

RESEARCH CONCERNING TANATOGENESIS IN THE ROMANIAN ACCOUNTANCY: THE CASE OF PUBLIC SECTOR⁴³³

Calu Daniela

The Academy of Economic Studies Bucharest Accounting and Management Information Systems Faculty București, sector 1, Piata Romana, nr. 6 danielacalu@yahoo.com 0726373003

Olimid Lavinia

The Academy of Economic Studies Bucharest Accounting and Management Information Systems Faculty București, sector 1, Piata Romana, nr. 6 l.olimid@gmail.com 0720508254

Dumitru Mădălina

The Academy of Economic Studies Bucharest Accounting and Management Information Systems Faculty București, sector 1, Piata Romana, nr. 6 madalina.dumitru@soft expert.info 0726366679

Tanatogenesis represents the “study of signs, conditions, causes and nature of death”. We borrow this concept from biology and try to test it for the Romanian public entities. We chose to search this area because a major change in the accounting system was implemented in 2006 at the recommendations of EU, the International Monetary System, the World Bank, the European Bank and OECD (Tiron Tudor, 2008). The research methodology consists in analyzing the results of an empirical survey.

Key words: tanatogenesis, accounting regulation, accounting history, changes of accounting concepts, changes of accounting practices

JEL classification: M41

INTRODUCTION

Tanatogenesis represents the “study of signs, conditions, causes and nature of death”. We borrow this concept from biology and apply it in connection with the disappearance of an accounting concept or an accounting practice. Applied to accounting, tanatogenesis is the study of the causes and processes that lead to the disappearance of an accounting concept or practice. We posit that the process of the disappearance of an accounting concept/practice also involves signs, causes and nature of “death”.

The signs of the disappearance become apparent when the accounting concept/treatment begins to be rejected by accountants. “Modernist” accountants manifesting opposition to a certain concept or practice will disseminate their view in the accounting press, while “traditionalist” accountants will continue to use accounting concepts, even after their disappearance from the accounting rules.

The causes of the disappearance could be changes in the underlying economic environment, influences of other accounting cultures or international pressure. Whereas the death of an accounting concept is a lasting one, an accounting treatment can disappear suddenly following a regulatory measure.

After testing this concept on the financial accounting structures, we decided to also test it on the public sector accounting because the last moment of change in Romania was very recent: the last public accounting regulations appeared in 2005. Before this moment in Romania the public entities accounting was kept according to specific rules, proper to the cash accounting, the law being issued in 1970.

433 This research was financed by the Research Contract 797/2007 Development of Romanian accounting regulation between heredity and tanatogenesis.

1. Research Methodology

Our paper aims at identifying the following:

- i) Notions/concepts that might disappear from the official accounting terminology;
- ii) Notions/concepts that are at odds with existing accounting practices.

We used a methodology combining literature research with empirical research. A questionnaire was sent to a sample of academics and practitioners from Bucharest. 24 results were gathered in September – October 2008. Only the academics teaching Public Accounting answered the questionnaire (2 persons). Correlation between the answers to questions and dependent variables were tested with the Chi-square test (χ^2).

We formulated the following hypotheses:

H1. The physical disappearance of an accounting concept/notion is preceded by its disappearance as a desired item by the modernist accountants.

H2. The existence of a divergence between accounting principles (concepts) and accounting practices is a sign of a death of accounting concepts or practices.

2. Literature research results

- i) Notions/concepts that might disappear from the official accounting terminology

We investigated accountants' opinions with respect to a selected number of accounting concepts that we assume to be in course of disappearance.

-*Pasiv*

The concept of „pasiv” in Romanian accounting was historically taken to mean liabilities or external pasiv (Iarcu, 1844 quoted by Calu, 2005). This is similar to the current definition of a “passif” in the French PCG, that is, “a patrimonial element with a negative value for the enterprise”. The sum of all individual items of passif is the external passif, that is, a company's total debt (PCG, 212-1).

The proponents of the economic-legal theory extended the concept of pasiv to encompass capital and liabilities (Iacobescu & Sorescu, 1921). The pasiv is thus formed of “pecuniary rights and obligations belonging to a person”, as opposed to „activ” which consists of assets. Evian (1940) disagreed with this approach and underlined the common meaning of the word „pasiv” - the attribute of a person or a thing of being inactive or of maintaining the status quo. He then concluded that the equation Wealth = Capital is equivalent to Activ = Pasiv.

