

## THE QUALITY OF ACCOUNTING DATA – AN ABSOLUTE REQUIREMENT FOR CREDIBLE BOOK-KEEPING

**Cozma Ighian Diana**

*Universitatea de Nord Baia Mare Str. Dr. Victor BABEȘ, nr 62 / A 430083 - Baia Mare, jud. Maramureș Telefon: 0262-218922, Fax: 0262-276153*

*The large variety of uses that accounting products take, as well as their wide range of informational needs require that certain criteria be established, with regards to the quality of accounting data, and these criteria must be fully met. The concept of quality of the accounting data differs within various norms issued by accounting regulation organizations, and such differences are visible particularly in that which concerns the selection and hierarchical organization of qualitative characteristics.*

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*The wide range of users for financial statements and the diversity of their informational needs imply a certain degree of subjectivism in interpreting the quality of the data provided by financial statements. That is why there were established certain quality standards that these data must meet.*

An analysis of the definitions provided for the concept of quality of accounting data, as presented in specialized literature, reveals that there are differences with regards to the qualitative characteristics between various conceptual frameworks and texts of accounting regulation.

So that, according to the American regulation body (FASB) the main qualitative characteristics related to accounting data are: comprehensibility, relevance, dependability, and comparability, which are subject to two major constraints:

- the advantages gained by utilizing the information must be higher than the costs incurred by obtaining them;
- there is a limit of significance or relative importance.

Accountants must compare the utility of data with the cost for obtaining and distributing it. Information should only be produced if the cost level for obtaining it is lower than the utility or advantage gained by using it. Also, as per the FASB concept, the users of financial data want this information to be useful in making decisions; that is why the information must be significant, meaning that its users have sufficient knowledge of the economic field, in general, and of the accounting field, in particular.

The criteria based on which we can assess the relevance and dependability, which are considered to be the main characteristics, are expressed in the following:

- the predictive value, the retrospective value, and the opportunity value, which express pertinence (relevance);
- the verifiable character, the neutrality and accurateness, to express dependability.

In that which concerns the conceptual framework proposed by the IASB (The general framework for compiling and presenting financial statements, 2006), it's easy to see that it supports the same four qualitative characteristics, as well as it imposes the same general constraints as with the FASB, which refer to obtaining higher benefits from the use of this information, relative to the cost incurred for obtaining it. This general constraint is completed with another two limitations that need to be met in order for the information to be relevant and credible:

- its opportunity;
- the balance between the qualitative characteristics.

Also, one must note the explicit presentation of the criteria that contribute to obtaining the main characteristics, which are, as proposed by the ISAB, as follows:

- a margin of significance, to ensure relevance;
- an accurate representation, the prevalence of the economic character over the judicial one, the neutrality, the prudence and integrity, to ensure credibility;
- the continuity of methods, to ensure comparability.

In April 2007 the Council of the IASB, aiming to improve the Conceptual framework, made the following decisions with regards to the qualitative characteristics of financial data (Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information):

- maintaining accurate representation as a necessary qualitative characteristic;
- separating the criteria of verifiable character from that of accurate representation and considering it as an improvement of the qualitative characteristics rather than a necessary qualitative characteristic;
- clarifying the difference between necessary qualitative characteristics and those characteristics that only improve the quality of financial information;
- conservatism is not compatible with neutrality and therefore it can't be deemed a component of accurate representation.

In January 2009 the IASB Council brought back to attention the issue of classifying the qualitative characteristics of financial information, and proposed differentiating them as essential characteristics (such as relevance and accurate representations) and characteristics that improve the quality of the financial information (the verifiable character, the comparability, the opportunity, and the comprehensibility) (Conceptual Framework Phase A: Qualitative Characteristics and Constraints of Financial Reporting). Also, the document submitted for discussion mentions that the ability to keep with the essential qualitative characteristics ensures that useful financial data is compiled, while the other characteristics only improve the quality of financial reports, given that these characteristics, either separately or together, cannot ensure the utility of information in the process of decision-making, if the reported information is either irrelevant or is not an accurate representation of the actual facts.

In a view opposed to Anglo-Saxon countries, French accountancy brings forward a concept of quality of the accounting information that is not defined through an explicit presentation of certain characteristic features, but by interposing certain principles. According to the PCG (Chart of Accounts) of 1982, „accounting information must provide its users with an appropriate, accurate, clear and complete representation of all operations, events and situations”, without any reference or hierarchy of the quality criteria that such information should meet. Also, taking into account that the PCG does not state who the users of financial statements are, the accounting information aims at creating an accurate image of the facts it represents. Obtaining such an accurate image is only possible, according to the French regulators, if two main principles are complied with: regularity and honesty.

We must also note the major differences existing between the conceptual framework of the IASB and the French accounting system, as the latter does not refer to the users and their needs. Also, the objectives of book-keeping, within the French accounting system, do not refer to inherent characteristics of this system (honesty, correctness, accurate image), while the IASB explicitly relates the quality of the information to the needs and expectations of its users.

On the other hand, we must also take into account the complex process of updating the European accounting directives, which resulted in adopting the European Commission Regulation no. 1606/2002, also known as the „IFRS 2005 regulation” and of the Directive 2003/51/EEC of June-13-2003, of the European Parliament and European Union Council, on improving and updating accounting norms, which comes as an addition to the regulation of the European Commission.

