THE ROLE OF EUROPEAN DIRECTIVES IN THE CONSISTENCY OF ACCOUNTING SYSTEMS

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The European accounting harmonization was one of the ways of European economic integration, provided by the Treaty of Rome, its results being mirrored in the comparability of the accounting practices and financial reporting of European companies and in the improvement of the annual reports' quality. The European Accounting Directives are not qualified as a conceptual accounting framework in the meaning that the Anglo-Saxon accounting fields give to this "document". While the IASB is focused on the needs of listed companies, the European Accounting Directives have a broader purpose, focusing on the needs of many different users. Given the existence of a single market, a single currency, we are entitled to believe that there will be a single accounting in Europe without call on the IASB reference.

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The European Union felt quite early the need to harmonize the accounting rules of the Member States. Since the beginning of the 70's several projects have been implemented and in 1978 Directive IV was enacted, which mainly endorsed the yearly accounts of limited liability companies and joint stock companies.
Subsequently, in 1983, Directive VII was developed, which aimed at harmonizing the preparation of consolidated accounts. Even if the national laws of member countries were made in accordance with these texts, the procedure required several years. For example, Directive IV was implemented in Denmark in 1980 and in Italy in 1991.
The main elements of the accounting harmonization in the EU are:
- the Anglo-Saxon doctrine on accounting, based on customary law and;
- the continental accounting doctrine, based on written Roman-German law.

The European accounting harmonization was one of the ways of European economic integration, provided by the Treaty of Rome, its results being mirrored in the comparability of the accounting practices and financial reporting of European companies and in the improvement of the annual reports' quality.
The efforts undertaken by the European Union on the consistency of accounting at the international level were conducted in several stages:
- the period 1978 - 1983 matches the search of solutions for harmonization of basic principles, rules and assessment models for the presentation of the annual individual and consolidated accounts to meet the needs of information of third parties and investors. During this Directive IV and VII-a period were written;
- the period 1983 - 1995 is dominated by discussions to resolve the dilemma: a European harmonization deeper and "more directed or mutual recognition "of financial statements prepared on the basis of national accounting legislation of Member States;
- from 1995 to 1999, the efforts of the IASB are encouraged to supplement to its conceptual framework and to decide on the accounting treatment of reference. At domestic level comparative studies are developed with regard to Directives and the International Accounting Standards issued by IASB so as to reach a maximum comparability;
- in May 2000, IOSCO decided to accept IASC standards, allowing however, the national normalization authorities to pursue some additional treatments;

- 13 June 2000, the European Commission gives a communication by means of which listed European companies have to prepare consolidated financial statements in accordance with IASC standards starting with 2005. This communication was followed by a regulatory proposal from the European Commission, published in February 2001 and approved by the EU Council on 6th June 2002, regarding the application of IAS in the European Union. To achieve this objective, the European Union provided for the creation of an Accounting Regulatory Committee, responsible for validation of IAS within the EU. The European Union established an expert group (European Financial Reporting Advisory Group - EFRAG) to provide technical expertise on subjectivity. The companies listed on the capital market, including banks and insurance companies, draw from the year 2005, consolidated accounts in accordance with IAS;
- in 2001, the European Commission adopted a proposal for regulation on the application of International Accounting Standards, which concerns the mechanism of recognition of the International Accounting Standards in the European Union, specific criteria and compatibility regarding the enforcement in the European Union;
- in 2002, the European Commission "welcomed" the announcement made by the IASB and FASB on the achievement of real convergence between accounting standards developed by the two councils. This objective has the term in 2005, when the listed trading companies from the European Union are required to apply the International Accounting Standards;
- 2003 was the year of adoption of Regulation on the approval of International Accounting Standards, including interpretation of International Accounting Standards and thus, there was confirmed the requirement for their compulsory use starting with 2005, under the conditions set by the IAS Regulation.

The origin of Directive IV is represented by the idea that the share capital of financial companies whose activity obviously exceeds a country's territory, is the only guarantee that these entities provide to third party interested in the assessment methods used to measure such patrimony, the financial situation and the principles for preparation and publication of annual accounts.

Sundgaard considers Directive IV of the EU as an "accounting constitution" of the European Communities.

The differences between the assessment methods used by the Member States to the merger of national markets, have led the EU to start the search procedure to establish the convergence in the accounting field, where accounting traditions are different.

The first draft of Directive IV, published by the European Commission in 1971 was dominated by "many concepts that seem to have been borrowed from the German law on companies."

The German influence is materialized in the inclusion of conservative evaluation rules and formats of documents described in detail.

The enlargement of the European Union (by the accession of the United Kingdom of Great Britain and Northern Ireland, the Republic of Ireland and Denmark) led to a new variant of the Directive's text, with significant Anglo-Saxon influence, according to which "the yearly accounts should provide an accurate picture on the assets, liabilities, financial position and profit or loss".

