THE ACCOUNTING OF THE ECONOMIC ENTITIES, BETWEEN RIGOURS AND OPTIONS

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Abstract

This paper is addressing to the issues of the existence of some options in choosing accounting policies and techniques.

We proposed ourselves to establish to what extent the choices made in meeting the financial accounting function of the enterprise are free and how the options of those who prepare the annual accounts of economic entities are limited.

To achieve this goal we considered necessary to study the regulations, the rules applicable to the area of the accounting of the economic entities.

The work will respond to two questions: 1. What is the content of the set of financial statements and who must report (where they make)? and 2. Assess how the structures of assets, liabilities, equity, expenses, income, etc. the financial statements?

The ultimate objective of this work is to provide specialist financial and accounting opinion documented to support the decisions that it should adopt in the exercise of his powers.

Keywords: choice, financial statements, recognition, rules, valuation

JEL Classification: M10, M41, M48

Introduction

In the process of management of the economic entities it is necessary to make decisions daily managers are finding themselves in the position to have to choose between some different options. They must determine what kind and what sort of product or service will offer, for what market to target, how to establish the dimensions of their production, where to set the polling location for production, what kind and how to fire their staff and how to motivate them, also how to improve employees qualify, where from to purchase the necessary equipment and inventory for their work, how to ensure the disposal of production and services, to what directions to guide the research, etc.

In the management of financial, accounting and tax activity of the entity we find the same issue. It should be adopted decisions on: the selection and sizing the sources of financing, the own one and the borrowed one, the choice of the methods for buying and depreciating of fixed assets, the choice of types of taxes to which the entity has the option to choose.

Given the abundance of regulations governing this area at present, information of the specialists responsible for financial and accounting becomes more difficult and requires long study. We have to realize that the boundary between that what it is allowed and that what it is not allowed is increasingly fragile, on the one hand, and increasingly difficult to identify, on the other hand. We will only propose ourselves the selection of the options in the economic entity's accounting, without addressing this work in detail the options in the financial and tax, field, moreover equally interesting.

Therefore we consider that it is important to seek a way to facilitate the conduct of such elections, obtaining logic of action. We must assume that the random selection of the accounting policies may have repercussions at first on the results of the activity, causing to the interests of equity holders, but it also could lead to distortion of the image on the financial position and on the performance of the entity.

In order to answer these issues, we intend to identify the main decisions which are to be adopted by the accountant, to select his possible options, but also to look over any restrictions that are operating on the decisions that we might want to adopt.

The paper is based on the accounting and financial reporting rules, also on the current applicable regulations, on the specialized literature on financial accounts. Its originality consists in the identification of the restrictions on the approach for decision-making in the field of the accounting of the economic entity and the selection of accounting policies.

Literature Review

Many financial-accounting textbooks and specialized university courses deals both with issues relating to science of accounts, and issues relating to legislation and to professional standards. Romania has a traditional and a high scientific level school of accounting. Often, professionals are not only researchers and academics having not only an extensive scientific knowledge, but also deep technical skills and an extensive experience. They often have many years of relevant experience in specialized services in accounting, accounting expertise, financial control, statutory audit, analysis and economic evaluation, tax and financial advice.

As regarding the normalization of the accounting management and organization it is necessary for us to know more general coordinates.

Range of rules which determines the accounting of the economic entities and that interests the Romanian companies and whose which operate in Romania is presented in the following regulations:

- Law no. 82/1991 Accounting Law [1]
- International Financial Reporting Standards (IFRS) including International Accounting Standards (IASS) and their Interpretations issued by International Accounting Standards Board (IASB) [2]
- Ministry of Public Finance Order no. 1752/2005 for the Approval of the Accounting Regulations in Accordance with European Directives [3]
- Other national, European and international regulations for the activities of accounting and statutory audit of economic entities: Directive IV of [4], Directive

VII of [5] and Directive VIII of [6] of the EEC, the collection of standards audit [7] Government Emergency Ordinance no. 75 [8] etc.

The range of the accounting rules for certain economic entities include other specific rules, such as those issued by the Ministry of Finance for the public institutions, International Public Sector Accounting Standards (IPSAS), those issued by the National Bank of Romania for the credit institutions, etc. [9]

Accounting is defined in our legislation by Article 2 (1) the Accounting Law as "activities that are specialized in measurement, valuation, knowledge, management and control of the assets, liabilities and equity, and the results obtained" by the economic entities. [1] Accounting tasks are related to the obligations to ensure "chronological and systematic recording, processing, preservation and publication of the information on financial position, financial performance and cash flows, both for their internal requirements, and in the relations with present and potential investors, financial and commercial creditors, clients, public institutions and other users. "[1]

It also can be defined as an information system that serves to recording, processing, control, and reporting of summary data, of the information on business and other activities of the economic entity. More simply it could be defined as the recording of the movements of funds and assets held by the economic entity.

