

# AN EXPLANATION OF THE CHANGE IN ACCOUNTANTS' ATTITUDE TOWARDS FLEXIBILITY USING THE THEORY OF REASONED ACTION

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*ABSTRACT: In this paper we look at accountants as "consumers of accounting regulations". We explain the change in the accountants' attitude towards flexibility in the accounting regulation process, using a theory derived from social psychology: the Theory of Reasoned Action (TRA).*

*In 1999 and 2005 we tested the attitude towards flexibility of a number of Romanian accountants who aimed at becoming private practitioners. We observed that before the existence of an accounting conceptual framework (1999), the accountants surveyed preferred flexibility with respect to accounting choices. A few years later (2005), after the implementation of IASB's conceptual framework (but before the regulator removed it), the preference of accountants changed to flexibility. We believe that these changes could be explained using TRA.*

*KEY WORDS: Romanian accounting regulation, Theory of Reasoned Action, accountants' attitude, uniformity, flexibility*

## 1. INTRODUCTION

Our research paper aims at explaining the change in the attitude of two groups of Romanian accountants who aimed at becoming private practitioners with respect to flexibility in accounting regulation. We use the Theory of Reasoned Action to explain this change in two key moments: 1999 and 2005. These dates are important for Romanian accounting because:

- in 1999 the Romanian accounting regulator introduced the first conceptual framework via the Ministerial Order 403/1999, having translated the Framework for the Preparation of Financial Statements (IASB, 1988).
- in 2005 Romanian, the same regulator removed this conceptual framework from Romanian accounting regulations (Ministry of Finance, 2001).

We notice that before the existence of an accounting conceptual framework (1999), the accountants surveyed preferred uniformity with respect to accounting choices. A few years later (2005), after the implementation of the conceptual framework (but before the regulator removed it), the preference of accountants changed: (they wished less uniformity and more choice).

## 2. ROMANIAN ACCOUNTING BACKGROUND

After the fall of communism in 1989, reforms were undertaken to modernise the country's financial system. In our opinion, accounting reform comprised three phases, from the presence of IASB accounting framework in Romanian accounting regulation point of view. The first began in 1990 and lasted until 1999, the second began in 1999 and lasted until 2005, with the third beginning right after that.

**Phase one:** The initial French-influenced accounting reform is usually justified by the traditional cultural and legal ties and also by the economic similarities between the two countries (Feleagă and Ionaşcu, 1993).

Similarly to France, the bulk of regulations were to be found in the 1993 detailed Regulation for the Application of the Accounting Law (the Green Book) that included a National Chart of Accounts very similar to that of the French Plan Comptable Général 1982. For every account in the chart, corresponding accounts and explanations were listed for both debit and credit.

The strong link between accounting and taxation is revealed by the use of the same stock valuation and depreciation methods that were used for both financial statements and tax returns. The useful lives of fixed assets were not estimated by management, but were chosen from a Catalogue that contained the authorised useful lives of depreciable assets. Three depreciation methods were permitted: straight-line, declining balance with tax coefficients, and accelerated (meaning a 50% depreciation expense in the first year of use, followed by the straight-line method). Tax authorities were not generous with companies: in a period of rampant inflation, protection against its effects was not granted, as changes to accelerated depreciation or LIFO were difficult in practical terms<sup>425</sup>. It was often the case that a change to an accelerated method was allowed only for the fixed assets purchased after a certain date, but not for an entire class of assets. In exchange, several government ordinances regulated the revaluation of tangible fixed assets and provided official revaluation indices. To counteract the loss of tax income because of higher depreciation charges following revaluations, the Ministry of Finance limited the amount that was recognised as depreciation expense linking it to the actual degree of productive use of fixed assets.

Although the regulations provided for the recognition of impairment losses and provisions, companies recognised only those that were tax deductible. For non-financial companies these were: allowances for doubtful debtors declared bankrupt and provisions for warranties (according to a tax calculation) and unrealised exchange losses.

