

THE ACCOUNTING PROCESS FOR ACCESSING EUROPEAN FUNDS

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The beneficiaries of structural funds are various entities¹ that can be classified on different criteria, and keeping the accounts for these entities can raise certain problems. Keeping accounts in Romania is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. In accounting, reflecting the accession and the use of European funds by the economic entity, taking into consideration the classification of various entities, is done distinctly.

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The beneficiary entities can be identified without approaching these exhaustive aspects, just by covering the entities classification on various criteria. A first classification can be done in terms of the great sectors in which the enterprises activate:

- 1.Primary sector – agriculture, extractive industry etc.;
- 2.Secondary sector – enterprises affiliated to industry and construction;
- 3.Tertiary sector – enterprises that have as an activity object commerce, transport, tourism, banking, insurance, teaching, health. In terms of the people who invest in its activity, we have:

- 1.Private companies – companies where the investor is represented by one or more individuals (private persons);
- 2.Public companies – the ones whose activities are possible exclusively because of public investments;
- 3.Mixed companies – companies with both private and public investors.

In terms of production management:

- individual production entities are the ones where a unique product or a small number of unique products are manufactured with the same technology;
- series production entities which produce batches of goods using a certain recipe or technology with a periodical change in the technological process (equipment, tools, confections etc.);³⁶³
- entities with mass production are the entities which manufacture, for long periods of time and in great amounts, one or more goods with the same recipe, technologies and equipments (sugar, bread, oil etc.).

According to the 1752/2005 Decree (presently OMFP 3055/2009) for approving the accounting regulations pursuant to European directives, entities are separated into two categories:

- large and vary large entities;
- medium and small entities.

The tie-break criteria for these entities are: total assets (3.650.000 Euros), turnover (7.300.000 Euros), and the average number of employees during the financial year (50).

The accounting law makes the following assignation regarding the accounting management and administration: trading companies, national ventures, autonomous administrations, research-

³⁶³ We mention that Order 1752/2005 uses the concept of entity and not the traders, asset unit, enterprise, etc.

development national institutes, co-operative companies and other types of legal persons, are obliged to conduct and organize their own accounting, meaning financial accounting, according to present law, and management accounting adapted to the businesses characteristics. Public institutions, associations, and other legal persons with and without patrimonial purpose, and also natural persons that is involved in an income generating activity, also have the obligation to organize and conduct their own accounting, meaning financial accounting and if it is necessary, management accounting³⁶⁴.

The accounting process for Romanian entities is organized in a double circuit. Information given to third parties, also used by the economic entity is supplied by financial accounting, and the confidential information, used only by the economic entity is supplied by management accounting. Book-keeping for the entities is provided by the Accounting Law no.82/1991, re-edited as following:

- legal persons conduct their accounting in distinct departments, run by an economic manager, chief accountant or some other person commissioned to do so. This person must have superior economic studies;
- accounting can be also done based on a contract with natural persons or legal persons that are authorized according to O.G. no.65/1994 regarding the management for the accounting expertise and authorized accountants.

The responsibility for an inadequate application of the accounting regulations is taken upon the economic manager, the chief accountant or other commissioners, together with the subordinate personnel. If the accounting process is led based on a contract with an authorized legal or natural person, member of the Chamber of Experts Accountants and Authorized Accountants of Romania, responsibility is taken by them, according to the law and the articles of the contract.

Getting back to the types of entities, in the specialized literature, patrimonial units in which we organize and conduct accounting, are divided as following:

- economic units;
- public institutions – state organisms created in order to conduct certain social-cultural activities, not carrying out productive activities;
- humanitarian organizations built upon the liberty of association or participation principle, and they carry out political, social-cultural, religious, and some economic activities. In this category we have: political parties, syndicates, professional associations, cults, charity associations, associations and foundations.

Objectifying, the non-refundable structural funds eligible beneficiaries could be: any farmer, legal or natural person, that carries out agricultural activities, and who operates on the country's boundaries, its' size is equal or greater than 2 UDE ³⁶⁵and the entity has to be registered at the Register of Farms/Agricultural Register. Practically, the categories of beneficiaries which can access funds are:

- Authorized Natural Person, according to the 300/2004 Law with its following modifications;
- Family Association with integral private capital, according to the 15/1990 Law, with its following modifications;
- Trading Companies, according to the 31/1990 Law, re-edited, meaning: Partnership Firms, Limited Partnership/Commandite, Joint-Stock Companies, Companies with Limited Abilities;

³⁶⁴ Accounting Law no. 82/1991 republished, Official Gazette, Pag. 454/2008.