In the service (the purpose) of the fair and true image, the annual accounts of the economic entities are constructed by a frame of reference, the applicable, appropriate categories, which include the economic entity.

The accounting regulations are issued by the specialized bodies that have such powers. These rules take into the account; they are differentiated and adapt their requirements depending on the specific features of different economic entities.

Theoretical Background

In this paper we used as they were known all the definitions of the structures we find in the balance sheet and in the other financial statements. We also considered as being known the set of generally accepted accounting principles.

I. Options on the accounting organization and on the annual financial statements of the economic entity

We will first seek some answers to the questions:

1. What do we have to do? Bookkeeping by single registration (cash accounting) or double registration (accrual accounting)?

2. In what currency will we calculate the data for reporting?

3. How do we proceed, either we hire staff, employee or we call on the services of some external partners?

4. What does include the set of annual financial statements?

5. Is it necessary to have, and if so, who provides an audit / a verification of these reports?

6. It may somehow apply generally rules? Can we talk about the convergence of them?

We found the answers below:

1. The economic entities have a legally required obligation to keep their accounts, to prepare and submit annual financial statements. This obligation derives from Art. 1. of the Accounting Law. [1]

Information provided by these entities through their financial statements serve for a wide range of users - investors and financiers, management of the economic entity, the State, the credit institutions, the commercial and social partners, the public, being necessary for them in the process of making their decisions.

Generally, financial statements are prepared on an accruals basis. It is settled by regulations what kind, what categories of economic entities could manage their own accounting in simple registration, that methodology known as cash-accounting, as we find in Art. 5. (2) of the Accounting Law. [1]

2. The currency in which are expressed the economic indicators we include in the annual accounts is the national currency, but the accounting information can also be expressed in addition, in another stable foreign currency, if the preparers deemed this is appropriate. The statements of the subunits from abroad are making an exception, where transactions might be denominated in that foreign currency and only converted at the end of the year into lei.

3. According to the Art. 11 of the Accounting Law, the fulfilment of the tasks related to accounting and financial reporting of the economic entity can be achieved either through an own section, or using services provided by specialized external partner. [1]

4. The content of the whole set of annual financial and the framework-structure of these vary depending on the purpose and the objects of the economic entity, and implicitly on the existence of specific regulations applicable for certain activities, on the form of ownership, on the size of the company, on the preferences of decision facts on a specific accounting reference. European economic integration on the one hand, and the call to public investors by listing their shares on stock exchanges, on the other hand, lead to the need for the economic entities to use general rules that apply on the construction of the annual financial statements and on the presentation of accounting information;

According to the Art. 3 (1) and (2) of the Accounting Law, those entities that at the corporate balance sheet date exceed the limits of two of the 3 criteria of size: total assets: 3,650,000 euro, net turnover: 7,300,000 EUR, average number of employees during the financial year: 50, have to prepare a set of annual financial statements including: the balance sheet, the profit and loss account, statement of changes in equity, cash flows situation; notes on the annual accounts. Legal entities which at the date of balance sheet does not exceed the limits of two criteria of size have to prepare so-called simplified annual financial statements, including: the balance abbreviated, the profit and loss account, notes on the annual financial simplified, optional, they can prepare the statement of changes in equity and / or cash flows situation. [1], [3] We can also observe that similar criteria operates in the field of the obligation to make consolidated financial reports for the group. These limits are noted in the EU regulations, but they have an evolution accorded to the national coordinates.

5. According to Art. 5. in OMFP no. 1752/2005 for the approval of accounting regulations in accordance with European directives, the annual accounts of economic entities are audited (those of large enterprises and of public interest – the companies that are quoted on financial markets) or, if the case, verified (appropriate the simplified annual financial statements) according law. [3], [8]

The regulations on the audit are also in a process of reform and transformation. [10], [11]

6. As much as the business of an economic entity is more interesting for the users of accounting information, as much it is expected that its statements reported to be broader, more comprehensive, providing all the necessary information, in which setting to apply the general rules. We could then consider that we will find the most comprehensive information on the complete set of financial statements, as IFRS. This would induce the general option to adopt the international rules. But the reality looks different. Micro entities are generally accepted as the smallest entities within the small-and medium-sized economic entities. They are defined as less than 10 employees (including those that do not have any employees). [12]

The moving to the IFRS is generally viewed as costly. It is also known the fact that, given the changes in recent years, there is a need for stability in financial reporting requirements and standards, as the time spent understanding and implementing new rules and regulations is always taking time away from managing the business. [12]

Therefore it is preferable not to apply general rules still in the accounting of small entities. We can observe that those who set the international standards for accounting and financial reports are concerned with the formulation of easier rules and less expensive, tailored to the needs of small businesses. They concern not only the preparers of micro-entity financial reports and their information needs, but also the users of micro-entity financial reports and their information needs.

