

HARMONIZATION OF ACCOUNTING REGULATION AND PRACTICE IN ROMANIAN ENTERPRISES

ARMONIZAREA REGLEMENTĂRILOR ȘI PRACTICILOR CONTABILE ÎN ÎNTREPRINDERILE DIN ROMÂNIA

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Abstract. *The harmonization of financial accounting is seen as a mean of facilitating the circuit of capital and the globalization of financial markets by enhancing investors' ability to make informed decisions regarding investment alternatives. Currently situated between IAS/IFRS and European Directives, Romanian accounting follow two major approaches: studies of international accounting standards and other regulations, to their gradual assimilation into the Romanian specialty law (de jure harmonization) and studies analyzing the accounting practices of corporations within a given regulatory framework (de facto harmonization), in order to report an understandable, relevant and comparable information, under the changed regulatory environment. The ultimate goal is to facilitate access of Romanian companies to European and international capital markets, with direct implications on improving the Romanian economy and the increasing infusions of foreign capital in the enterprises. In the context in which accounting is the formalized language of communication in the business world, it aims to overcome the crisis faced by the Romanian economy, at 20 years from the transition to market economy.*

Keywords: globalization, de jure harmonization, de facto harmonization, European directives, International Financial Reporting Standards

Rezumat. *Armonizarea contabilității are drept scop facilitarea circuitului capitalurilor și a globalizării piețelor financiare, prin sprijinirea capacității investitorilor de a lua decizii informate privind alternativele de investiții. Aflată în prezent între IAS/IFRS și Directivele europene, contabilitatea românească urmărește două obiective: de pe o parte, studierea standardelor și reglementărilor internaționale în domeniu, în vederea asimilării lor treptate în legislația de specialitate din România (armonizare de jure), iar pe de altă parte studierea celor mai bune practici (best practice) ale companiilor (armonizare de facto), în scopul de a raporta o informație inteligibilă, relevantă și comparabilă, în condițiile unui mediu de reglementare în continuă schimbare. Scopul final este facilitarea accesului întreprinderilor românești pe piețele de capital europene și internaționale, cu implicații directe asupra îmbunătățirii economiei românești și asupra sporirii infuziilor de capital străin în întreprinderi. În contextul în care contabilitatea este limbajul formalizat de comunicare în lumea afacerilor, ea urmărește astfel depășirea mai rapidă a situației de criză cu care se confruntă economia românească, la 20 de ani de la trecerea la economia de piață.*

Cuvinte cheie: globalizare, armonizare de jure și de facto, Directive europene, Standardele Internaționale de Raportare Financiară

INTRODUCTION

In the construction of financial information, the accountant has to harmonize many interests, often divergent, related to its use: manager's interest (linked by the image of the company and by his own image and, last but not least, by taking long-term decisions), his own interest (which is limited more to the professional prestige) and general interest, represented by all other users of accounting information (investors, employees, state, public, etc.).

But this goal can be achieved with reference to a framework, seen as a set of rules, principles, methods and techniques, plus accountant's judgments resulting from the experience, moral values and discussions with other specialists (Dicu R.M., 2004). All these converge to one indisputable fact: the link between economic activities and policy makers is provided by accounting - an essential component of economic information - and its product, the account information, obtained in terms of true and fair view. In addition, dissemination of information must be made before it loses its ability to influence decisions. The movement of global information changes investors' experience. The companies able to provide this information will have an advantage because they will reduce the risk. The question is to know what impact instantaneous information has on press releases and analysts' reports.

MATERIAL AND METHOD

In this study, we started our research from the national accounting regulations, the accounting regulations applicable in Europe (EU Directives), the International Financial Reporting Standards and the literature focused on the topic of harmonization of Romanian accounting. First, the method of research involved making comparisons between the national and international regulations, as regards the rules applicable in financial reporting of companies.

The results and conclusions regarding this topic are presented below.

RESULTS AND DISCUSSIONS

Facing the international challenges, Romanian accounting could not remain without reflexes. She has adapted to the processes of normalization, harmonization and convergence, both through national institutions and the supervisory bodies of the equity market, with the participation of the organisms representing accounting profession (CECCAR and CAFR). Romanian accounting is currently in the implementation phase of European Directives (OMPF no.1752/2005), in parallel with actions for the implementation of International Financial Reporting Standards (IAS/IFRS).

In this context, the trends and prospects for Romanian accounting normalization are aligning to the European and global context, continuing their development in the following directions: on the one hand, the extended application of IFRS in the preparation of the annual financial statements and the

conformity with them, and, on the other hand, further transposition into national accounting standards of European directives as they are developed or modified, both in the elaboration of rules and their proper application.

Romania's adherence to the EU legislation required the compliance of Romanian accounting and auditing regulations with the community acquis. Once the regulations were under European Directives and developed, the problem was continuing to maintain such compliance in the context of the current quality of EU membership of Romania. We consider that the regular updates and changes of European Directives have to be taken into consideration in Romanian legislation.

The Order of the Minister of Public Finance (OMPF) no.1752/2005 is one of the Rumanian regulations that has caused significant changes in accounting according to European directives. This order is an integral part of the acceptance of the community acquis. Through OMPF no.1752/2005, Romanian supervisory bodies first brought the compliance of accounting with European Directives (Popescu L., 2007).

The fourth Directive (78/660/CEE) has been fully transposed into national regulations, through the Accounting Law no.82/1991, the Rules for applying it (Government decision no. 704/1993), OMPF no. 94/2001 and, recently, OMPF no. 1752/2005.

