WAYS HIERARCHY OF ACCOUNTING ESTIMATES

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Abstract

*Based on one hand on the premise that **the estimate is an approximate evaluation**, completed with the fact that the term estimate is increasingly common and used by a variety of both theoretical and practical areas, particularly in situations where we can not decide ourselves with certainty, it must be said that, in fact, we are dealing with estimates and in our case with an accounting estimate.*

*Completing on the other hand the idea above with the phrase "estimated value", which implies that we are dealing with a value obtained from an evaluation process, but its size is not exact but approximated, meaning is close to the actual size, it becomes obvious the neccessity to delimit **the hierarchical relationship** between evaluation / estimate while considering the context in which the evaluation activity is derulated at entity level.*

Key-Words: *accounting estimate, hierarchy, accounting evaluation, accounting information, financial statements, approximation.*

JEL Classification: M21, M42.

1. Introduction

Traditionally, the Romanian accounting practice to harmonize accounting legislation with international accounting standards have been used term accounting estimate and therefore no judgment proper technique.

It can be said that the estimate is the opposite of "precise determination". So, regardless of the method, the reason or the estimation process is used, the estimated fundamental principle is the same: the location of the estimates closer to the actual level of knowledge required parameters at a given time so that the margin of error is minimal.

Use of accounting estimates ways to prioritize goals is essential in preparing the financial statements and should not start from the assumption that this may weaken the credibility (reliability) of information presented through them.

In the context of evaluation by estimate, we often meet in the specialized literature definitions such as:

"Evaluation is a process of estimating or determining the value of the organization through a detailed analysis, for which are used various approaches, methods and evaluation procedures". (Ioniţă I. and others, 2004)

"*Evaluation is an activity carried out by professionals who respect principles, methods and specific professional and ethical standards, and use them to estimate a value for the property right (i.e. entity, real estate, movable assets and financial assets) that should be as close as possible to the value recognized by the market after transactions*".(Stan S., 2003)

In another paper, the author states that "*evaluation is not an exact science. It represents only the estimate of a type of value defined by taking into account all relevant factors that influence that value*.". (Stan S., 2003)

2. Research methodology

Research methodology used in this article is based on qualitative research, our goal is to make a scientific approach to estimate, as a method of evaluation, to be the focus and form the basic objective of research in order demonstrate that the evaluation process can be completed by means of prioritizing accounting estimates that ensure credibility and relevance to the information provided and to present a true and fair view of the entity.

The qualitative approach involves penetration of the core structures through real or imaginary interpretation naturalistic explanation, understanding, comprehension. Such generalization is possible by moving from individual to general, making appeal to induction.

Therefore, we tried to emphasize, rightly, the relationship between accounting judgments and estimates by the fact that in the case of financial statement items that can not be measured with precision evaluation process based on the use of accounting estimates ways hierarchy.

3. Objectives hierarchy of accounting estimates

Accounting estimates are significant to the financial statements expression. Typically, accounting stores, processes and provides information values determined exactly, but there are elements whose value is uncertain and that should be included in the financial statements at an estimate. The most obvious provisions relating to accounting estimates are those found in the International Financial Reporting Standards (IFRS).

Activities in uncertain environments, entity relationships with both internal environment and external to give rise to a range of information needs. Special requests require the production of information understandable, comparable, relevant and reliable financial statements included in individual or consolidated.

The question most frequently asked by both regulators and users of accounting information is like: ***Why should we expect some information in the financial statements?***

The answer to that question varies depending on the purpose by each user and evaluation requirements of the elements of financial statements. In order to build an efficient information system based on estimation techniques, we must know first what are the elements of financial statements to be determined recourse to estimates. Accounting estimates are based on assumptions and judgments of future projections regarding the items that can not be measured with precision today.

Considering the statement *that the estimate* or *valuation* means *both the action to estimate, to appreciate the size and value or any other issues on the basis of incomplete data, and its result*, we conclude that:

Evaluation approximate estimation process performed by other words *"estimate"* means the action to assess - but by approximation.

The second concept, ***to evaluate***, means a multitude of actions grouped into two categories:

- *certain actions*: ***to determine***, set the price, value, number, quantity, etc.
- *uncertain actions*: ***to estimate***, to cherish.

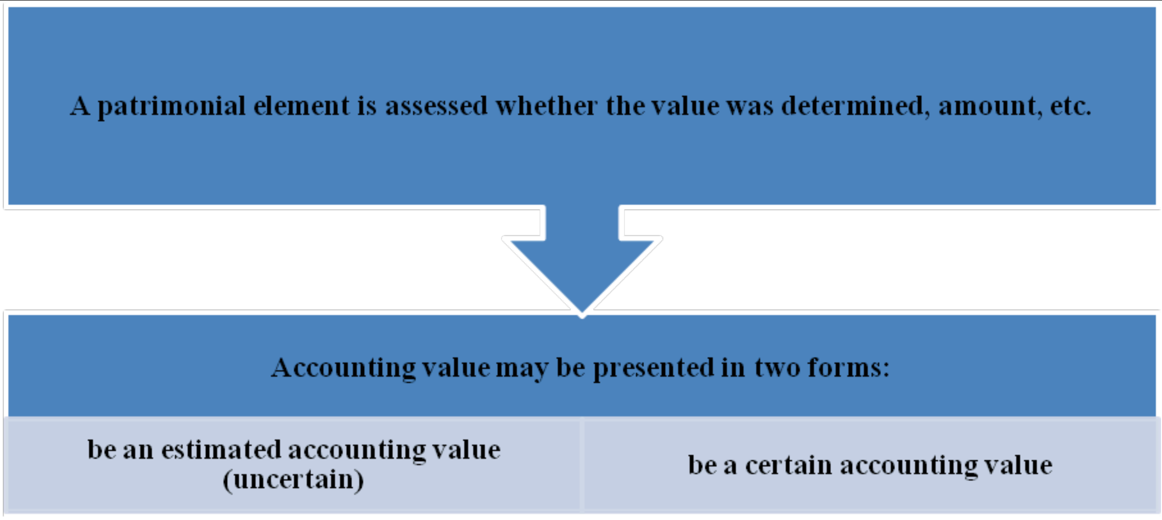
In the opinion of Emil Horomnea (Horomnea E., 2001), accounting evaluation is to *"express in monetary units has an economic value determinate: means, resource, process (expense, income) or result*".

