

INTERNATIONAL ACCOUNTING STANDARDS AND THEIR INFLUENCE ON THE MANAGEMENT OF A COMPANY.

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Abstract

The accounting standardization process is in progress at international and regional level, more and more countries have reached the same conclusion of enforcing high quality accounting standards like IAS / IFRS. There are various reasons for Romania adopting the international accounting referential most of them subordinated to its central aim, respectively EU accession. In our country the accounting system is subordinated to the taxation system, financing still comes prevalent from banks and very few Romanian companies are listed on foreign capital markets. Romania is an ex-communist emergent country in wich changes in the economic and political environment merely started only after the end of the communist regime in the early 1990s. Many European companies already observed that by enforcing IFRS standards they have access to international capital markets, they could reduce expenses and unroll international transactions easier. It is improbable that a financial reporting, which is not easy understood by all its users, would offer new business opportunities or additional capital. Therefore, a significant number of companies, either voluntarily enforce IFRS standards, or they are pledged by the government to do this.

Key - words: account, standards, international, company, management, influence.

Clasificare JEL : M40, M41

1. Introduction

On its road to achieve international convergence with the accounting standards, Romania undertook a slow and complex process of accounting reform which consisted of three phases. *In the first phase* (1991 - 1998) of reform, Romania inspired its accounting model from the French one, adopting similar accounting principles, the general chart of account, and the layouts of the financial statements.

Although changes towards a modern accounting environment were taken in this period, there were still important lacks of the system : the exercise of publishing and using financial statements was rarely performed, historical cost valuation was the main valuation basis and there still existed a very tight relationship between taxation and accounting and a reduced transparency.

In the second and third phase, Romania took important steps in the process of international accounting standards adoption and most important convergence. Thus, the second phase (1999-2005) aimed to implement IAS to large companies, both listed and unlisted. International financial institutions like World Bank and International Monetary Fund had an important role as promoters of standards adoption.

In Romania, the World Bank imposed for conditions for granting its assistance : the use of IAS by some (generally large) companies; the auditing of these companies by auditors applying International Standards on Auditing, the issuance of a guide for IAS implementation by the Ministry of Public Finances and the establishment of an institution for financial auditing (thus the Chamber of Financial Auditors of Romania was set up), that would endorse the International Standards on Auditing.

Limits still continued to exist : the effect of the reform on financial information transparency was limited and the use of professional judgment and the quality of accounting information still poor. The historical cost valuation and the relationship between accounting and taxation remained in the existing accounting practices. In this respect, the provisions of international standards were only applied if not contravened the regulations.

Thus, compliance with IAS was limited with respect to IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 17, IAS 18, IAS 21 and IAS 39. *The third phase* of accounting reform started in 2005 and still continues nowadays. In this period, an important step was taken in the process of harmonization with the European accounting legislation, the adoption by the Ministry of Finance of Ordinance no. 1827/2003, which represents the basis for the future enforcement of international standards in Romania.

2. General aspects regarding IAS adoption in Romania.

The most significant advantage of harmonization consists in the fact that Romanian companies will use an accounting frame recognized at global level, based on the fair and accurate image – a measure expected by the entire business community [1]. According to the Ordinance above mentioned, starting 2006 the International Financial Reporting Standards Board, shall be applied in Romania by the following categories of companies : trade companies applying ONF no. 94/2001, loan institutions, assurance and reinsurance companies, institutions supervised by the National Commission for Movable Assets, independent public companies and other state owned companies, companies to be consolidated by a company applying IFRS standards, companies, which at the end of the previous year fulfilled two of the following three criteria : turnover exceeding EUR 7.3 Million, total assets over EUR 3.65 Million, average number of employees over 50, as well as other companies subject to the Finance Ministry’s approval.

Financial auditors, members of the Romanian Chamber of Financial Auditors, will audit the financial statements of companies applying IFRS standards. In 2009, the Ministry of Finance adopted OMPF no. 3055 whose provisions are aligned with the 4th European Directive and harmonized in great part with international accounting standards. Another important step taken in the process of IAS adoption is the Order no. 9 issued by the National Bank of Romania on 16 July 2010, following a letter of intent signed by the Romanian authorities on 5 February 2010 and approved by the International Monetary Fund on 19 February 2010 [2].

The order requires all credit institutions in Romania to prepare all accounting records in accordance with International Financial Reporting Standards (IFRSs) starting 1 January 2012. Romanian Banks (listed and unlisted) were already required to prepare IFRS financial statements in parallel with Romanian GAAP. From 2012 onward, IFRSs will substitute local GAAP for banks completely and will become the sole base for accounting.

IFRS enforcement is not only a change in accounting regulations, but more than that, it represents a new system of performance valuation with new procedures, enforceable at company level. This change will influence also the working manner and will most probably bring decisive changes to strategic and accounting management. IFRS enforcement will also change the whole reporting basis for a wide range of users. An important step is the adoption of fair value measurement rules, and the orientation towards satisfying the informational needs of investors.