³⁶⁵ Economic size unit (ESU) is the unit expressing the economic size of farm standard gross margin determined by the farm (Commission Decision. 85/377/EEC). Economic size unit value is 1.200 Euros. In relation to farm size have shown a previous subparagraph its way down, both nationally and also internationally.

- Trading Companies with integral private capital, according to the 15/1990 Law and its following modifications;
- Agricultural Cooperative Companies, according to the 1/2005 Law;
- Manufacturers Group, according to the 338/2005 Law, but only with the condition that investments are used for the purpose of the groups interests. Manufacturers Groups are economic organizations (legal persons with a lucrative purpose and economic management) that run on their own statute.
- Agricultural Cooperative, according to the 566/2004 Law.

Theoretically, all of the entities listed above can become structural funds beneficiaries. But practically, structural programs are presented using guides where all the possible beneficiaries are presented, for example: private entities (micro-enterprises, small and medium enterprises), public institutions (schools, local public authorities), etc.

The reflection of the receiving and use of the non-refundable finances³⁶⁶ in the accounting is done following the existing standards. This is because in Romania, book-keeping is organized according to standards emitted by authorities and not based on general principles and rules.

The economic agents that benefit from the financial contribution of the European Community are obliged to keep track of the received and used finances using distinct analytical accounts.

Once our country adhered to the European Union, we had to adopt the community's *acquis* in our financial and budgetary area. The normative act about the Financial Rules regarding the European Community's general budget, no.1605/2002 and the Detailed Standards of implementing no.2342/2002 represent a very important regulation concerning what the EU believes to be an honest work regarding the financial responsibility in the public area administration. Being applicable for the European Commission Budget, it automatically has legal effects when talking about managing the EU financed project, implemented by member countries. In Romania, these Financial Rules has been implemented starting 2003, following the approval of the new Public Finance Law, no.500/2002, setting out a new environment for elaborating and managing the budget, establishing the role and responsibilities of the credit sequencers and leaders of the accounting-finance departments, carrying out the public funds administrative control, in the context of applying the principle of transparency and healthy financial management, and especially the principle of efficiency and effectiveness. The Accounting Law no.82/1991 modified by the Public Finance Law no.500/2202 have created a legal frame for the development and improvement of the management and performance of the public accounting system in Romania, that also has to follow new European demands:

- managing and presenting the accounts based on the determined right principle (of commitments);
- applying the general international accounting principles when making the financial standings;
- developing accounting destined for the cost of the programs.

In order to accomplish these demands, Romania has already been helped by the EU through a twinning-light program, when Scottish experts have evaluated the current system and handed out important recommendations regarding the introduction of some vital elements for the commitments accounting: registering debtors and creditors according to accrual basis, reevaluation and amortization of immobile assets, building provisions. Some recommendations have already been materialized through The Governments' Ordinance no.81/2003 and its applicability standards, in public institutions, reevaluation of immobile assets already being carried-out. Its results have been included in the balance sheet of December 31st 2003, and

³⁶⁶ Order no. 875 of June 16, 2000 approving the specifications to reflect the accounting operations of receiving and using funds from the European Community financial contribution and co-related funds, Official Gazette 377/2000.

starting January 1st 2004 all public institutions calculate and register the amortization of immobile assets.

To accomplish its role, the state organizes a vast network of public institutions. According to the Public Finance Law, the area of public institutions includes: the Parliament, The Presidential Administration, the Ministries, other central and local bodies of the state administration and institutions under it. Public institutions present a number of characteristics reckless of the area of activity, management etc. :

- patrimonial units of the state-at-law which carry out a political or executive activity, representing the power and state administration into society. Public institutions are bodies that compose, at a local or central level, the power apparatus and the state administration;

- the patrimonies of the public institutions are attributed to the public and private state patrimonies, or to local territorial administrative units. Public institutions built on an juridical paper inherit juridical personality needed for the patrimony administration and for taking commitments;

- as opposed to economic agents which create their patrimony based on subscribed and paid capital, public institutions do not include the economic category of joint stock. We cannot find joint stock in the patrimonial structures of a financial institution because they only have the quality of allotted patrimony administrators, whose proprietor is the state, represented by the Government and Local Committees. Public institutions do have a certain patrimony of material and pecuniary resources that they have to use respecting the legal standards and with maximum efficiency;

- managers of public institutions who are entitled to manage budgetary resources have the title of credit sequencers;

- expenditures of public institutions are financed under the form of budgetary credits. The use of budgetary credits has to be justified by the administrator at the end of every fiscal year;

- are not organized based on the principles of auto-management, because they receive monetary resources from the budget in order to accomplish their tasks, also having the obligation to pour to the budget all the tax incomes or other incomes obtained as a result of their activity. They have the right to partially retain these incomes in order to self-finance their activity;

- the public institutions objectives, provided by their statute aim the accomplishment of public service, but without aiming for profit. Public institutions are non-profit units that do not have lucrativeness indicators;

- in order for public services to function, public institutions need permanent capital that they obtain through budgetary credits for capital expenditures. The development and modernization of this capital through investments is also done using budgetary resources.