It was necessary to improve the European regulations due to the incompatibility between certain provisions of these directives and provisions of the IFRS. This updating process aimed to create a

common accounting framework for all the companies listed, and in the case of unlisted companies it still ensures the possibility of gaining access to the accounting options provided by the IFRS, as long as the directives are maintained as the basic accounting legislation.

The Regulation no. 1606/2002 aimed mostly to achieve two important targets (L. Malciu, N. Feleaga, 2005):

- adopting and applying the IFRS standards within the European Union, in order to level financial information reports compiled by means of the consolidated financial statements submitted by listed companies, beginning with the 1st of January 2005, in order to ensure a high level of transparency and comparability of this process and, implicitly, an effective functioning of the EU's capital market;
- providing member states with the option to extend this process of leveling both to the consolidated accounts of unlisted companies and to individual accounts.

The amendments brought forth by the directive 2003/51/EEC, adopted on June-13-2003, refer mainly to the following:

- adopting the format for presenting the balance sheet and the profit and loss account as per the IFRS provisions;
- the possibility of re-valuating all fixed assets, including intangible ones;
- the possibility of valuating the assets too at their just value, not only the financial instruments;
- adapting the IFRS to the rules for setting commissions for risks and expenses;
- the possibility of submitting additional financial statements (annual and consolidated);
- the obligation of consolidating subsidiaries that have very different activities;
- canceling the requirement of having a certain participation in a company's capital in order to consolidate it as a subsidiary.

It is our belief that, although this process of orienting the European directives towards the IFRS does not explicitly bring forth anything new with regards to establishing the qualitative characteristics of accounting information, the influence of IFRS-specific provisions will also affect the continental accounting systems, especially when it gets to adopting the format for reporting financial statements as per the IFRS provisions.

In that which concerns the issue of the quality of accounting information in our country, such a problem must be analyzed starting from the stages of the accounting reform in Romania.

Over the period 1990 –1999, the issue of defining and establishing qualitative characteristics of the accounting information was not in the focus of Romanian regulators, as the accurate image was to be obtained by honestly complying with „*the rules on the valuation of the patrimony and all the other accounting norms and principles*” (G.D. no. 704/1993 on approving the Regulation for applying the Accounting law no. 82/1991).

The second stage of the accounting reform was marked by the adoption of the OMPF no. 403/1999, which was, subsequently, replaced by the OMPF no. 94/2001 on approving Accounting regulations leveled with the IV<sup>th</sup> Directive of the European Economic Communities and with the International Accounting Standards. We may say that during this stage remarkable progress was made in defining the concept of quality of the accounting information and establishing some of its qualitative characteristics.

Thus, once the Romanian regulators adopted the General framework for compiling and presenting financial statements, as proposed by the IASB, the quality of the accounting information began being assessed in accordance with the four qualitative characteristics provided by the IASB: comprehensibility, relevance (pertinence), credibility (dependability) and comparability, all of which are presented explicitly in the OMPF no. 94/2001. We must also note how the accounting system began opening towards external users, following these regulations, by acknowledging the role of accountancy as a tool for obtaining information and supporting decisions.

The third stage in the reform of the Romanian accounting system began in the year 2006 with the adoption of new regulations in accordance with European directives. One must note that the new accounting regulations do not deal explicitly with the issue of the concept of quality, making only a reference to the fact that „*accounting policies must be thus conceived as to ensure that, through the annual financial statements, they provide information that meets the following requirements*”:

- they are relevant for the needs of their users in the process of decision-making;
- they are credible, meaning that they provide an accurate representation of the assets, debts, financial status and profit or loss of that entity; they are neutral; they are complete in all significant aspects.”

Even though the accounting regulations currently under effect don't provide a detailed presentation of the qualitative characteristics of financial statements, we must not forget that these are, in fact, the essential features based on which we establish the utility of the accounting information. But, on the other hand, we must also take into account the fact that annual financial statements represent the main objective within the current regulations, and the accurate image that financial statements provide refers to the financial status and performances of the company, which entails a whole new meaning to this concept.

Theoretically, for the accounting information to be useful, it would have to meet all the qualitative characteristics at the same time. In practice, though, this would be impossible, because there are often cases when some of these characteristics are incompatible. According to some authors (L.Malciu, 1998), one way to solve this would be for the regulating body to provide a hierarchy of the qualitative characteristics of the financial information. But not even such a solution would completely solve the problems, since it cannot act as a universally valid solution, given that the relative importance of these characteristics varies according to the informational requirements of all types of users.

Specialized literature (M. Minu, 2002) brings forth the results of certain empiric studies conducted by researchers, which verify the way that the quality criteria proposed within the conceptual framework are well understood in practice, and whether they ensure an effective process of decision-making. The conclusions drawn following these studies refer mainly to the following:

- the qualitative criteria or characteristics are subjective in spite of the framework proposed by the regulators;
- there is a certain degree of dependency between relevance and comprehensibility, the later being ensured through the knowledge held by the users;
- the favourable information concerning the company is also deemed as more comprehensive and influences the process of decision-making.

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