The Anglo-Saxon inspiration is also reflected in the qualitative purpose granted to the annual accounts, based on the rules for submission and evaluation. The historical cost becomes the main basis of assessment, and the others become alternative bases of evaluation.

The implementation of Directive IV started in Denmark (1980) and was concluded in Italy in 1991. The long period of implementation of Directive IV in the law of member countries highlights the obstacles faced by the European Union in this field. However, the provisions of Directive IV are applied by all Member States of the European Union.

However, the implementation of the Directive VI in the Member States' legislation hasn't led to a profound revision of the legislation on accounting. Many of the European Union member states limited to the implementation of new Government provisions in the existing regulations.

By achieving the established goals, the European Commission starts an update process hoping of eliminating the difficulties regarding the implementation of Fourth Directive VI and the adaptation of a directive by means of a committee; the procedure was not applied on the accounting rules and law on companies, the European Commission focusing its attention on the consolidated accounts.
The converging role of Directive IV endorsed the format and presentation of annual accounts, the rules for evaluation and publication of annual accounts. Directive IV starts with a mention (in Article 1) of the companies subject to the application of this document: all joint stock companies, limited liability companies and their equivalences.
The Directive allows Member States under special circumstances, to exempt companies from certain obligations on the accounts' presentation, publication and control, the only acceptable criterion for such exceptions being the size of the company. The scope of derogations also comprises medium and small companies. The classification of entities in one of those groups is based on the performance of two criteria relating to the total balance sheet, net turnover and number of employees, related to the current financial year. In this regard, companies that do not meet the above criteria over at least two consecutive financial years, fall within the scope of exemptions from the presentation, publication and control of the accounts referred to in the Directive. In accordance with Article 2, the yearly accounts include the balance sheet, the profit and loss account and annex. These documents constitute a whole and have as an objective the true reflection of assets, financial position and profit or loss of the company.
If the application of Directive are insufficient to provide a true picture, new "information needs to be added", or in exceptional circumstances, derogation from certain provisions of the Directive. All such cases should be listed in the Annex, reasoned, and stating the effects they have on assets, financial position and results.
Extraordinary situations and those requiring additional information fall in the charge of the Member States. This provision "cannot constitute an invitation to Member States or for the accounting normalization authorities, to develop rules or norms which depart from the rules stipulated in the Directive, as general measures to be applied to all entities".
Regarding the format and form of annual accounts, the Directive provides two forms of presentation for the balance sheet, horizontal (art.9) and vertical (art.10), the last giving the possibility of determining the floating capital. As a special feature of the balance sheet referred to herein, the following may be noticed:
- registration of unpaid subscribed capital in the first post of the asset (art.9 Scheme 1 / A) or a component of the position - circulating assets (art.9 scheme 1 / A);
- presentation of the costs of incorporation as separate position before fixed assets (art.9 scheme 1 / B) or as a component of intangible assets;
- presentation of the "financial year's result" in balance sheet liabilities, if it is profit or in the balance-sheet assets, if it is a loss (art.9 scheme LF);
- regarding the profit and loss account, the Directive recommends 4 schemes of presentation, two horizontal, two vertical, the criterion for classifying the expenses considering their nature or function. The profit and loss account presented by nature of expenditure (Article 23, 24) allows the calculation of the indicator "production of the financial year" and the one submitted based on the expenditure's function (Article 25, 26) makes possible to determine the outcome of gross result. Another feature of the profit and loss account recommended by Directive VI is that the "tax on exceptional result" appears as separate position in all four models; "the result of the financial year" may appear in expenditure or income; absence of the "exceptional results" position in the list format.
Article 46 of the Directive is focused on the Management report. It must include a fair presentation of the business development, a situation of the company, and important events since