Ristea (1989) defines the pasiv as the counterparty of the funds shown as activ, but looked at from the vantage point of their origin or source. As British accounting and IFRS influence became prevalent at the end of the nineties, academics and regulators started to replace pasiv with liabilities and capital. IPSAS 1 – Presentation of financial statements is drawn primarily from International Accounting Standard (IAS) 1 (revised December 2003). The balance sheet layout presented in the Order 1917/2005 had been changed from a list of active and pasiv elements, to a British vertical format ending with capital and reserves.

Other legal regulations continue to make use of the notion of pasiv. In practice, accounting education and even in Order 1917/2005 the notion is widely used when it comes to explaining the function of a particular account.

-“*Circulante*” assets

In the Romanian regulations the classification as fixed/ “circulante” assets appeared in Accounting Law 82/1991. Thus, the *fixed assets* were represented by the goods and values with a long use period (more than one year) in the activity of a company and that were not consumed in the first use. In contrast, the “*circulante*” assets were the goods and values that were used on a

short period in the activity of a company and, in general, are part of only one economic circuit, changing the form continuously.

At international level, another distinction is used, namely current/non current. Thus, the current assets are defined within IPSAS 1 (par. 79) as those assets that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded (guidance on classification of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments) and the current portion of non-current financial assets. Starting from this main separation, an asset is considered current if it observes certain conditions prescribed by IPSAS 1 (2009, par. 76), summarized as follows:

- a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;
- b) It is held primarily for the purpose of being traded;
- c) It is expected to be realized within twelve months after the reporting date;
- d) It is cash or a cash equivalent (as defined in IPSAS 2, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting

date

All other assets shall be classified as non-current.

In Order 1917/2005 the term "current" is accepted, but when referring to the assets the notion "circulante" appears in brackets.

ii) Notions/concepts that are at odds with existing accounting practices

-The concept of the opening balance sheet

The concept of the intangibility of the opening balance sheet was put forth by the 1993 Accounting Regulations, via the French Plan Comptable General. According to the Order 1917/2005 (page 24) "the opening balance sheet for each financial year must correspond to the closing balance sheet for the preceding financial year." This accounting principle, still present in the current Romanian regulations, influences the treatment applied in correcting the fundamental errors discovered after the preparation and approval of the financial statements. It does not allow the correction of errors in the balance sheet of the previous year, but only in the balance sheet of the current year (as also stated in Order 1917/2005, page 26).

Current Romanian accounting regulations are in contradiction with the requirements of IPSAS 3 – Accounting policies, changes in accounting estimates and errors. However, we consider that the existence of this principle is no longer adequate.

-Conservatism (prudence) concept

Conservatism (prudence) concept was mentioned for the first time in the 1993 Accounting Regulations and was maintained in all subsequent accounting regulations. According to this concept (Order 1917/2005, pag. 24), the assessment has to be made on a prudent base and especially:

- all the arrangements appeared during the current or previous year have to be taken into account, even if they only become obvious between the balance sheet date and the date of its approval;
- all the depreciations have to be taken into account.

In conclusion, the prudence involves a pessimistic approach of the assessment so that it takes into account the impact of the uncertainty. From a practical point of view, this involves the

registration of a depreciation adjustment, or provision, which impacts on the presentation of an un-overestimated accounting result.

-Statement of patrimonial result

The existence of the patrimony in the accounting in Romania is tightly connected to the theory of the patrimonial exchange (economic-legal). According to it, the balance sheet equation is established between the economic patrimony that includes all “the goods (subject to rights and obligations)” and the legal patrimony, representing “the rights and obligations of a pecuniary nature belonging to one person” (Iacobescu & Sorescu, 1928). The patrimony disappeared from the financial accounting, but is still present in the public accounting.

In practice, there are big controversies regarding the statement of patrimonial result. This financial statement was not prepared before 2006 and most of the accountants cannot understand its utility as their entities are financed by the government, so that they cannot obtain a profit.

