

CONTROVERSIAL ASPECTS REGARDING THE ACCOUNTING HARMONIZATION PROCESS IN ROMANIA. HARMONIZATION, CONVERGENCE OR CONFORMITY?

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The new configuration of the international economic relations which are in a general globalization process determined by the international capital circulation requires the compatibility and comparison of the information provided by the financial statements. The investors and the entrepreneurs wish to understand and to be able to compare the entities' financial situation and performances, no matter the juridical and accounting system which are subdued to by their localization. The differences between the important variety of the accounting systems were identified long time ago and since then there have been efforts made in order to conceive a economic financial reporting structure, accessible to the entire accounting world. Therefore, there is the need of normalization, harmonization, and convergence in accounting. Our intention in the current paper is to bring again into discussion the problem of accounting harmonization, emphasizing a few aspects which in the Romanian context we consider to be controversial and which require some clarifications. This paper represents a brief review of the evolution of the accounting harmonization in Romania, analyzing the difficult moments and mainly it is focused on the conceptual understanding of the concepts of harmonization, convergence, and conformity in the Romanian accounting. Our approach is not an exhaustive one, but it has as objective to reflect on the importance of the stages of accounting modernization in Romania. In the last part of this paper, the conclusions that we reached after study, are presented synthetically, as well as the continuation of the approach initiated in other papers.

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Conceptual approaches of the accounting normalization, harmonization, and convergence processes

The first preoccupations regarding the accounting normalization and standardization process were in Great Britain (the beginning of the 19th century) and the United States of America (after the 1929-1933 crisis), but in Germany in 1919 Professor E.Schmalenbach designed the first unitary chart of accounts starting from the Dewey decimal system. Yet the process of normalization is accelerated after the Second World War due to the state's need to get homogeneous and unitary financial accounting information which should allow it to exercise the economic and fiscal control. A second objective of the normalization indicated by Bernard Colasse⁶²⁵ is the need to use accounting information by the external users from time and space comparisons among enterprises. Romanian authors Niculae Feleagă and Ion Ionașcu⁶²⁶ added to

⁶²⁵ Colasse B, Contabilitate generală, Editura Moldova, 1995, pag 38-39;

⁶²⁶ Feleagă N, Ionascu I, Tratat de contabilitate financiară vol 1, Editura Economică, București 1998, pag 263-364;

these objectives also the contribution of this process to a better re-allocation of financial resources at the country level. The highest part of those interested in defining the process of normalization has convened on the same type of this process approaches:

- A regulated approach which is actually one of political type within which there the state intervention. This can be considered as a forced normalization, but its absence could lead to the appearance of the market cartels and monopolies;
- The pragmatic professional approach within which the central part is played by the accounting profession. In this case, the normalization is voluntary;
- And another of a mix type which is actually a combination of the two mentioned above, for the accounting norms worded out by professional bodies are validated by public institutions or they require an active participation of the accounting profession, of the trades and employer associations when design accounting norms⁶²⁷.

Regarding the object of accounting normalization, it has been agreed that in accordance with the public or private nature of the normalization, it refers to the determination of a unitary terminology and some generally accepted accounting principles, to the design of unitary financial statements in what their format is concerned, the structure, definition, familiarity and evaluation of the financial statements items and the design of the general account charts.

The need for accounting normalization is required by the differences between the accounting solutions adopted, a phenomenon generating a series of problems. The most frequent problems mentioned are:

- *problems for which the companies having to draw up the financial reports* according to different national norms or standards, a fact generating more work and sometimes difficulties in choosing the rules when it is not clear which set of norms is the most suitable;
- *problems for the users*, those who have to read and interpret the financial statements and who scarce or very vague accounting knowledge, and not to mention international accounting knowledge;
- *a general problem referring to the "unfair conditions"*, for accounting has economic consequences not only indirectly, through investment decisions, but also directly because accounting is the basis for making decision regarding the negotiation of wages, prices, setting up the dividends and in some countries it is the basis for the decisions made by taxation, and by the state in its efforts to redirect and stimulate the businesses.⁶²⁸

Normalization as a process drawing up rules, norms to present the synthesis documents and defining the methods and the accounting terminology, totally or partially applicable to a group of countries or enterprises, has as objectives⁶²⁹:

- to ensure the regulation of the accounting practices and therefore to determine the bettering of the accounting;
- to allow the accounting information users to make rational decisions, based on the accounting information;
- to create a trustful environment between the capital holders and the business managers;

⁶²⁷ Cristea Șt. M. Armonizare contabilă internațională și practicile contabile naționale. Studiu de caz pentru România și Italia, Editura Accent, Cluj Napoca, 2007, p.45;

⁶²⁸ Bogdan V, Armonizare contabilă internațională, Editura Economică, Bucuresti 2004, p. 85;

⁶²⁹ Feleagă N., Îmblânzirea junglei contabilității, Editura Economică, București, 1996

- to act as a referee between different parties participating to the economic life, and especially, between the accounting information producers and the accounting auditors certifying the quality of the information, thus ensuring the social credibility of the accounting information;
- to give a certain protection to the accounting auditor by confining his responsibilities;
- to allow the consolidation of the accounting information at the groups of firms level;
- to allow the drawing up of national statistics.

The normalization effort is capitalised in the enunciation and definition of accounting postulates, principles and standards (norms). If the accounting postulates and principles refer to very general elements, produced by the normalization act for a long period of time, the accounting norms can be applied to particular cases.

A postulate represents a sentence whose acceptance is required in order to make a demonstration. The accounting postulates are based on the observations made on: the economic environment by identifying the users of the financial information and the objectives of the financial information process. The observations considered useful to a formulation of accounting principles and norms are catalogued as accounting postulates.

The accounting principles are conceptual elements guiding the normalization makers in drawing up accounting norms, starting from the accounting postulates. Also, they are support elements for the financial information producers in order to correctly acknowledge in the financial statements the transactions and other events, as well as to faithfully represent the financial position, the performances and the evolution of the financial position through these synthesis documents. Finally, the accounting principles are guides for the auditors in their activity to certify the accounts. They have a lesser degree of generality than the postulates, but a higher degree than the accounting norms.

No matter they are called accounting postulates or accounting principles, they can be defined as accounting statements based on the direct acknowledgment and which are considered true, without necessarily being obvious.⁶³⁰

The accounting standards (norms) are precise rules to acknowledge, evaluate, classify, and present the accounting information. It results that, often, the accounting normalization consists in defining the norms and then in applying them.⁶³¹

The normalization efforts made in the attempt to reduce the number of accounting alternatives, treatments internationally, was not on the profession's agenda until 1973, the year when by creating IASB the efforts made for the accounting harmonization were intensified. The pressure for the accounting harmonization to become the means to do the comparability is increasing.

The international normalization is meant to facilitate to a considerable extent the international economic and industrial exchanges. The international harmonization is more and more gaining ground and lately we have felt a progressive evolution of passing from the European harmonization to the international harmonization.

The normalization and the harmonization are two indispensable processes and sometimes complementary. The former has in view the setting up of norms and the latter the comparability between different norms.

To harmonize means to put in a perfect agreement the elements of a whole⁶³², which sometimes means to prescribe changes, changes from which some win and some lose.

⁶³⁰ Todea N. Teorie contabilă și raportare financiară, Editura Aeternitas, Alba Iulia 2009, p. 32

⁶³¹ Feleagă L. Feleagă N. Convergențe contabile internaționale prin prisma aderării la Uniunea Europeană, Revista Economie teoretică și aplicată, pp. 37-44

⁶³² DEX

The international accounting harmonization is the process through which the national rules or norms, different from one country to another, are improved in order to become comparable and to give the same interpretations to transactions and events.

Taking place internationally as a result of more and more pronounced globalization and financialization and deriving from the accounting normalization which has as objectives: the determination of an accounting terminology and principles generally accepted, the acknowledgment and evaluation of the items making the financial statements, the manner to present the financial statements and the adoption of the most suitable accounting norm instrument, **the accounting harmonization means “the complete match of the elements of a whole”, but in the context of a “good understanding between groups of people”⁶³³ in order to satisfy the requirements of the financial and accounting information users.** In this view, the elements of the whole are considered to be represented by the national accounting rules and practices, different from one country to another, sometimes divergent, which in order to be “*completely matched*” are improved to be made comparable.