Overall, the application of this Directive seeks the coordination of the guarantees required from the Member States of the European Union and, of course Romania, regarding the structure, contents and publication of annual accounts (name used for the financial statements in the fourth EU Directive).

The seventh Directive (83/349/CEE) was taken into Romanian legislation by developing the Methodological Norms on the consolidated accounts, rules approved by OMF no. 772/2.06.2000, for then to be included in OMPF no.1752/2005. Preparation of consolidated accounts is conditioned, in accordance with the provisions of this Directive, by the fulfillment of some performance criteria of the parent company, the criteria relate to: holding the majority of the voting rights of shareholders in the subsidiary, the right to appoint and dismiss members of the administrative board, the management and control of the subsidiary, the right to exercise a dominant influence over a subsidiary that is a shareholder or member, etc.

The eighth Directive (84/253/CEE) on financial audit has been replaced by Directive 2006/43/CE, to better respond to the need for certification of the annual financial statements of the economic entities through the methodology offered by financial audit.

The fourth and the seventh Directives have been modified by Directive 2006/46/CE. The deadline for transposition of this directive into national and administrative regulations was the 5th of September 2008. The first step in including it in Romanian regulations was made by OMPF no. 2001/2006, amending and supplementing OMPF no.1752/2005. By this order, there was a partial transposition of Directive 2006/46/EC in accounting rules applicable to companies as follows: new requirements on the information presented in the notes

concerning commercial commitments that are not included in the balance sheet, transactions with related parties (OMPF no.2001/2006, pt.5-6); requirements for inclusion a statement on corporate governance in the annual report (OMPF no.2001/2006, pt.8), including the obligation and the responsibility for preparation and publication of the annual financial statements and annual report. In the same order, penalties for inobservance of the accounting rules are presented in the Accounting Law no.82/1991.

See that the importance accorded to corporate governance brings changes in the financial reporting, including the reports relating to the annual financial statements. The objective of any governance is to ensure balance of powers between the various participants and their instruments for control, both for shareholders participating in intangible capital and for other participants in the capital (Feleagă L., Feleagă N., 2005). In this context, to cope with uncertainty and complexity of the modern world, a new mode of governance has appeared, that takes into account not only the need to inform shareholders and their satisfaction, but also the ability to respond positively to the new market restrictions set by external bodies, the staff and their representatives, public opinion etc.

Thus, an enterprise will not be judged only according to criteria of economic profitability, but also by the ability of adaptation and reactivity, the ability to meet the aspirations of people, the exemplary attitude towards the topics of general interest (environment, ethics, rejection of any discrimination, etc.), in a word, by the ability to become a citizen of the world (Chorafas D.N., 2006). Significant issues relating to this process are required to be included in the annual financial statements or adjacent acts.

Turning to the issue of adoption of European directives into national accounting rules, although the deadline for transposing the Directive above ended, Romanian regulators have not updated threshold values established for preparing the simplified financial statements, which were increased as follows: total assets, from 3650000 to 4400000 euro and net turnover, from 7300000 to 8800000 euro (Directive 2006/46/CE, art.1. pt.1, a and b). It is expected that such an update to be done, however, to achieve compliance of national accounting regulations with the European Directives.

Another current directive is Directive 2006/43/EC (the new eighth directive about the audit) with the implementation by member states starting with the 29th of June 2008 (Directive 2006/43/CE, art.53). It is applying into Romanian legislation with the endorsement of Government Emergency Ordinance (GEO) no.90 on statutory audit of annual financial statements and consolidated accounts. Was also established the Council for Public Oversight of Statutory Audit, created to fulfill the objectives of supervision and coordination resulting from the requirements of Directive 2006/43/EC. This leads to ensure conformity of Romanian statutory audit requirements with European Directives.

Also, given the need to ensure compliance of national accounting rules with the EU regulations, since the financial year of 2006, there is a process of gradual implementation of IAS/IFRS in Romania, being necessary to ensure sufficient

time for changes in infrastructure, but also in the behavior and mentality of Romanian accountant.

In this context, is important to note that, in order to improve financial reporting and successful application of the accounting regulations, the Accounting Law has undergone many changes, especially concerning the authorities responsible for organizing and directing the application of accounting rules and accounting authorities responsible for the normalization of accounting, introduction of financial audit, updating the terminology, all concerning general methodological issues.

CONCLUSIONS

Accounting is strongly influenced by the economic, social, legal, political and religious developments of the states. In this context, it becomes an important means of information and its use should be subject directly to a set of rules which have to correspond to the training and the needs of accountants. On the other hand the Romanian accounting has to align to the standards required at European and international level.

The current trend that govern the process of standardization and harmonization of Romanian accounting with the regulations applicable at the European and international level should take into consideration two coordinates which complement each other.

First, both accountants, those who prepared the annual financial statements, and the supervisory body of normalization process, should endeavor to ensure compliance with regulations applicable worldwide, be it European Directives or IAS/IFRS. So, there should be a preoccupation for the improvement of accounting rules to create the appropriate framework, in order to obtain reliable and relevant information, comparable to European and international level. At present there are Romanian accounting regulations which require clarification or require improvements in many aspects and a number of issues not yet resolved by the Romanian accountants.

Secondly, accounting professionals must continuously improve their training. In this sense, they have a professional framework within the regulatory bodies (CECCAR and CAFR), in line with international guidelines, and they must pay attention on the importance of applying appropriate accounting regulations, of the quality of information and of its presentation form.

Since the accounting practices must be permanently aligned to the regulations, it is recommended that the accounting rules would consider a conceptualization of the accounting, and professional reasoning would be the guarantee for the application of best practices in the field.

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