

IMPORTANCE AND VULNERABILITY OF TRUE AND FAIR VIEW IN THE ROMANIAN ACCOUNTING ENVIRONMENT – CASE STUDY

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This empirical study comprises items related to the operationalization of the concept True and Fair View in day to day accounting issues in Romanian accounting environment, demarche based on which we were interested in assessing the vulnerability of the concept and also the importance attributed by Romanian practitioners. If the vulnerability is high and the importance attributed low, the concept True and Fair View`s importance as an overall basis of accounting is limited, fact that will affect the quality of accounting information. The categories approached were chosen based on their implication related to the operationalization of the concept. The company`s financial directors are responsible for ensuring that the financial statements give True and Fair View and in the same manner the expert accountants must consider it important in order to prepare the financial statements in accordance to its requirements and finally the financial auditors must assess its existence, otherwise if this principle is neglected the companies would consequently present spurious results of their activity. All the categories above asserted that the concept doesn`t have only a symbolic role at the national level and their implication in achieving its requirements can be characterized by a proactive attitude. When it comes to assessing the potential vulnerability of TFV, our respondents agreed that items like legislative ambiguity and accounting estimates have the potential to affect TFV construct in the practical side of accounting.

Key words: True and Fair View, Legislative ambiguity, Accounting estimates, Operationalization, Quality of accounting information

JEL Classification: M41

1. Introduction

This part of the research is motivated by the fact that the literature has revealed little research regarding TFV operationalization. The results are important for both theoretical and empirical research as well as for regulators, lawmakers, firms and investors. TFV role in the current issues of accounting is considered to be very important taking into account the opinion of authors like Alexander (1993, 1996) or Amat et al., (1999). On the other hand authors like Forker and Greenwood (1995) consider the concept as having only a symbolic significance in current issues of accounting. When it comes to assess its meaning in a theoretical field this demarche is not considered to be a difficult one, but when its meaning must be assessed and interpreted in day to day accounting issues, the demarche can become a very complex one, having the fact that accounting legislation comprises estimations and sometimes ambiguity. The remainder is divided in 8 sections. The first section contains the motivation and scope of the empirical study conducted; the second section refers to the state of the art. The third section comprises the research design that explains the research hypothesis and the methodology employed, the research directions (research instrument and analysis and interpretation). The latter sections were designed as following: findings and discussions based on the results found, conclusions, where we discussed the implications of the findings, limitation of the study and scope for future research.

2. Motivation and scope of the study

A financial reporting system, independent from the economic context, encapsulates the concept of TFV, that without any discrepancies. The difference between one financial reporting system and other is given by the wording that is used for this principle of accounting that require that financial statements to be prepared and presented fairly and correctly, unbiased by particular interests. No matter if the terminology is “TFV” or “present fairly in conformity with GAAP” or “Faithful representation” the idea is the same, but the perception can be different since the relationship between accounting theory and accounting practice varies, since the history of concepts varies to time and place, since the importance of the concept can be higher or lower depending on the enforcement demarches conducted by the accounting regulators, since the alternative interpretation of the concept developed in its history are various⁷⁶. All the above can act like conclusive items for the importance and the potential vulnerability of TFV, and further the latter can affect the quality of accounting information. Since the studies conducted so far regarding TFV were related mainly to perceptions gap (Parker and Nobes, 1991; Kirk, 2006; Albu et al., 2009; Bota-Avram, 2009) we are interested to assess the concept under a different spectrum, based on the fact that the practical side of accounting is primordially interested by its operationalization. Despite the fact that the concept is regarded as a changing one in time and space⁷⁷, we expect that the actors in the accounting field to regard it as having operational meaning not only a symbolic. Further we assumed that similar to Parker and Nobes (1994) opinion to be vulnerable to certain items found at national level. When it comes to the Romanian accounting environment the concept can be vulnerable to pressure as: accounting estimations and ambiguity of accounting regulations (Albu et al., 2009 and Bota-Avram, 2009).

3. State of the Art

Previous studies that have examined the concept TFV have assessed its meaning under different spectra approaching it in the context of: literal versus technical application (Kirk, 2006); through its constitutive components (Cowan, 1965); a concept that exist mainly for the benefit of auditors (Williams, 1985:30); as a legal residual clause (Walton, 1993); as an exercise of deharmonization (Parker, 1994); as an excuse for creative accounting (McGregor, 1992); as a root for debate on form versus substance (Flint, 1980) or as a nebulous concept that shouldn't be used to base trial on it (Cowan, 1965). Even if many empirical studies were conducted so far, little evidence exist regarding the importance attached to the concept by the actors from the different economic environments and even fewer were concerned to test the vulnerability of the concept under the influence of certain factors. At theoretical level we can found concerned regarding its importance and vulnerability in the work of: Rutherford, 1985; Houghton, 1987; Alexander, 1993; Karan, 2002; Ordelheide, 1993; Dunk and Kilgore, 2000; Aisbitt and Nobes, 2001, but when it comes to the empirical level the above authors haven't approached this path of research only tangential.