The harmonization process is trying a way to conciliate the different points of view, the homogeneous presentation of information not being necessary anymore, but the assurance of a unitary meaning even for those who use different standards. If the normalization means total homogeneity, the harmonization means flexibility in total diversity, that is the harmonization establishes the limits’ within which the accounting practices can vary, taking into account, to a higher extent, the national differences.

Mainly supported by the international accounting community, *the accounting harmonization movement*, globally, whose essence leads, on long term, to a certain homogeneity of the national norms and practices, deals with a variety of the objectives attributed to the financial statements, but especially, with the economic, social and cultural environment of different accounting systems, culminating with manifestations to state the national sovereignty and identity.

The Commission for Stock Exchange Operations emphasises **the necessity to assure the international harmonization** in the following terms: “The increasing internationalization of the financial markets means that a better compatibility should be more and more ensured of the firms’ accounts in different countries. Actually, the divergences between the financial statements set up according to the international norms by each country, the lacunas revealed in the accounting information put forth by some of them and, sometimes, the variations of a national norm from one year to another, make the comparisons impossible: for example, the comparison of the average productivity of the personnel between the groups of a country and the ones from another country when actually the firms in these countries are not even constrained to indicate in their annual reports the number of employees or the costs involved by them?”⁶³⁴

The international accounting harmonization is required also by the *privatization tendency* of some enterprises. The transfer of some more and more firms from the state property to the private sector is requests new needs in terms of private capitals, which, usually, are too big in order to be fulfilled by the capital markets of a single country. In these conditions, the wish of such enterprises to create and apply some homogeneous accounting norms is justified.

Regarding the harmonization process, it is subject to a staging process, therefore we can speak about different degrees of achievement of the international accounting harmonization. Thus, if the normalization has allowed the unitary drawing up of the financial accounting information in order to rigorously capitalize the decisions by the users, the harmonization should determine similar decisions of the users in similar conditions, no matter the geographical positioning of the entity.

⁶³³ Dicționarul explicativ al limbii române, 1975, p. 52

⁶³⁴ Farcane N., Coteleş D., Reforma în sistemul contabil românesc, Editura Orizonturi Universitare, Timișoara, 1999, p. 117

In this point the concept of convergence appears on the international accounting “stage”. The accounting convergence has in view the identification of some objectives that the enterprises and the accounting professionals all over the world follow as a final aim in the presentation of the annual financial statements, without imposing the application treatments, rules and procedures and being useful to the users.

No matter that we talk about normalization, harmonization, or convergence, the essence of these processes is information. The problem of information is vital for the organization, for a system, for a process. Information represents knowledge intelligibly presented to a person. The information is that entity totally or partially removing the state of non-determination called entropy, based on a message addressed to a receiver. To be useful, the information must have some fundamental characteristics: to be consistent, relevant, exact, desirable, accessible, complete, and concise.⁶³⁵

The triggering of the convergence process took place in October 2002 when the Financial Accounting Standard Board and the International Accounting Standard Board announced the signing of an agreement memorandum which was updated on 27th February 2006 with perspective until 2008.

The convergence process takes place on three levels:

- on the first level, there is the convergence between the IASB and FASB norms;
- on the second level, there is the convergence between the regional norms and IAS (the EU case);
- on the third level, there is the convergence between the national and regional standards, as in the case of the accounting systems of the EU member states.

The situation in evolution of the normalization, harmonization, convergence, and standardization process in Romania. whither Romania?

For the beginning, it is fair to mention that we cannot talk about a purely Romanian accounting system for almost always the accounting system practised in our country, no matter it was the result of a historical fracture or not, was and still is an imported product. As the indefatigable researcher of the accounting meanings, N. Feleagă, stated, the Romanian accounting system is of French inspiration, *“aligned to the requirements of the European and international norms, in which the Romanian norm makers hallmarked some Romanian characteristics, partially acceptable, partially arguable.”*⁶³⁶

The national accounting normalization is characterised by three specific aspects:

- it is of public authority for the accounting norms are issued by the state institutions, in compliance with the accounting policies of the Ministry of Public Finances and is based on laws and other normative acts consecrated to accounting and which are compulsorily to be complied with by all the enterprises;
- the main piece of normalization in Romania is represented by the general account chart, still in force, structured according to the French model, into patrimonial accounts, balance sheet accounts (classes 1-5), economic processes accounts (classes 6-7), off-balance sheet accounts (class 8) and accounts for the management accounting (class 9);
- it is based on a theoretical frame of accounting with both continental and Anglo-Saxon influences.