the closure of the financial year, the trend in the company, activities on research and development.
To achieve the target of annual accounts, Directive IV stipulates the following general principles to be observed at the annual position evaluation: the principle of continuity of work; principle of consistent methods, the precautionary principle, the principle of independence of the financial year; the principle of non-compensation, the principle of intangibility. In exceptional circumstances, there may be admitted "removals" of these principles, mentioning in the Annex, along with the reasons and effects on assets, financial position and results.
The historical cost is preferred and recommended by the regulation, as the main basis of assessment in accounting.
Article 51 provides that the annual accounts of companies must be controlled by one or more persons authorized by the national law on control of accounts. The control of accounts should concern the consistency of the management report with the information from the annual accounts. Member States may choose to exclude small companies from the control area, in which case they will enact in their national legislation appropriate sanctions for cases in which the annual accounts and management report do not comply with the Directive.
The external increase is the way that leads to the emergence of groups of companies. The company groups hold a significant share in the global economy. Multinational enterprises have branches in many countries and have economic and financial supremacy. The financial power of such groups can have significant influence over the balance of payments of countries in which they operate. Where the group does not resort to a financial market to finance a subsidiary, it improves the balance of payments of the country where such subsidiary is located to the detriment of the country where the funding source comes from.
On the opposite side, the allocation to the parent company of local profits adversely affects the balance of payments of the country where the branch is located. The assessment of financial position and performance of groups of companies is made by the consolidated accounts. The need for consolidated accounts arises from the inability of individual accounts of the parent company to provide an overview of the financial position and performance of such group.
The first consolidated accounts were written in the United States in 1892 by the "National Led" Company. The financial crisis from 1929 led the American accounting regulators to introduce the compulsory preparation of consolidated accounts. Thus, in 1934 Securities Commission (SEC) was formed, which required listed companies to submit, along with individual accounts, consolidated accounts as well. At EU level, the need for consistent national provisions of Member States in respect of consolidated accounts appeared on 13 June 1983, by means of the publication of Directive VII. Dominated by the Anglo-Saxon tradition, Directive VII includes 51 articles, divided into 6 sections.
Directive VII had been included in the legislation of Member States during the 7 years from The Netherlands (1985) to Ireland (1992). Article 1 of the document mentions the preparation of consolidated accounts. "Member States shall require any company which, according to the national legislation is compelled to establish consolidated accounts and the consolidated management report, if that company (parent company) meets a number of conditions.
Also, Member States may require any company, under their national law, to prepare consolidated accounts and a consolidated annual report if that company (parent company) holds a participation as per Article 17 of Directive IV, in another company (subsidiary company) and if it actually exercises a dominant influence over it, or, if itself and the subsidiary have a single leadership. Articles 16 and 34 are intended to explain the structure of the consolidated accounts.
Released on 10 April 1984, Directive VIII refers to the auditors. The document contains 31 articles and applies to natural or legal persons or other types of companies or associations of the Member States which have the obligation to perform:

a) audits of annual accounts of companies and verification of the consistency of the management reports with yearly accounts to the extent that such control and such verification are required by community law;
b) audits of the consolidated accounts of the assemblies of businesses and verification of consolidated management reports to the extent that such control and such verification are required by community law.
The Directive states that Member States have the duty to approve only honorable persons and who do not pursue any activity incompatible with the legal control of annual and consolidated accounts and also to establish the conditions and steps to be followed for obtaining the auditor capacity.
Although European Directives have helped to some extent to achieve consistency of accounting systems in the European Union, a series of shortcomings cannot be passed unnoticed. The large number of options they include with respect to the publication and control of accounts, rules of evaluation, slow process of developing goals that become obsolete when applying, are just some discontinuities of European accounting rules.
Consequently, accounting rules do not meet the European economic environment changes rapidly, given that the speed of response is the main feature of the process of normalization.
There are views according to which the partial success of European Directives to create a "Europe accounts" has had as obstacles:
- language barriers arising from the absence of an official language in relation to others. Thus, the Directives can be interpreted differently in the specific Member States;
- national traditions, outlined by the legal concept;
- management and information techniques which are different from one country to another and from one profession to another;
- options' game, present in all texts of directives and which relates to the principles of preparation, evaluation, presentation of annual accounts, concerning the publication and control of accounts.
The aforementioned impediments point out that at the EU level, the accounting correlation is far from having conciliated cultures. This is not to legislate from nothing, but to negotiate, to achieve an understanding of well defined national positions.
Even if the European Union is the only example of consistency on legal basis, "the real success of directives lies in that they cannot be ignored by the community and in addition, they constitute a reference for other countries than member states".
In these circumstances, developing a conceptual framework at European level is becoming a necessity. This may be the solution for an accounting Europe. The conference organized by the European Commission in 1990 decided that the issue of consistency across Europe must take account of developments which were foreshadowed in the world. On this occasion, the European Commission accepted the invitation of IASB to participate as an observer during its works.
The orientation of the European Commission to the IASB is a new strategy for the implementation of International Accounting Standards, along with the compliance with the European directives.
Given the existence of a single market, a single currency, we are entitled to believe that there will be a single accounting in Europe without call on the IASB reference.
The European Accounting Directives are not qualified as a conceptual accounting framework in the meaning that the Anglo-Saxon accounting fields give to this "document". While the IASB is focused on the needs of listed companies, the European Accounting Directives have a broader purpose, focusing on the needs of many different users.
The possibility of conflict between IFRS and EU Directives has created some tension, which, together with experimental difficulties regarding the acceptance and implementation of Directives, has led to the finding that "the European Union needs not to publish other Directives,

but should support efforts of the international accounting normalization IASB”. This conflict regards only global players of financial markets and consolidated accounts.

This happens because the EU Directives are "more international" than anticipated, or because a large part of IFRS are developed before the publication of the IASB's conceptual accounting framework and thus they are the result of programmatic rationale and compromises, not of normative thinking.

Does it have any sense to talk of a European conceptual accounting framework as long as it is known that EU Directives have been differently implemented in Member States? A question that we should reflect on!

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