**Phase two:** Effective 1999, this second phase of the accounting reform was evaluated as having “avoided some of the pitfalls experienced earlier in other transition economies and also shortened some of the development process by making changes in parallel rather than in sequence” (King et al., 2001). Large companies referred to the 1999 and 2001 Regulations harmonized the Fourth Directive of the European Communities and with International Accounting Standards (hereafter the Harmonisation Regulations). Small companies were regulated through the Simplified Regulations issued in 2002.

The Harmonisation Regulations attempted to reconcile the structure of the Fourth Directive, with IASB’s conceptual framework, British Companies Act and French Plan Comptable Général. A British-style vertical balance sheet coexists with a French by-nature profit and loss account. Cash flows and changes in equity statements, accounting policies and explanatory notes are mandatory. The presence of the Alternative Accounting Treatments is, at least in its form, a British influence<sup>426</sup>. A remarkable feature is Note 4 which shows a by-destination operating profit, thus reconciling macroeconomic interests with those of foreign investors. Following the enactment of the Harmonisation Regulations, the accounting regulator along with the professional accounting body, universities and accounting firms undertook extensive IAS/IFRS training programmes (Ionascu et al, 2007; Calu et al, 2009).

**Phase three:** In preparation for the country’s joining of the European Union, the Ministry of Public Finance decided in June 2005, to separate European Directives from IFRS and in November 2005 issued new Regulations conforming to European Directives (Fourth and Seventh Directives as amended)<sup>427</sup>. All entities, formerly large and small should prepare financial statements in accordance to these new regulations. The implementation of the IAS Regulation restricted the use of IFRS to the consolidated accounts of listed companies.

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<sup>425</sup> Before changing a particular valuation method, an enterprise had to obtain the (written) agreement of tax authorities, based on the presentation of the influences on the patrimonial and financial situation as well as on the amount of income tax.

<sup>426</sup> The Alternative Accounting Treatments allow the revaluation of fixed assets and inflation accounting.

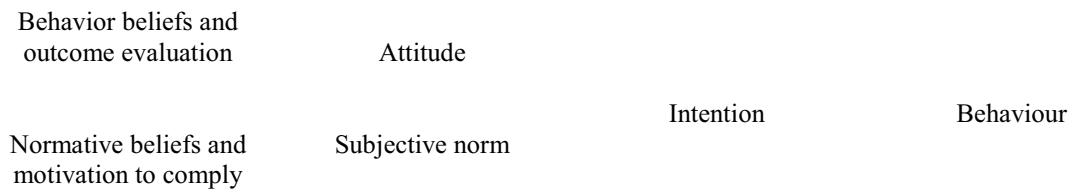
<sup>427</sup> Order of the Minister of Public Finance no. 1752/17.11.2005 for the approval of accounting regulations conforming to European Directives, Official Journal 1080/30.11.2005.

### 3. RESEARCH FRAMEWORK

Our study evaluates the attitude toward flexibility of two samples of Bucharest accountants in order to predict their behaviour and the possibility to change it. Drawing on Hofstede (1981) and Gray (1988) we define flexibility as accountants' preference to adapt accounting rules according to the different circumstances in which an enterprises functions as opposed to using the same accounting rules for all enterprises.

In order to explain the behaviour of accountants with respect to flexibility, we chose to use the Theory of Reasoned Action (Fishbein and Ajzen, 1975). TRA claims that a suggested behavior is more likely to be performed by an individual when a higher intention to perform it exists. This intention results of a positive evaluation of the behavior (attitude), and of the pressure exercised by relevant groups on the individual to perform the behavior (subjective norm).