In his work, Adela Deaconu (Deaconu A., 2002) defines evaluation as *"a process of accounting method, without which it would be possible to achieve its object".*

In other words, evaluation is the process that determines the values of financial statements structures that are recognized in the accounts, the balance-sheet and the profit and loss account.

Unifying these definitions require us to hold that the assessment is based on a system carrying quantifiable who attributed assets, leading to the formation impairment.

Following these two findings, we draw the following conclusion, shown schematically in **Figure No.1.**



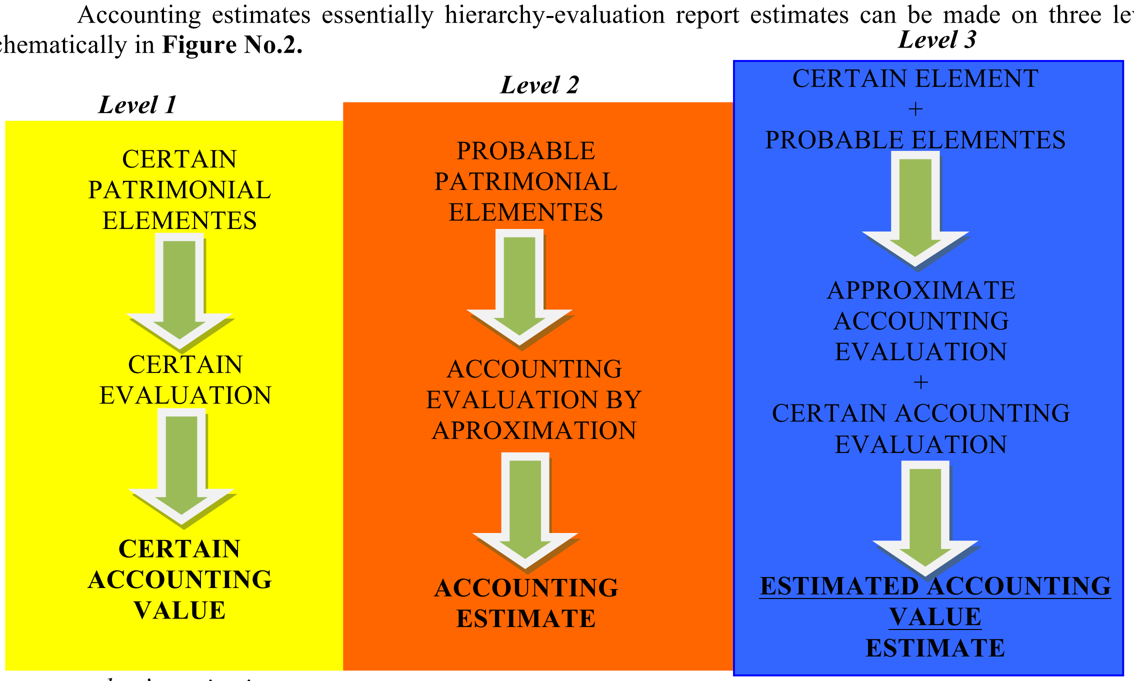
Source: author's projection
Fig. 1. Presentation of the accounting methods

Based on the meaning of the two concepts find their area of coverage and interference action.
In this regard, we note that:

The scope and action of the evaluation process is more widespread than the estimate because the estimate is only effective in environments probabilistic assessment.

4. Methodology accounting estimate

Accounting estimates essentially hierarchy-evaluation report estimates can be made on three levels, shown schematically in **Figure No.2.**



Source: author's projection
Fig. 2. Evaluation – Estimate Economic Report

In what follows, we consider it necessary to make a short description of the three levels of the accounting estimate, shown schematically in **Figure no.2** namely:

- ***Level 1***

Accounting assessment is conducted only on the basis of determined elements, acting only in certain environments, and the resulting value is a certain value (exact). Such values are used for evaluation of the present situation on the events and known at the time of evaluation. In such cases *accounting estimate is almost nonexistent*;

- ***Level 2***

Evaluation is carried out only on the basis of uncertain elements (probable) with a degree of uncertainty or bias when accounting evaluation result is not an exact amount, but one estimative, called ***estimation***, in which case the evaluation is conducted only by estimates, or otherwise said *accounting valuation = accounting estimate;*

- ***Level 3***

Where, in the evaluation process accounting, so we rely on certain elements and the elements of uncertainty, the result is still an estimated assessment, ***estimate or simply*** called ***accounting estimate.***

5. Conclusions

From the above, we note that, at the economic entity between assessment of accounting and accounting estimate and provides a close inter-relationship, which we try to define as follows: Evaluation of accounting is the process of estimating the carrying amount and the estimated value is possible only if it is an act of evaluation.

Given this interdependence can say that estimate is a valuation technique used in most areas investigating phenomena taking place in uncertain conditions, so it can be successfully applied and entity elements that can not be measured with precision.

Our goal in this article was to make a scientific approach in the accounting estimate hierarchy as a method of evaluation, to be the focus and form the basic objective of research in order to prove that the assessment process completed or conducted estimation becomes a tool to ensure credibility and relevance to the information provided.

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