4. Research design

This empirical study conducted in the Romanian accounting environment in 2011 reports the main results of a survey that used as a tool a questionnaire that focused on the perceptions of financial directors, financial auditors and expert accountants regarding TFV importance and vulnerability. In this respect the questionnaire submitted comprised a number of 9 questions used in order to assess the importance given by the three categories to the concept of TFV in accounting practice. All 9 closed questions are compressed in the results presented in Table 2.

⁷⁶ For a detailed discussion regarding the history of the concept of TFV see Chastney (1975).

⁷⁷ For a complete taxonomy of TFV perceptions in different economic environments by various categories of respondents the studies conducted by: Cowan, 1965; Nobes and Parker, 1991 can be consulted.

5. Research hypothesis

Albu et al. (2009) documented that most of the respondents tip the balance to operational meaning not only symbolic one. Based on this, the importance attached to the concept it could be higher in the practical side of accounting, fact that can be proved by assessing the opinion of some actors from the national accounting environment. Accounting estimations and ambiguity of accounting regulations are known as possible factors that have the potential to affect the quality of accounting information and further to affect TFV. Based on the empirical study conducted by Cuzdiorean et al. (2011), Romanian accounting legislation is characterized by frequent changes conducting to ambiguity. Also the estimations have the potential to distort the accounting output. In this respect based on the above examined scientific background we develop the following research hypothesis:

H1: Romanian financial auditors, financial directors and expert accountants are characterized by an active implication in developing financial statements under the spectrum of TFV since they are seeing the concept as having operational meaning not only a symbolic significance;

H2: The TFV is vulnerable under the pressure of factors as accounting estimations and ambiguity of accounting regulations.

6. Methodology

The empirical findings have then been analyzed in relation to the literature review.

6.1 Questionnaire design

The design chosen for testing the above research hypothesis comprised the Web-Assisted Self Interviewing (WASI) that used a public platform that doesn't allow the interaction between the subject and interviewer, which is somewhat characterized by a limited view of the assertions tested. All our respondents used the Romanian version of the questionnaire that comprised a series of 9 closed questions. In this respect we were interested in its practical application mostly and in this regard we tested the importance attributed to the concept in the practical side of accounting. A question addressed the respondent's perception regarding the operational meaning of the concept, while others were concerned in assessing the regulation features that have the potential to distort TFV. Some of the questions assessed the importance attributed by the different categories of the respondents to the concept.

6.2 Sample

Our final sample included financial directors, financial auditors and expert accountants as following: the entire population of financial directors of all listed companies on the Bucharest Stock Exchange in 31.10.2010, in a number of 69 financial directors based on the addresses of the companies listed on Bucharest Stock Exchange (www.bvb.ro), tier I, II and III at 31.10.2010; the entire population of financial auditors that had available the email address on The Chamber of Financial Auditors of Romania in 31.10.2010, in a number of 1280 financial auditors (firms and individual) (www.cafr.ro); the entire population of expert accountants that had available the email address on The Body of Expert and Licensed Accountants of Romania in 31.10.2010, comprising a number of 4295 of expert accountants (www.ceccar.ro).

The questionnaire was submitted to those three categories of respondents using a database that comprised the contacts of 5644 specialists. From the whole sample, 3888 addresses contain errors. In this respect 1756 contacts remain valid. From those we received back 342 responses, obtaining a preliminary rate of response of 25, 61 % globally as a mean for the three categories surveyed. After revising the questionnaire received we eliminated 129 questionnaires as it is

presented below, for incomplete answering. The final global rate of response was 12, 99 %. In Table 1 we summarized the rate of response after assessing the content of the questionnaires.

Table 1. Questionnaire respondents assessed by the professional groups after examining the questionnaires

Professional groups	Valid contacts	Total Responses received	No. of incomplete questionnaires	Total questionnaires remained for final analysis	Final rate of response (%)
Financial directors	69	11	0	11	15,94
Financial auditors	295	139	107	32	10,84
Expert accountants	1392	192	22	170	12,21

Source: Authors projection

At the end of the session of data collection were included 213 completed questionnaires (completed by 170 expert accountants, 32 financial auditors and 11 by financial managers) which implies a response rate of 12, 99 %, higher than it is usually obtained in Romania (e.g. 5% -7% rate of response). The period for data collection was 6 of January to 18 of February 2011. The completing duration of one questionnaire was approximately 5-10 minutes.