**Figure 1. The formation of behavior according to TRA**

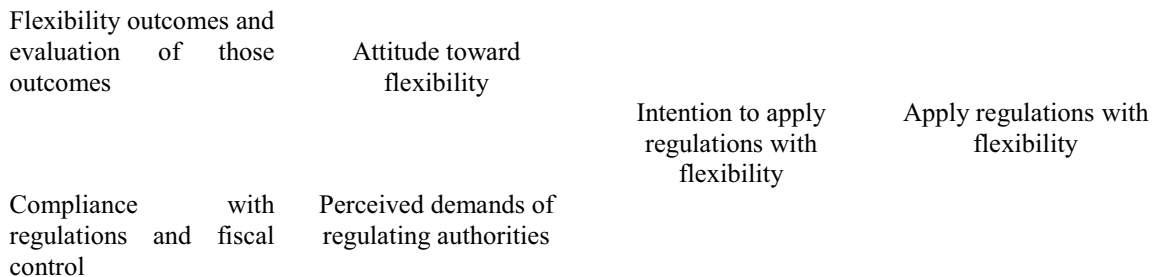


A person's behavioral intention has therefore two ingredients: the attitude and the subjective norm. Following Fishbein, M., and Ajzen, I. (1975) we employ the term attitude to refer to an accountant's general feeling of favorableness or unfavorableness toward flexibility. For example, as an accountant forms beliefs about revaluation, financial statement presentation or valuation of stocks, he "automatically and simultaneously" acquires an attitude toward them. Every belief relates an object to an attribute, e.g. *the reevaluation of fixed assets is a matter of choice*. The accountants' attitude toward flexibility depends on his evaluation of this attribute (*a matter of choice*).

The subjective norm is formed by the perceived expectations of relevant groups relating to the behavior and by the person's motivation to comply with these expectations. In our research we take the subjective norm to mean the demands perceived by the accountants from the regulating authorities and the professional body to comply with their policies.

An *intention* relates to the probability that a person will perform a certain behavior. With respect to the belief and the attitude regarding the reevaluation of fixed assets we can speak of the intention to undertake reevaluations of fixed assets on a voluntary basis.

**Figure 2. TRA applied to accounting flexibility**



#### 4. RESEARCH METODOLOGY AND RESULTS

The attitude of accountants towards flexibility was tested in 1999 and 2005 using the questions in Appendix 1. The respondents were asked to range their choice on a five-point scale going from strong disagreement to strong agreement: to a very small extent, to a small extent, moderately, to a large extent, to a very large extent. We consider the middle answer as reflecting an undecided respondent. A number of 101 questionnaires were returned in 1999 and 56 questionnaires in 2005. The two samples are characterized in Tables 1. The testing was done at training courses organised by CECCAR to assist accountants in Bucharest wishing to qualify as public accountants and licensed accountants.

**Table 1: Accounting experience and age of respondents**

Descriptive statistics	1999		2005	
	Accounting experience	Age	Accounting experience	Age
Mean	10,79	38,63	9,88	37,27
Median	8	39	8	38
Mode	5	31	5	28
Standard deviation	7,92	8,88	6,86	8,56
Minimum	2	24	2	23
Maximum	34	63	30	53
Observations	98	96	52	49

The answers obtained for all three questions were added up under the following headings: High Uniformity, Uniformity, Middle, Flexibility and High Flexibility. We eliminated those questionnaires featuring incomplete answers to the four questions. We calculated a score by multiplying the sum of the answers in each category with coefficients ranging from -2 to 2 (i.e. -2 for High Unif, -1 for Unif, 0 for Middle, 1 for Flex and 2 for High Flex). The last column, labeled Scale, shows hypothetical scores that could be obtained if all the answers were of a single kind, i.e. if all answers were High Unif, the score would be  $380*(-2)=-760$  or if all answers were High Flex, the score would be  $380*2=760$ . The score of each pair of values is interpreted by reference to such a scale.

The 1999 questionnaire results shows an attitude toward uniformity (score -64 in Table 2): the respondents favour the existence of only one method of presentation of the financial statements and of stock valuation (Q1 and Q3), possibly because of the additional amount of work involved in the opposite situation. The answers received to a questionnaire sent in 1997 to the finance directors of big taxpayers located in Bucharest, revealed that the additional workload was the main cause for the lack of popularity with the accountants of the inflation-adjusted tax balance sheet (Olimid, 1998). The same study showed that only in 4% of cases, companies used more than a method of stock valuation. The other question (Q2) upset the uniformity trend: whereas the preference for the companies' initiative regarding the revaluation of land and buildings may be again a reaction to the omnipresence of the Ministry of Finance in the Romanian accounting environment.

