DETAILED ANALYSIS ON THE RECOGNITION OF ITEMS IN THE FINANCIAL STATEMENTS

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Abstract
The normalization result in the recognition of items in the financial statements, aims to establish criteria for recognition, helping to a more accurate positioning of items in the financial statements, giving the credibility and relevance of the information contained therein.

Keywords: normalizing the recognition elements, the criteria for recognition, credibility and relevance of information, the moments of recognition

JEL Classification: M40, M41

1. Introduction

The need for normalizing the recognition of items in the financial statements was felt by various accounting referential and here we refer in particular to the two basic referential, American and International, which will constitute the basis of our analysis on the subject. The normalization result in the recognition of items in the financial statements, aims to establish criteria for recognition, helping to a more accurate positioning of items in the financial statements, giving the credibility and relevance of the information contained therein.

Based on this hypothesis we perform a detailed analysis on the recognition of items in the financial statements, focusing particularly on the assets and liabilities referential level: international, american, national, completed research and the requirements of specific accounting standards.

2. Normalizing the recognition elements. Credibility and relevance of information

IASB conceptual framework - defines recognition as the process of incorporating in the Balance sheet or Profit and loss account of a first element that satisfies the definition of an element and satisfies the following criteria for finding: it is probable that any future associated economic benefit to enter, or to leave the/or entity; the item has a cost or value which is measured reliably [14]. We note that the requirement of probability of economic benefits coming to the fore definitions highlights the elements that circumscribe the existence of these benefits. It should be emphasized the fact that, although compliancing definition elements is not considered a criterion for recognition as American Framework remains a priority condition in recognition of an item in the Balance sheet or Profit and loss account. The same general IASB Framework states that an element possessing the essential features but do not meet the recognition criteria, can generate information to the financial statements. Such information become relevant when knowledge of these elements is considered useful for assessing the financial position, performance and development of the financial position of the users of financial statements. All IASB conceptual framework states that an element at a time, does not meet the criteria for recognition in the financial statements can satisfy these criteria later, as a result of subsequent events.

On the other hand, American Conceptual Framework - puts great importance to the recognition of items in the financial statements in this respect reserving a distinct structure in the conceptual framework, namely SFAC 5 Recognition and Measurement in Financial Statements of Business Enterprises. It defines recognition as the process of incorporating an item in the financial statements when it meets certain criteria for recognition, involving the IASB Framework as both a descriptive form and one number [15].

Please note that the criteria for recognition of an item in the financial statements proposed by the FASB are more detailed than those required by the IASB framework, but it must be applied in the context of the limits of cost – benefit relationship and of materiality. These recognition criteria states: definitions -an item to be recognized in the financial statements must first meet the definitions established in SFAC 6 Elements of Financial Statements; evaluation (measurement) – the correspondence of to the element information should be useful for decision making of users; credibility (reliability) - information on the element must be sincere (true), verifiable and neutral.
However, SFAC 5 specifies that the recognition process includes both initial recognition, subsequent amendments and derecognition, aspect that I have not found explicitly defined conceptual in the international framework.

IASB Framework establishes the first criterion for recognition - the concept of probability. It is used in correlation with the degree of uncertainty that the future economic benefits associated with the item will affect benefits or losses. Evaluation of the degree of uncertainty related with future economic benefits refers to the available information when the financial statements are done [1]. American conceptual framework does not defines distinct the concept of probability of the criteria for recognition, but it is induced by the definitions set by the Framework for items to be recognized in the financial statements.

The second condition that an element must meet to be recognized in the financial statements, a condition which is the both referentials, more or less detailed, is that the item must have a cost or value that can be measured reliably. In many cases, the cost or the value must be estimated. The use of reasonable estimates is an essential part in preparing the financial statements and does not influence their credibility. If it can not be made a reasonable estimate, the item will not be recognized in the Balance sheet or Profit and loss account, but can be disclosed in the notes about the item, especially if they are relevant to the assessment entity's financial position, performance or financial position changed. We can say that assessment of the likelihood of generating future economic benefits correlated with the degree of uncertainty has significant influence on the recognition and the accurate positioning of an item in the financial statements.

This can be best exemplify on the provisions, liabilities and contingent liabilities where the size of the uncertainty just makes the distinction between these. As a basis of analysis we use the rules found by IAS 37 Provisions, Contingent assets and liabilities, and OMPF no.3055/2009 approving Accounting regulations compliant with European Directives. The standard states that the uncertainty about the size of chargeability and final value make the boundary between provisions and liabilities. Under IAS 37, provisions are defined as doubtful debts in terms of the moment of chargeability, or the corresponding amount, thus having probably character [9].

