HARMONIZATION OF NATIONAL REGULATION AND INTERNATIONAL FINANCIAL REPORTING STANDARDS – PARTICULAR CASE OF NONCURRENT ASSETS

Coste Andreea–Ioana, Szilveszter Fekete Pali-Pista
[1]*Department of Accounting and Audit, Faculty of Economics and Business Administration, Babeş Bolyai University, Cluj–Napoca, Romania*
[2]*Department of Accounting and Audit, Faculty of Economics and Business Administration, Babeş Bolyai University, Cluj–Napoca, Romania*
andreea.coste@econ.ubbcluj.ro
szilveszter.fekete@econ.ubbcluj.ro

Abstract: *In the scientific literature, accounting harmonization is a top topic because it helps to increase the comparability of financial statements. Also in Romania in the last 10 years becames a topic that is very often debated. The harmonization is trying to reduce differences of financial reporting statements between countries or, in the other words, it is trying to bring to a common denominator of existing rules when appear conflicts of comparability between them. The purpose of this paper is to measure the harmonisation between national and international regulation for a significant element of financial position statement, such as noncurrent assets. This paper provides an empirical research of information that must be presented by entities which apply national accounting standards or international ones when financial statements are prepared, trying to measure the harmonization between the two referential. Thus, in trying to determine the harmonisation, we use the Jaccard coefficient in order to provide an overview of the degree of harmonization of accounting practice. When measuring the degree of comparability of Romanian accounting regulations with International Accounting Standards we analyzed noncurrent assets and impairment of assets using the Jaccard coefficient for accounting treatments and we calculated an average of similarities between the two regulations. Further, the results suggest that there is an average level of harmonization for the accounting treatment of noncurrent assets and for determining the impairment of the assets, the methods are the same. The study contributes to the development of accounting literature about the harmonisation between national regulation and international standards regarding the noncurrent assets and impairment of the assets, which together with the other elements define the activity of the business. In addition, the study provides an analysis of how the regulations treats noncurrent assets, during the life of the asset, namely: the recognition phase, the evaluation and the depreciation.*

Keywords: *Noncurrent assets, national and international regulations, accounting harmonisation measurement.*

JEL classification: *M 41*

1. Introduction

International Financial Reporting Standards including International Accounting Standards (IAS) cover all aspects and regulations issued by the IASB regarding accounting standards. Companies in the European Union publicly traded are required to prepare financial statements in accordance with IFRS since 2005. IAS / IFRS are a set of principles and guidelines to approach accounting, with the stated purpose of providing information about the financial position and performance of the enterprise. This information will be useful to a broad group of users in making economic decisions.

OMPF 3055/2009 is a guide to the application of accounting regulations with European Directives. All entities in Romania must use these standards for conducting and preparing financial statements. As IAS / IFRS, these regulations provide information about the position and financial performance, and cash flows for the year ended, information that is useful to financial statements users.

In this respect, in Romania has made remarkable steps which led to considerable legislative progress by switching to the application of international accounting standards and accounting harmonization with the rules contained in the regulations in Europe. Thus, in our country since 1 January 2007, according to OMFP 1121/2006, companies that are listed on a regulated market are required to apply for financial statements IAS/IFRS referential. Entities which operate on a regulated market may choose to apply this referential, but there is no obligation to do so.

After introduction, the second section aims to present an overview of noncurrent assets and impairment of assets using the relevant literature. The third section provides the methodology research that we used for this paper. Also, this section includes the main elements chosen to be analyzed in the regulations. The next section is a case study, where we explained the similarities and differences between national reglulation and international standards. The last section presents the conclusions regarding the accounting harmonization of both standards and some suggestions for further researches.

2. Literature review

Information is considered a key element that helps to economic prediction for the entity, prediction that could not be made without relevant information. In making decisions, disclosure of information is essential and their absence leads to negative effects (Edmiston, 2011). The literature shows that reporting can be accomplished by establishing a common point between international standards and policies adopted by entities in practice (Kueppers and Sullivan, 2010).

In terms of tangible assets, Manea and Stefan (2009) analyses the criteria that must be met when recognize an asset as a tangible one and addresses the importance of recognizing for the first time a tangible asset. The conclusion of the research highlights the need of experience and professionalism of the company's management in order to avoid recognition of an asset in an improperly.