II. Options on the recognition and the assessment of the main structures

Let us now answer to the questions:

1. How do we recognize and evaluate the indicators in the balance sheet?

2. How do we recognize and evaluate the elements of the profit and loss account?

3. Could we choice in free way the method of calculation of the cash flows?

1. For this purpose we apply the general accounting principles and the requirements of some concrete rules.

The elements of the balance sheet of the economic entities are ordered so as to show their financial position. Assets are separated by liquidity, their nature and their destination. Debts are separated according to their chargeability and they can be discounted from the items in the asset structure, showing thus the working capital, permanent capital and equity.

The assets and liabilities are recognized based on criteria generally specified in rules.

- they can be evaluated by a credible manner;
- the combination of economic benefits.

The valuation of the assets is initially realised at the purchasing cost, the production cost, the amount of patrimonial contribution or the fair value, as appropriate, according to the paragraph no. 52 of OMFP no. 1752/2005, for the approval of accounting regulations in accordance with the European Directives. [3] At the annual inventory the assets are re-valuated and they are determined the fair value thereof, according to Art. 9. of the Accounting Law, which has to be calculated preferably by the specialized assessors. [1]

It is always easy to separate debts by provisions, by the criteria of the existence of the obligation from past events, but sometimes it is more sensitive to choose to form a provision or to recognize a contingent debt.

2. The elements of the profit and loss account are recognized by applying the same criteria and principles.

Current revenues and expenditures are separated in the theory of those we consider exceptional / extraordinary, because they are not connected with the business, the activity of the entity and they can not be controlled by the entity itself. However, IAS 1 Yearly Financial Statements states in paragraph no. 85 that an entity will not show any results such as an extraordinary item, neither in the profit and loss account, nor in the notes. [2]

It should be noted how does the principle of the independence of the year operates, certain elements being originally recognized in the balance sheet as of settlement structures, and then be charged to a certain period. In this case there are paid expenses / revenues received in advance of the rent, also the subsidies for fixed assets to be recognized in income on a systematic basis, etc. There are still difficult to assimilate the rules by which certain differences and surplus value at the revaluation or the differences at the re-treatment should be included in the balance sheet as capital - as reserves should be made, or the outcome period.

The structuring of the results account it is also not a free one. The model contained in the regulations classifies revenue and expenses by their nature. A report based on their classification as the criteria of functions of the enterprise should be accompanied by an analysis performed on the criteria of classification, actually required, that made by their nature.

An interesting aspect concerning the methodology for assets depreciation, leading to the recognition in a different way of the consumption, is the irreversible loss of the assets value. Here we might mention the importance of the tax treatment of depreciation, the existence or the absence of the condition of minimum value to delimit the tangible fixed assets by the objects of inventory, also the methodology for determining the taxable value and useful life of fixed assets. There seems more importance is attributed to the professional reasoning in the case of application of international rules, so in the case of the large enterprises.

3. The construction of the cash flows statement follows the same mechanism: the preferred treatment method is the direct one, in which companies are encouraged to use, as we can see in the paragraph no.19 of IAS 7 Cash Flows Statements. It consists in presenting the receipts and payments of the entity during that time interval. [2]

The alternative treatment is the indirect method, according to paragraph no.20 of IAS 7 Cash Flows Statements, this method assuming the correlation between the results and cash flows, but taking into account the gaps between sales and earnings and that between charges and payments. [2]

Conclusions

For the practitioners in the field of the accounting it is a necessary an advanced knowledge of the law and a continuous update of the theoretical information held by them.

All the constraints coordinates are imposed by the law and professional standards. Any freedom which the entity takes, it automatically seeks new obligations which the entity would assume in addition to those by the effect of law. We all want more information, but not all the users would contribute to the costs necessary to obtain that information.

For some businesses, small-sized, the accounting costs are already too high. They are associated with the large number of periodic fiscal statements, in their turn generating of costs. We are, therefore, concern about the perspectives of the small business, especially in the context of recent - introduced taxes - referring to a flat rate tax. We believe that such charges will lead to a strong selection of the viable businesses.

If we ask ourselves to what extent it is convenient for a growing, expanding entity, to opt for the preparation of its financial statements based directly on the international rules, we concluded that this option is welcome for the users, but too costly for the preparers.

They are interesting cases where the entity retreats its reports and it unrecognized an asset or part of the value of an asset. Therefore, we want to pursue in our future research this issue.

Which of the accounting choices, that the accountant has to do, that could have a fiscal impact? We will study this issue because it seems also exciting.

Another issue that concerns us relates the correlation between the method of economic and financial analysis with the reform of the general accounting, for this field of study it is also necessary to shift the interest of the specialists in the future.

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