-Substance over form concept

This accounting concept is mentioned in Order 1917/2006. We consider that it is a contradiction of the ruler that in the same regulation appear both the concept of patrimony and the substance over form concept. There are many opinions about the presence of the substance over form concept in the accounting regulations of a country with a patrimonial tradition, with an accounting dominated initially by juridical aspects. Thus, R. Teller quoted by Ionașcu, I. (1999), considers that “the presence of the substance over form concept doesn’t bring to discussion the patrimonial basis of accounting, but it strengthens it”. This means that, in case the form and juridical substance are not the same, the substance has to prevail leading to a juridical requalification of the transaction. In other words, you have to reach a new juridical classification for a transaction, according to its nature. This is the case of the accounting for the leasing transactions in the German accounting or of the goods sold under the reserve of the property clause in the French accounting – Ionașcu, I. (1999). On the other hand Roberts (2001) considers that “incorporating this principle [substance over form – n.a.] in the Romanian accounting rules introduces a potential contradiction with other components of this regulations”.

3. Results of the empirical survey

a. In your opinion which of the following notions/concepts should disappear from the official accounting terminology?

-Correlation between the disappearance of the notion of pasiv and the respondents age

The value of probability was $p=0.01197$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.01863$. Respondents older than 45 years don’t wish unanimously to give up on the use of the notion of pasiv, while the respondent younger then 45 don’t have the same opinion (7 say no, while 5 say yes). 58.33% of the respondents don’t wish to give up on this concept, while the rest do.

-Correlation between the disappearance of the notion of pasiv and the type of the entity hiring the respondents

The value of probability was $p=0.00348$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.01835$. The employees of other

entities then education are in favour of keeping the notion of pasiv (18 to 2): 90% compared to 10% of the respondents. The employees of the education entities (probably accounting professors) are in favour of giving up on this notion (75%), compared to 25% in favour of keeping this notion (3 to 1 answers).

-Correlation between the disappearance of the active circulante notion and the type of the professional experience of the respondents

The value of probability was $p=0.02846$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.05929$. The respondents with an exclusively practical professional experience were all for keeping the notion of active circulante, while for the respondents with a mainly practical experience we registered a dispersion of the answers (only 70% were for keeping it – 7 answers to 3).

-Correlation between the disappearance of the notion of active circulante and the accounting experience of the respondents

The value of probability was $p=0.04412$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.08152$. The employees with accounting experience longer than 15 years were all in favor of giving up on the notion, while the others had more nuanced answers, as only 72.72% had this option (8 to 3).

b. In your opinion which of the following notions/concepts and accounting principles are divergent with the accounting treatments used in practice?

-Correlation regarding the divergence between the opening balance sheet principle and accounting practice and sex of respondents

The value of probability was $p=0.00009$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.01087$. All women respondents consider that there is not divergence between the opening balance sheet principle and accounting practice (21 to 0). Men respondents argue that in proportion of 66.67% (2 to 1).

-Correlation between the opinion concerning the conservatism (prudence) concept and the professional experience of the respondents

The value of probability was $p=0.02846$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.05929$. All the respondents with exclusively practical experience consider that the conservatism (prudence) concept is not divergent with the accounting treatments in force (14 to 0). The respondents with a mainly practical experience consider the same way, but in proportion of 70% (7 answers out of 10).

-Correlation between the opinion concerning the statement of patrimonial result and the experience in accounting of the respondents

The value of probability was $p=0.08852$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.14130$. All the respondents with an accounting experience of less than 15 years consider that the existence of the statement of patrimonial result contradicts the accounting practice (11 respondents), while the respondents with an accounting experience longer than 15 years presented more nuanced answers: 76,92% of the respondents consider there is a contradiction (10 answers out of 13).

-Correlation between the opinion concerning the substance over form concept and the age of the respondents

The value of probability was $p=0.08327$ and degree of freedom was equal to 1, for Pearson Chi-square. The probability for Fisher exact, one-tailed was $p=0.09651$. The respondents younger than 45 are polarized as follows: 50% consider that there is a contradiction, while 50% think the opposite. However, the 83.33% of the respondents older than 45 consider there is no contradiction between the requests of this concept and the practice.

Conclusions

The first step towards the accruals accounting system was made in Romania by creating a legal framework. Budget and accounting categories at the national level have a common set of classifications conform to international standards that facilitate policy analysis and promote accountability. Making further progress in this area will require substantial investment in staff development and training, supported in many cases by EU twinning projects and other technical assistance programs. We also consider that a part of the problems encountered in Order 1917/2005 will be eliminated in its next versions, because the public sector accounting in Romania has to converge with the international regulations in the area.

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