7. Data analyses, Findings and Interpretation

In our empirical study we approached partially the concept of operationalization of the TFV when we were interested in assessing if the concept is perceived as being important in the Romanian accounting practice, verifying in the same time if the attitude of the practitioners is a proactive one when it comes to apply the requirements of the concept. Also, the potential vulnerability of the concept was assessed when the legislative ambiguity and accounting estimations were discussed to have the potential to affect TFV. In order to test the set of assertions below, the subjects were asked to express their agreement or disagreement. The results obtained are presented as following:

Table 2. Results assessing the importance and potential vulnerability of TFV in Romania

	Disagreement	Agreement
	Row N %	Row N %
Based on your opinion, The LEGISLATIVE AMBIGUITY has the potential to affect the TFV?	3,3%	96,7%
Based on your opinion, ACCOUNTING ESTIMATIONS has the potential to affect the TFV?	37,6%	62,4%
TFV can be assessed only by its symbolic role, without a clear conceptual trust:	69,0%	31,0%
We cannot assert that the accounting information is characterized by TFV in Romanian accounting practice:	55,4%	44,6%
Accounting practitioners grant an increase importance to TFV, and based on that they are not concerned only with the mechanical application of the law but also in fair reflecting of economic reality:	28,2%	71,8%
The financial auditor play an important role in generating TFV in accounting:	23,5%	76,5%
The financial manager play an important role in generating TFV in accounting:	12,7%	87,3%
The expert accountant play an important role in generating TFV in accounting:	5,2%	94,8%
The accounting information cannot be characterized under the spectrum of TFV:	70,4%	29,6%

Source: Author's projection

The first question was design to test if an important factor correlated with the quality of accounting information (e.g. legislative ambiguity) can be considered an item that has the potential to affect TFV construction. In this respect 96, 70% of the respondents agreed that this factor has the potential to affect TFV and further the quality of accounting information. In a lesser extent, the accounting estimations also have the potential to affect TFV since the respondents agreed in a proportion of 62, 40%. When it comes to the role played by TFV in accounting profession, 69, 00% of the respondents answered that the role of the concept is not a symbolic one. The implication of accounting practitioners in reflecting the economic reality based on the principle of TFV is important since an increased importance is granted to the concept in the practice of accounting (71, 80% of the respondents agreed that they grant an increase importance to TFV in the practical side of accounting). The role played by the financial auditor, financial manager and expert accountant is an important role. Judging by the answers of the respondents (affirmatively: 76, 50 % for the first category; 87, 30% for the second category and 94, 80 % for the third category) the role of the practitioner is an important one and can be a factor that has the potential to influence TFV in a higher proportion. The last assertion “The accounting information cannot be characterized by TFV” comprised a rate of disagreement of 70, 40 %.

8. Conclusions

The results obtained documented that the financial directors, financial auditors and expert accountants regard the concept not from a symbolic spectrum but as having operational meaning. As we stated above, all the categories questioned asserted that the concept is important in the Romanian accounting practice and that the accounting professional’s involvement when it comes to operationalize the concept is an active one. Not regarded as having only symbolic significance, the first research hypothesis was validated. Since the results obtained documented the categories questioned asserted that both accounting estimations and the ambiguity of accounting regulations have the potential to affect TFV in the practice of accounting, the second research hypothesis was also validated. Almost all respondents concluded that legislative ambiguity affect in a higher proportion TFV, while the accounting estimates in a small proportion, both items being responsible for its vulnerability at the national level. The great majority of the respondents concluded that role played by the accounting practitioners is important in assessing the magnitude of TFV.

9. Limitations of the study and scope for future research

The major problem identified was a matter of logistics having the fact no existing database that can entirely match our scope of the study existed and in this respect we had to develop such database for each category included in the sample. In this regard we manually selected all the available email addresses of the potential respondents from the internet web sites described above. Having the fact that we have chosen this particular approach a large eligible population remain outside the population of interest. Other limitations are those represented by the methodology adopted. The use of the questionnaire as a research tool may lead to non-response error and self-selection bias. A future study will enlarge the sample that will be surveyed and will change the research instrument, trying a more non-biased instrument like interview. Also other issues of transferability of TFV across languages and cultures that require their local realization in the locality of CEE region in the context of globalization process is considered to be appropriate since few studies were conducted in this respect. For a thorough understand of the New Europe the process of harmonization is important to be studied and assessed and from that process, TFV is an important part to assess. We are also interested in assessing in a future study the influence of overriding criterion on creative accounting practices in Romanian accounting environment.

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