The Romanian theoretical frame contains regulations and norms issued by the institutions authorised and it is characterised by the fact that the current system of Romanian accounting norms is comparable with the accounting law of the European Union by integrating in the

⁶³⁵ Briciu S. et al, Managementul prin costuri, Editura Risoprint, Cluj Napoca, 2003, pp.27-31

⁶³⁶ Bogdan V. Armonizare contabila internațională, Editura Economică, Bucuresti 2004, p. 337

Romanian accounting law of the provisions of the 4th European Directive (1978) on the annual accounts of companies, of the provisions of the 7th Directive (1983) on the consolidated accounts and of the 8th Directive on the auditing norms of financial statements.

The process of Europeanization and internationalization of the Romanian accounting system is passing also through the process of assimilating the results of the convergence between the two global accounting referential promoted by IASB and FASB. More than 1,000 Romanian enterprises started once with the issuing of the Order no 94 of Ministry of Public Finances of February 2001, the adventure of knowing and implementing the international accounting standards (IAS).

The start of the international accounting harmonization and convergence has determined the Romanian law maker to review the strategy of action within the Romanian accounting reform by reconsidering the adaptability of IAS/IFRS to the Romanian business environment. In the same time, the adoption of Directive 51/2003 by the European Commission in order to modernize the 4th and 7th Directives has determined the Ministry of Finances to change the legislative frame which stipulated a partial harmonization both with IAS and with the modernized European standards. At the present, Romania has chosen to eliminate the concept of harmonized regulations, preferring the term of corresponding accounting.

The regulations of a new order (no. 1752), applicable in Romania starting with 1 January 2006 require being in accordance with the European Directives on accounting. When Order 1752/2005 came into force, both Order 94/2001 on the sanctioning of the Accounting Regulations harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards and Order 306/2002 on the sanctioning of simplified Accounting Regulations harmonized with the European Directives are abrogated. As it results from the title of these Regulations, they want to be not only *harmonized* with the European Directives but also *in accordance with* them, meaning similar with them. This change has led to the split of opinion among professionals: some consider this moment as being a step back, a waste of the efforts made by the companies to adopt and use the standards, and others say that this moment has been the natural consequence of the evolution of the international accounting. Certainly, when the decision was made, there was the problem of the cost-efficiency-benefit ratio afferent to the further application of the IFRS stipulations. Maybe this question was the result of an empirical study presented at the Accounting Association European Congress in 2006 by Ion Ionascu, a study which discloses the fact that at the level of the companies quoted on the Bucharest Stock Exchange, the cost of IAS/IFRS implementation was approximately 30,000 Euro per entity, an amount which represented for the authors only 0.035% costs average of these particular companies in 2004.

Conclusions

In conclusion, we can emphasise that in what the segment of small and middle sized enterprises and of the other entities which do not frame within the category of enterprises applying the IAS/IFRS norms is concerned, the accounting harmonization is being translated in the conformity with the provisions of the 4th and 7th European Accounting Directive, this thing being done through the accounting regulations sanctioned by the Ministry of Public Finances.

Regarding the segment of public interest entities, under the incidence of the IAS/IFRS provisions, the harmonization can be understood as the convergence existing between the OMFP 1126/2006 provisions and the requirements of the international referential.

The novelties in the field of accounting regulation are brought by OMFP 3055/2009 applicable from 01.01.2010, according to which the corporate bodies which at the date of the balance sheet exceed the limits of two of the following 3 criteria, further called size criteria:

- total assets: 3,650,000 euro;
- net turnover: 7,300,000 euro;

-average number of employees during the financial year: 50 draw up financial statements in compliance with the provisions of the 4th and 7th Directives of the European Economic Community.

A new challenge for the Romanian entities is represented by the design and development of own accounting policies. They contain the accounting treatments established based on Order 3055/2009 for each of the operations performed and must be approved by the managers.

In the process of accounting reform in Romania, a supplementary effort is necessary for the accounting professional to impose himself in the relation with other decision makers, this imposition being possible by instituting the public private partnership in the field of accounting, which would have as result the appearance of a robust and modern accounting system.

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