What interests us is their proper position in the financial statements for the information to be relevant and credible. This standard gives guidance stating that necessary provisions are recognized in the Balance - if the following conditions are met: the entity has a present obligation generated by a past event, it is probable that an outflow of resources embodying economic benefits to the obligation to honor (there more likely to succeed than not be realized), that the probability of generating future economic benefits is high. We note that this criterion is essential in positioning recognition provision in the balance sheet value of the obligation can be estimated reliably. (IAS 37 specifies that only in very rare cases it is not possible a reliable estimate of the amount of the obligation).

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events that may not be entirely under the control of the entity, or a present obligation that arises past events.

The question that interests us is whether in the conditions listed above may the contingent liability be recognized in the Balance. Since this does not meet the recognition criteria in that: even if it is a general obligation of past events, it is probable that an outflow of resources will be required to incorporate economic benefits to settle them, that the probability of generating future economic benefits is a much smaller amount of the obligation can not be measured sufficiently credible, in these conditions in the Explanatory Notes provide information about the existence of contingent liabilities, especially since the information generated by it are important in determining the financial position, performance and changes financial position.

And OMPF no.3055/2009 defined in the same way these elements and their criteria for recognition in the financial statements [16].

3. The general rules on the recognition of the detailed analysis of the elements

IASB Framework nuances the recognition criteria in relation with the nature of information structure represented in the financial statements. Thus, an asset is recognized in the Balance sheet when it is probable that future economic benefits to be established in the entity flows and the asset has a cost or value that can be measured reliably. When it is not likely that inflow of cash to generate economic benefits to the entity in future periods, an asset is not recognized in the balance sheet [2]. Instead, the transaction will result in the recognition of an expense in the income statement.

General guidance on the recognition of assets given by the IASB Framework (embodied in the criteria for recognition) we fill them with other data specification standards. In this regard, the revised IAS 38 Intangible Assets, details the recognition criteria set out in the Framework for intangible assets; the probability criterion is considered to be fully satisfied for intangible assets acquired separately or in a group of entities; fair value of an intangible asset acquired in a group of entities can be determined, usually it-sufficient reliability to be recognized separately from goodwill [10].

Under IAS 38, intangible assets are identifiable as non-monetary assets without physical substance, controlled by the entity as a result of past events and the expected economic benefits to the entity. The same
standard states that if one of these conditions is not met, then recognize an expense and not an intangible asset [10]. However, if the item is acquired in a combination of entities, then he will be recognized as goodwill. We find that the recognition of an intangible asset requires the fulfillment of four criteria: identifiable (separability legal right to identify the future economic benefits arising from the asset), control (eg legal rights) and generate future economic benefits. To these are added and credible evaluating.

A more difficult problem is the recognition and measurement of intangible assets arising from the entity. In this regard, IAS 38 Intangible Assets comes with additional details of the Framework. The standard specifies that the marks, titles of publications, and other internally generated intangible assets are not recognized as because they can not be distinguished from the cost of developing the business as a whole [10]. Other examples of internally generated elements for the recognition that the standard provide additional information to the Framework. Thus, if goodwill acquired responsible for recognition as an asset in the Balance sheet, not the same can be said of internally generated goodwill, which can not be measured reliably (does not meet the second criterion for recognition), and therefore will be recognized Profit and Loss Account. Another example of the importance of the recognition of assets given clarifications on specific standards, we can give if we relate to IAS 16 Property, plant and equipment on safety or environmental protection [11]. The question is, can they be considered assets to the extent they are not directly a source of future economic benefits to the entity? IAS 16 Property, plant and bring clarifications in this regard stating that because these devices are necessary for the operation of production assets, we have to recognize as assets in the balance sheet. Recognition of assets in the financial statements is completed and the information provided by IAS 2 Inventories. Thus, the first condition is satisfied recognition, inventories should lead to a benefit, earnings in any form to the entity, whether by sale or by helping to obtain goods or services to be sold, either by extinction of a debt and so on. The second condition involves determining the cost of inventories. For example take the waste products that are recognized only when they can be exploited, ie when they can be sold and the amount that is recorded is determined based just on price recovery likely [12].