- the financial planning for these units is done using a budget.

There are two forms in which public accounting can exist: current public accounting and centralized public accounting. Current public accounting is organized and carried out by each institution in order to correctly register all patrimonial operations. According to the re-edited Accounting Law, all public institutions whose administrators have the title of credit sequencers are obliged to keep the books. The administrator holds the responsibility for accounting.

Centralized public accounting or periodical accounting is carried out by centralizing the annual and periodical financial situations. This accounting type works for superior credit sequencers and fiscal bodies, during the period of financial standings presentations and embodies data already centralized, given by the current budgetary accounting. Accounting the operations regarding the non-refundable financial contribution from the European Community is done in Euros and in national currency, at the INFO-Euro currency. The INFO-Euro currency represents an exchange rate between Euro and a national currency; it is communicated by the European Central Bank and can be found on the European's Commission website. The INFO-Euro is used for registering the current month operation (n) it is the exchange rate from the penultimate working day of the

antecedent month (n-1). This exchange rate is used by all public institutions that carry out activities financed through community funds: agents and implementing authorities, final beneficiary institutions like: goods, service or liquidity. Monetary elements expressed in Euros: liquidities and bank deposits, claims and credits are reevaluated at least once every trimester, when doing the financial statements, using the INFO-Euro exchange rate from the penultimate working day of the month when the financial statements are carried out.

Territorial - administrative units that have contracted, law accordingly, loans for financing non-refundable projects, have carried out payments and then received non-refundable external funds, in order to reimburse those loans, will fill out Appendix 15 "The account of budget execution of foreign loans – Expenses", Appendix. 16 "The account of the budget execution of domestic credit - Expenditure payments from loans" and Appendix 18 „The account of public execution of external grants funds - Expenditures" for payments made from these funds, including repayment of loans. The payments from external non-refundable funds are registered on Appendix 3 and 4 "Cash-flow Status", when it is carried out by the Contracting and Payment Department. Grant payments from foreign funds, reported by public institutions are in Appendix 6 "The account of execution for the public institution – Expenses", Appendix 7 "The account of execution of the public budget – Expenses", Appendix 18 "The account of the budget implementation of reimbursable external funds - Expenses" will be agreed with the data records of agencies / authorities for implementation, ie those included in special situations the transmitted direction of the Ministry of Finance. Through the normative papers earlier mentioned, we are trying to level our public accounting to European Standards, without neglecting the two key aspects of the reform:

- professional development of ministries and other bodies of the central and local administration specialists, and forming the trainers from the National Administration Institute and the eight regional centers for professional training, and none the less of managers from public institutions;
- evaluating the necessary of software and hardware for all public institutions, in order for the accounting process to be entirely computer processed, with on-line reporting facilities.

This way, the accounting process will give away complete information regarding the patrimony and the income and expenditure budget execution for managers in the central and local administration. They can use this information to improve the assets and funds management.

Financial statements are documents through which information regarding the financial position is presented (assets, liabilities, patrimony). Also they reflect performances, changes in the patrimonial structure and the company's cash-flow.

In Romania, financial statements are carried out following models established by the state authority, the Ministry of Public Finance

Bigger entities have to work out the following components:

- balance;
- profit and loss account;
- changes in the patrimony;
- cash-flow;
- explanatory notes for the annual financial statements.

Small and medium entities have to work out the following components:

- short balance;
- changes in the patrimony;
- explanatory notes for the short annual financial statements.

Optionally, small and medium entities can carry out a brief for the patrimonial changes or/and the cash-flow.

Europeanization and internationalization are major phenomenon that leads the way for the Romanian accounting system evolution, in order to harmonize it with the European Directives and converge with the Accounting International Standards. The aim is to control the financial

integrity of the patrimony and its results, through material integrity control and just dimensioning. In order to characterize an entity's activity during a certain period of time, we have to centralize and synthesize it under the shape of general information from the accounting process, this being one of the accounting's objectives, as a main component of the economic-informational system. The seamless presentation of accounting data is imposed by need of a precise structural representation of the financial position, the financial performance and other information regarding the entity's activity during a fiscal year. This purpose is accomplished through synthetic documents under the form of financial statements.

In conclusion, in the case of funds beneficiaries, the objective of financial statements is to mirror correctly and faithfully all of the elements with detailing in explanatory notes, especially under a narrative form.

References

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