**Table 2: Uniformity versus Flexibility. 1999 Score**

Unif vs Flex	Q1	Q2	Q3	Total options	Coeff.	Score	Scale
<b>High Unif</b>	37	11	26	<b>74</b>	-2	-148	-564
<b>Unif</b>	19	9	22	<b>50</b>	-1	-50	-282
<b>Middle</b>	17	24	26	<b>67</b>	0	0	0
<b>Flex</b>	17	19	12	<b>48</b>	1	48	282
<b>High Flex</b>	4	31	8	<b>43</b>	2	86	564
<b>Total questionnaires</b>	94	94	94	<b>282</b>		<b>-64</b>	0

We present below the 2005 results for the attitude toward flexibility and then we compare the results of the 1999 and 2005 testing.

**Table 3: Uniformity versus Flexibility. 2005 Score**

Unif vs Flex	Q1	Q2	Q3	Total options	Coeff.	Score	Scale
<b>High Unif</b>	11	7	16	<b>34</b>	-2	-68	-312
<b>Unif</b>	8	2	12	<b>22</b>	-1	-22	-156
<b>Middle</b>	18	14	8	<b>40</b>	0	0	0
<b>Flex</b>	9	14	10	<b>33</b>	1	33	156
<b>High Flex</b>	6	15	6	<b>27</b>	2	54	312
<b>Total questionnaires</b>	52	52	52	<b>156</b>		-3	0
<b>1999/2005 Scale ratio</b>						<b>1,81</b>	
<b>2005 Adjusted Score</b>						<b>- 5,42</b>	

**Table 4: Comparison of 2005 and 1999 scores**

Question in set	1999 Score	2005 Score
<b>First</b>	<b>-68</b>	<b>-16,27</b>
<b>Second</b>	<b>50</b>	<b>50,62</b>
<b>Third</b>	<b>-46</b>	<b>-39,77</b>
<b>Totals</b>	<b>-64</b>	<b>-5,42</b>

The overall Uniformity score decreased significantly from the previous testing (from -64 to -5,42), most of the decrease being owed to the question that tested the attitude toward the choice of presentation of the financial statements. This could be explained by the introduction of two sets of accounting regulations for individual companies, plus another for groups of companies. Although still not crossing the boundary to full flexibility the overall attitude toward uniformity in this respect has decreased from the 1999 testing.

### Conclusions

We evaluated the attitude toward flexibility at two points in time (1999 and 2005) and observed that, over time, accountants' attitude moved to less uniformity. The beliefs of accountants must have changed owing to extensive IAS/IFRS training programmes in IAS/IFRS that followed the enactment of the Harmonisation Regulations. The 1999 and 2001 Harmonisation Regulations were heavily influenced by IAS/IFRS and there is no better proof than the inclusion of IASC's conceptual framework in the text of these regulations. This inclusion signalled that the regulator was at least favourable to the exercise of professional judgment and flexibility in interpreting accounting regulations. It follows that the subjective norm changed from the strict uniformity imposed by the Ministry of Finance until 1999 to one which allowed choice, albeit small (e.g. the exclusion of certain line-items from the balance sheet when their amount is nil, the full introduction of the true and fair view requirement, substance over form etc). We therefore infer that the intention to apply regulations with flexibility.

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### **Appendix 1. The 1999 and 2005 Questions**

#### **1999 Uniformity versus flexibility (Unif vs. Flex):**

**Q2.** To what extent do you agree to the existence of several presentations of the financial statements?

**Q10.** To what extent do you wish that the revaluation of land and buildings be a matter of enterprises' choice?

**Q14.** To what extent do you wish that a single stock valuation method should be mandatory for all companies?

#### **2005 Uniformity versus flexibility (Unif vs. Flex):**

**Q5.** To what extent do you agree to the existence of several presentations *of the components* of the financial statements (*e.g. balance sheet, profit and loss account etc.*)?

**Q7.** To what extent do you wish that the revaluation of land and buildings *be done by independent valuers*?

**Q8.** To what extent do you wish that a single stock valuation method be mandatory for all companies?