General guidance on the recognition of assets given the IASB Framework should be completed by moments of recognition. Even if no general framework or IAS 1 Presentation of Financial Statements are not specific references to moments of recognition [8], they are clearly defined and developed specific standards, that come to complete the reference to which we refer for a more accurate and complete preparation of financial statements.

In our research study on the recognition of items in the financial statements, with a strong impact on the correct preparation of the financial statements, we intend to highlight the moments of recognition on the example of financial assets in the category of financial instruments, which are circumscribed IAS 39 Financial Instruments: Recognition and Measurement.

In the standard sense, recognition of financial assets falls within the criteria under which an entity should recognize a financial asset in the Balance sheet when it becomes party to the contractual provisions of the financial instrument [13]. When a financial asset is initially recognized - the entity should evaluate the cost, ie the fair value of the consideration offered. Standard states and the recognition and subsequent evaluation of all financial assets generated by any depreciation. Thus, the entity shall assess at each Balance sheet date whether there is objective evidence that a financial asset would be considered impaired. If there is, and the recoverable amount is less than the record an impairment loss is recognized.

According to the standard on derecognition, an entity shall derecognise a financial asset only when the entity loses control the contractual rights that comprise the financial asset. An entity loses this control if the performing rights to benefits specified in the contract, the rights expire, or it transfers these rights.

The meaning of all referentials accounting, a liability is recognized in the Balance sheet if you meet the definition and recognition criteria. A transaction or other relevant event may have different effects on the liabilities, ie can create a new duty, or increase the value of existing debt, in which case it is necessary to determine whether they should be recognized; can change some aspects of a debt already recognized, can generate payment or transfer of a debt. Also, this impact may leave intact certain obligations inherent in debt, while others are paid or transferred [4]. In any event, it will be necessary to consider whether existing debt that has been affected should be removed from the balance in full, or in part. In most cases, the obligation is reflected by generating transactions of goods and services received, and imply the existence of amounts to be paid.

There are duties that involve estimates of the value and require the entity to choose a value in a multitude of ways so that it would respect the criterion of credibility. It's about the provisions for risks and charges - which ensure credibility assessment is more difficult due to the uncertainty that characterizes the output of future benefits [5]. For these problems, there is standard IAS 37 Provisions for risks, contingencies. General guidance on the recognition of liabilities IASB Framework data are supplemented with other data specification standards. The standard IAS 37 Provisions, contingent assets and liabilities distinguished: provisions are accounted for as liabilities (assuming that we can reliably estimate them) because they are present obligations and it is probable that an outflow of resources generating economic benefits to be required to settle the obligations and contingent liabilities are not recognized as liabilities because they are either potential obligations or present obligations that do not meet the recognition criteria[9]. If we refer to IAS 39 Financial Instruments: Recognition and Measurement.
the standard specifies that financial liabilities are recognized in the balance sheet when the entity becomes a party to the contractual provisions of the instrument [13]. Recognition criteria of a liability in the financial statements must be completed and its recognition moments. In this sense, going by the example of financial liabilities, are recognized initially at fair value of the consideration received for the purchase of a financial liability. There is a further recognition of financial liabilities when they are measured at amortized cost (baseline minus repayments discounted at the interest rate and the amount of the impairment). Specify the time of derecognition of financial statements when the financial liabilities under the contract are fulfilled, canceled or no longer applicable.

4. Conclusions:

It is consider necessary the unitary thinking of both the conceptual framework of reference, American and International Approach recognition criteria of items in the financial statements to eliminate disparities in this segment accounting. I consider that the assessment of the likelihood of generating future economic benefits related to the degree of uncertainty has a significant influence in the recognition and more accurate positioning of an item in the financial statements, so we consider that data guides, specific standards must be as comprehensive, covering a large range of situations in the practice of an entity, and for situations not covered to issue new standards. Also, general guides, Conceptual Frameworks data are not sufficiently recognizable they must necessarily filled with various standards specifications detailing specific recognition criteria, in close correlation with moments of recognition.

In national legislation, accounting OMPF Order no.3055/2009, we find the same recognition criteria for elements analyzed, as are specified by the IASB conceptual framework, but going into detail on each category of assets, liabilities, we find little guidance on the recognition of them in different situations and at different times of recognition to directions found in accounting standards, which is why we support the improvement of national legislation with details of IAS / IFRSs on recognition elements.

5. References

[8] *** IAS 1 Presentation of Financial Statements;
[10] *** IAS 38 Intangible Assets;
[12] *** IAS 2 Inventories;
[14] *** Cadru general conceptual IASB, emis după ianuarie 2011;