The domain of intangible assets is studied by Tiron Tudor and Dragu (2010), in researching the impact of international accounting standards on accounting practices harmonization with European Union. In the article, is a case study on the reporting of intangible assets, exposing differences arising, if any, on the financial statements of different companies that apply the same methods of recognition. The

research objective is to demonstrate trends of harmonization of EU member countries following the adoption of financial reporting standards.

Pozzoli et al (2011), based on an empirical study that analyzes the accounting treatment of intangible assets in the financial statements, assessing 90 listed companies in Italy between 2007-2009 which have reported financial statements in accordance with IAS / IFRS. The research focuses on the one hand, the presentation of intangible assets in the financial statements and on the other hand, the entity's ability to invest in the future in order to make a profit and be competitive in the market. The method used by the three authors is the application of ratios, such as: intangible assets and total assets held by the entity, impairment of intangible assets related to intangible assets.

Barth and Clinch (1998) demonstrated through the conducted researches that may result from the revaluation of assets both, increases and decreases, resulting relevant values. However, due to the nature of the asset, growth could affect the value of the relevant asset.

According to Pozzoli et al (2011) Impairment of assets (IAS36) is applied at least once per year and the entities apply impairment before preparing financial statements.

To determine the degree of harmonization of national accounting with IAS / IFRS, Ding et al (2007) have measured differences using two indicators:
- absence – highlighted item is covered only by the IAS / IFRS;
- divergence – identify an element which is defined in national regulations and IAS / IFRS, but have different accounting treatment.

Qu and Guohua (2010) identified relevant studies conducted on the harmonization of measurement methods using the Euclidean Distance, Jaccard coefficient and Spearman. In this respect a relevant example is the case study conducted by Fontes et al (2005), which measures the degree of harmonization of national standards from Portugal with IAS / IFRS, using financial statements entered between 1977 and 2003, first of all using Euclidean distance, followed later by the Jaccard coefficient and the Spearman method.

Also, Jaccard coefficient had been applied in Romanian literature by Mustata (2008), measuring the level of harmonization between national and international regulations, using computational tools such as Euclidean distance and Jaccard coefficient. The study revealed a degree of conformity between national regulations with the international standards and in the period 1973-2007 has been a significant increase. Thus, Jaccard coefficient was used for the case of intangible assets which are regulated in international accounting standard and national regulations (Dragu, 2010). Strouhal & co (2011) exemplifies the use Jaccard coefficient by measuring the degree of harmonization between national regulations of the countries: Romania, Estonia, Latvia, Czech Republic with International Accounting Standards.

3. Methodology research

In this paper, determining the similarities and differences for the information on tangible assets, intangible assets and impairment of assets that must be disclosed, both for those who use national regulations and for those who use International Financial Reporting Standards for preparing financial statements, is done through the application Jaccard coefficient. The choice of this coefficient is due to the use in

the accounting literature a series of articles describing this factor, exemplified by measuring the degree of harmonization between national and international regulations, using the Jaccard coefficient. In our research, we try to measure the harmonization between OMFP 3055/2009 with IAS 16 "Property, plant and equipment", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets".

In this respect, by transposing the coefficients in the field of accounting, to determine the compatibility of the Romanian accounting regulation and IAS, the formula for calculating Jaccard coefficient is:

$$S_{ij} = a / (a + b + c)$$
and
$$D_{ij} = (b + c) / (a + b + c),$$

■ S_{ij} – the degree of similarity between the two sets of accounting regulations analyzed;

■ D_{ij} – the degree of differences between the two sets of accounting regulations analysed;

■   a – the number of elements which take the value "1" in both sets of regulations;

■   b - the number of elements which take the value "0" in both sets of regulations;

■   c - the number of elements which take the value "1" in set of rules "i" and the "0" set "j".

Each element analyzed and found in sets of accounting, whether national or international, is symbolized by the figure "1". For items that are not treated in any accounting regulations we allocated the number "0". For each set of accounting regulations, we selected items that they treat. Thus, we classified standards based on three criteria, namely: recognition, measurement and impairment. Then we divided each criterion according to which elements are characterized, then assigning the number "1" when both standards are dealing with the subject or a "0" if do not treat the selected item, it is insufficient mentioned or is not explained.

The criteria were chosen from international accounting standards and national regulations. Furthermore, we analyzed the assets using the recognition, measurement and depreciation for each criterion to establish the common points and the different treatment of the two regulations. Therefore, we determined for each particular criterion chosen the similarities (Sij) and the differences (Dij) between those two regulations. Thus, we determined the final values of selected regulations, in other words, the degree of similarities between national regulations (OMFP 3055/2009) and International Accounting Standards (IAS 16, IAS 36 and IAS38).

