationship, for all the elements in the balance sheet.

In the category of purchased goods accompanied by notification of accompanying the goods, the invoice being issued afterwards, the exchange rate used at the registration in accounting is the exchange rate at the date of goods' reception.

At the *constitution of a commission*, the current obligation taken into account can be a legal obligation or an implicit obligation. The legal obligation is the obligation that results from an agreement (explicitly or implicitly), from legislation or from other law effect. The implicit obligation is the obligation that results from the actions of an entity in the case in which the entity has indicated to his partners that he assumes certain responsibilities and, as a result, the entity has induced to his partners the idea that he will honor these responsibilities. The implicit obligation is, for instance, the obligation by which an entity engages itself to make compensating payments to the fired staff.

The value of the commissions for pensions is established by specialists in the domain.

The commissions with reorganization, in the case of a legal obligation, are constituted abiding by the general conditions of recognition of commissions and of legal provisions. At the constitution of these commissions, the entity must comply with the following conditions:

a) to dispose of a detailed official plan for reorganization, that stipulate at least:

- the activity or the part of activity which it refers to;
- the main locations affected by the reorganization plan;
- the approximate number of employees who will receive compensations for ceasing the activity, distribution and their jobs;
- the costs involved;
- the date when the reorganization plan will be implemented;

b) it provokes to those affected an expectation that it will achieve the reorganization by beginning the implementation of this plan or by announcing its main features to those affected by the plan.

In the case where an entity begins a reorganization plan or announces its main characteristics to those affected only after the balance sheet date, if the reorganization is significant and the non-presentation could influence the economic decisions of users – decisions made on the basis of financial reports, it is necessary to present information in this sense.

An afferent commission for reorganization must include prices such as those linked to re-qualification or relocation of permanent staff, of marketing and investments in new systems

and new distribution networks. These expenses referring to the future administration of the activity do not represent reorganization debts at the date of the balance sheet.

In the *profit and loss account*, there will not be recognized the gains and losses linked to the issue, redemption, sale, or yielding for free or the cancellation of instruments of own capitals of the entity (shares, social parts). The equivalent amount received or paid as a result of these operations is directly recognized in own capitals and it is presented distinctly in the balance sheet, such as follows:

-gains are reflected in the account 141 « Gains linked to the sale or cancellation of instruments of own capitals »;

-losses are reflected in the account 149 « Losses linked to the issue, redemption, sale or yielding for free or cancellation of instruments of own capitals ».

Gains linked to the instruments of own capitals are determined as difference between the price of sale of instruments of own capitals and their redemption value, respectively between the nominal value of annulled instruments and their redemption value.

Losses linked to instruments of own capitals are determined as difference between the redemption value of instruments of own capitals and their sale price, respectively between the value of redemption of annulled instruments and their nominal value.

The expenses linked to the issue of instruments of own capitals are directly reflected in own capitals (account 149 « Losses linked to the issue, redemption, sale or yielding for free or cancellation of instruments of own capitals ») when there are not met the conditions for their recognition as non-corporal immobilizations (account 201 « Constitution expenses »).

The credit balance of account 141 « Gains linked to the sale or cancellation of instruments of own capitals », respectively the debit of account 149 « Losses linked to the issue, redemption, sale or yielding for free or cancellation of instruments of own capitals » can increase, or decrease, the amount of other reserves (account 1068 « Other reserves »).

***In conclusion***, the improvement of the accounting system in our country has as a main objective the harmonization of national legislation with the European directives in the domain, in order to accomplish the requirements of the European Union, as well as the alignment at the International accounting standards, situation imposed by the process of globalization and of development of the capital market.

The improvement of the accounting activity manifests itself especially by the efforts to insure a common framework, approved at international level, to draw up and present financial reports, by which to offer relevant and credible information to shareholders, to potential investors, to employees, clients, suppliers as well as to other commercial, governmental or institutional beneficiaries as well as to other users interested in the financial-accounting information at the level of economic operator.

We consider that for Romania, an essential objective is represented by the perfecting of the business environment, within the framework of which the accounting and financial audit system has a main position, insuring correct information, rigorously obtained, on the basis of international standards and certified as a result of the audit processes with a view to the normal unfolding of economic activities in all the sectors of the national economy.

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