Companies should allocate considerable time for planning and implementation of these changes and, most important should pay close attention to the changes in accounting figures and performance indicators, whose highlight, in case of first time adoption, is essential for the accurateness of information.

Facilitate communication, which is based on the expansion and deployment of globalization, passing through the perimeter of accounting. In this context, interest in accounting information recorded an upward trend, thus explaining why the international accounting bodies, the main debate concerns the creation of generally accepted accounting principles and in particular the definition of a conceptual framework to serve as a reference in formulating new and unique accounting rules. This phenomenon led to the internationalization of accounting normalization, trying to "homogenize the information provided, in time and space analysis of accounting information [...] but also a guarantee of third party users on consistency and rigor with which he was held accounts" [3].

As a consequence of this phenomenon, the establishment IASC [4], now the IASB, has become a necessity: "IASB was born from the desire and need to distil, international, country-specific accounting experience, to harmonize cultural differences and socio-economic characteristics "Loading" national accounting systems and to develop a unified conceptual model of financial statements "[5].

3. Accounting information and its influence on managerial act.

The harmonization of national accounting with International Accounting Standards and compliance with European Accounting Directives, generated multiple problematics. The necessity and usefulness of accounting information in financial communication is subject to use by its receptors in order to understand the economic reality of the enterprise and to make the best decisions. To guarantee the quality of accounting information is necessary but not enough to impose its a series of qualitative characteristics, and ranked either.

Documents synthesis as a means of providing accounting information and multiple consequences of this supply lead to the necessity of choosing optimal models of these documents, an optimal set of such documents is widely accepted only as regards that the disclosure policy documents synthesis is the result of the combined action of accounting normalization and some factors such as company size, number of shareholders, company performance, etc.

As such, we agree and share the view expressed that the action of these factors, dependent on the characteristics of the economic, political, legal and cultural influences managers' decisions making and publishing the summaries. To significantly influence and thus to play a major role in the decision making process of various companies, summary documents must be well structured, readable, creative and concise. So for that company management, regardless of legal form of organization and accounting, to be directly related, accounting quality must be ensured (by synthesis documents) by the provider of information and for timely and effective decisions must that such information is accurate, consistent, verifiable and relevant.

Also, I agree with the view that accounting information is the most important part of the information conveyed in the economic, accounting itself represents "the most important source of information of a nation" [6], a "set of elements (human resources and materials) that enable the collection, processing, storage and disclosure of information for decision-making" [7]. We appreciate that decisions efficiency depends on the possibility of identifying the plurality of data from accounting, mainly the result of financial statements truly relevant information, enabling decision makers to diagnose the health of the company based on well-established criteria.

An analysis of management in a company can not be designed and can not be objective without making a financial diagnosis and, in this context, accounting information plays an important role. This is why, if we compare all these notions in international accounting standards adopted in Romania, resulting unquestionably that, directly or indirectly, they influenced and influences the management of a company. All these notions are in a clear and interrelated.

As long as the top management benefit most from the successful financial indicators examined at monthly or less frequent and may be composed of multidimensional aggregates, lower levels of management must be concerned absolutely non-financial data, operational and short term. In concrete terms, the measurement in terms of time, quantity and quality (such as depreciation of machinery, production time, delivery time, utilization, sales, errors) becomes significant for controlling business processes [8].

A manage well a company is to be master of her future; and being master of the future is learning to work with the information [9].

4. Conclusions

It is of great importance for the purpose of this article to become acquainted to the theoretical accounting framework provided by IFRS in order to understand the main differences between national accounting treatment and international accounting treatment regarding fixed assets. Due to the significance of this subject in accounting, the International Accounting Standards Board issued several standards providing accounting treatment for aspects related to tangible fixed assets. In this respect, we should consider three standards that provide significant changes for the accounting treatment of fixed assets and have been adopted in Romania directly or by means of the national legislation. These are : IAS 16 Property, plant and equipment, IAS 36 Impairment of assets and IAS 40 Investment Property.

Companies should analyze the differences between IFRS standards and domestic accounting regulations. Among the differences between IFRS standards and DAS it is important to mention accounting for inflation and accounting of combinations of companies, which have been specifically excluded from the national regulations. Requirements regarding valuation of tangible assets and depreciation of assets have been inconsistent in many cases as well.

Also the impact of IFRS enforcement on a company's financial statements could be influenced by the economic field in which the company develops its activity and by the Romanian accounting regulations applied before. The companies involved should ensure themselves that procedures re implemented efficiently, and that operational activity will continue without disturbance during the transition to IFRS standards. By enforcing IFRS, companies will adopt a global financial reporting language, which will allow an accurate perception, regardless of the users identity [10].

Communication in a single language ascertains a high level of trust and increases access possibilities to the capital market. It also allows multinational groups to apply common accounting principles for all subsidiaries, which could optimize internal communication, as well as the quality of reporting to management. Meanwhile, IFRS enforcement could facilitate purchase and sales procedures, by ensuring a high level of trust, and relevance and consistency of accounting interpretation. On markets with an increasing competition level, IFRS enforcement allows companies to compare themselves with similar companies at international level and allows investors and other users to compare the company's performance with global competitors.

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