The checklist of the investigated elements were chosen because these represents the important steps when dealing with an asset. The study provides an analysis of how the regulations treats noncurrent assets, during the life of the asset, namely: the recognition phase, the evaluation and the depreciation.

The elements taken into consideration for each standard are:

■   Intangible assets – *recognition*: formation expenses, development costs, patents, licenses, trademarks, brands, goodwill, customers lists; *evaluation – initial measurement:* acquisition cost, production cost; *– subsequent measurement:* book value, revalued value and residual value; *impairment – determination method:*

1193

impairment tests, depreciation – *depreciation methods*: straight – line method; digressive method, accelerate method and units of production method.

■ Impairment of assets – *indicators of impairment – external sources:* market value, negative changes – *internal sources:* different changes, negative results; – *recognition*: book value is bigger than the recoverable value, recognize in the profit or losses of the period; – *evaluation:* recoverable value.

Thus, for tangible assets are followed seventeen elements, which are described or not in national regulation or in international standard. Also, for the intangible assets are verified sixteen items and for the impairment of assets are eight elements. Those elements were chosen from both regulations and checked if the element is explained or treated in standards.

4. Comparative study on the accounting treatment of tangible and intangible assets in the national and international regulations

4.1. IAS 16 "Property, plant and equipment"

Accounting treatment of the tangible assets such as property, plants and equipments which these receives in terms of national regulations (OMPF 3055/2009) and from the point of view of international accounting standards (IAS 16) are the following:

■ International standards recognize the following as tangible assets: land, land improvements, buildings, installations, means of transport, technological equipment, offices equipment. An item that appears only in national legislation covers advances and tangible assets in progress which are shown separately in the category of tangible assets. Thus, under this criterion have a similarity of 75% and a degree difference of 25%.

■ Initial evaluation is recognized in both sets of standards is carried at acquisition cost, production cost and fair value, in this case having a degree of similarity of 100%. Subsequent measurement is done using accounting value and the revalued value and is treated by both sets of accounting. International Accounting Standards recognizes the concept of residual value as the estimated amount after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of its life. For this criterion, the similarity is 67% and the difference is 33%. Thus, in terms of tangible asset valuation, the similarities between the two regulations are 85% and the difference is 15%, the only criterion differently treated by IAS 16 is the residual value.

■ To determine impairment are applied tests but are recognized only by International Accounting Standards. Depreciation method is used for both sets of regulations. National regulations mentions four methods of determining depreciation and international standards find only 3 methods. Average recorded for impairment of assets is 67% similarity and 33% differentiation.

After calculating the Jaccard coefficient on the conformity of national legislation with international regarding tangible assets, we obtained a figure of 76.47% for similarities and the diversity is recorded at a rate of 23.53%.

1194

4.2. IAS 38 "Intangible assets"

From the point of view of the recognition of intangible assets note that there are differences between international standards and national regulation on expenses and customer lists. OMPF 3055/2009 clearly specifies that customer lists are not considered intangible assets. In terms of formation expenses, IAS 38 considers that it not fulfilled the criterion to be considered intangible assets, which are recognized directly as an expense in the income statement.

Initial measurement can be done at acquisition cost or production cost, terminology accepted and explained by both sets of standards. Regarding further evaluation there are some differences on the residual value. IAS 38 defines residual value, "the value of an intangible asset associated with finite useful life is zero, with the following exceptions: if there is a commitment by a third party to purchase the asset at the end of its life or when there is an active market for that intangible assets: residual value can be determined by reference to the same market and it is likely that such a market will exist at the end of the asset "(IAS 38), while the 3055 OMPF defines residual value as the fair value of good ("whether the financial statements are prepared in accordance with national regulations for the first time, the acquisition cost or production cost of an asset cannot be determined without undue expense or delay, the residual value at the beginning of the financial year may be treated as cost of acquisition or production, provisions disclosed in the notes "(OMFP 3055/2009 art. 67, paragraph 2)).

Depreciation, the component of the way in which is determined the impairment of intangible assets and is recognized and accepted by both regulations, but only international standards takes into consideration the impairment testing as another method of calculating impairment.

In terms of intangibles, national regulations against international standards, average exposed the issue, we note that the similarity of operations is in the proportion of 68.75%, and the differences between the two regulations are 31.25%.

4.3. IAS 36 "Impairment of Assets"

The recognition impairment of the statements shown in the above, at the rate of 100%, according to international standards.

Indications of impairment are taken in both reglementations from internal sources: physical wear or moral changes: unproductive asset, restructuring plans, planning before the estimated date prior to disposal, the economy weaker than expected and the external: market value, changes with an adverse effect on the entity. Thus, for each source have assigned the value "1", that is, the similarity between the two measures is 100%.

Therefore, entities that prepare financial statements using accounting information from the national standards for impairment are the same as those who is using international standards for reporting financial statements.

5. Conclusions and Scope for Future Research

In conclusion, accounting harmonization aims to improve comparability of financial information. International harmonization of accounting rules and practices seek to define the scope and content which can be determined, starting with normalization of accounting. The financial statements of a company have to provide information

on the position and financial performance, and cash flows. Usefulness of these documents is reflected in the economic decisions taken by users of information which they are intended. Also, financial statements offer managers a view of the entity, information which is used for set tangible objective. Furthermore, financial statement has to be transparent and correctly done, to provide an overview for the activity of the entity, these elements underpinning the development of strategies and objectives.

Regarding harmonization of national regulations with international accounting standards, we can say that the similarity of accounting treatment of noncurrent assets and the impairment of assets into the two standards is achieved in a proportion of 80%.

Future researches can focus on analyzing the information required to be disclosed regarding the noncurrent assets and the impairment of assets of the entities that are publicly traded and preparers of financial statements in accordance with International Accounting Standards.

References

Barth, M. E. and Clinch G.(1998) `Revalued Financial, Tangible, and Intangible Assets: Associations with Share Prices and Non-Market-Based Value Estimates`, American Accounting Association, 36: 199-233;

Changyu, W. and Feng, L. (2011) `Empirical Study on the infiuence of the Impaired Asset Poiicy on the Quality of the information Disclosure: Based on the Listing Corporations in Different Industries`, Canadian Social Science, Vol. 7,No. 4, pp. 109-113;

Ding, Y., Hope, O. K, Jeanjean, . and Stolowy, H. (2007) `Differences between domestic accounting standards and IAS: Measurement, determinants and implications`, Journal of Accounting and Public Policy 26, 1–38, 2007;

Dragu, I. (2010) `Diversity Of National And International Accounting Practices: The Case Of Intangible Assets`, Annals of Faculty of Economics;

Edmiston, S. (2011) `Secrets worth keeping: toward a principled basis for stigmatized property disclosure statutes`, UCLA Law Review, vol. 58: 282-300;

Fontes, A., Rodrigues, L.L. and Craig, R. (2005) `Measuring Convergence of National Accounting Standards with International Financial Reporting Standards`, Accounting Forum, 29: 415-436;

IAS 16 `Property, plant and equipment`;

IAS 36 `Impairment of Assets`;

IAS 38 `Intangible Assets`;

Manea, M. and Ştefan, V. (2009) `Fundamentals and practices for the initial recognition of the fixed assets';

Matis, D. and Mustata, R. (2008) `Measurement of formal harmonization: case study for Romania`, International Journal of Strategic Management Publisher, Volumul 8, Issue 1, 2008;

OMPF 3055/2009; Monitorul Oficial;

Pozzoli, M., Romano, R. and Romolini, A. (2011) `Measurement and Impairment of intangible Assets in the Italian Stock Exchange, Economia Aziendale Online Vol. 2, 1/2011: 65 – 73;

Qu, X. and Zhana, G. (2010) `Measuring the Convergence of National Accounting Standards with International Financial Reporting Standards: The Application of

Fuzzy Clustering Analysis`, The International Journal of Accounting, Volume 45, Issue 3, pp. 334–355;

Strouhal, J., Bonaci, C., Mustata, R., Alver, L., Alver, J. and Praulinš, A., (2011) `*Accounting Harmonization Measurement: Case of Emerging CEE Countries`,* International Journal of Mathematical models and Methods in Applied Sciences, Issue 5, Vol. 5;

Tiron Tudor, A. and Dragu, I. (2010) `*Impact of international financial reporting standards on accounting practices harmonization within European Union – Particular case of intangible assets`,* Annales Universitatis Apulensis Series Oeconomica, 12 (1);

Wyatt, A. (2005) `*Accounting Recognition of Intangible Assets: Theory and Evidence on Economic Determinants`,* The accounting review, Vol. 80, No. 3, pp. 967-1003;