ACCOUNTING – THE REZULT OF A COMPROMISE BETWEEN EXPECTATIONS AND EXIGENCIES

Associate Professor PhD **Mihaela TULVINSCHI**
"Ştefan cel Mare" University of Suceava, Romania
mihaelat@seap.usv.ro

Abstract:
Current concerns in the field of accounting are circumscribed to the need to perfect a unanimously accepted accounting language to be included in the application, as uniformly as possible, of the principles and accounting treatments as a basis in making financial statements. This approach is complicated and implies an extraordinary dynamics. The objective of the article is to investigate whether, in the current economic environment, accounting is able to issue an objective message to meet the expectations and exigencies of all users of financial information. Accounting can provide only a single representation of reality, and the information produced by accounting can only be a compromise between the respect for accounting principles and the care for reflecting economic reality. Accounting is an information system that quantifies, processes and transmits financial information about an economic entity. It establishes the link between economic activities and decision-makers.

Key words: information requirements of external users, credibility of information, principles and professional judgment.

JEL classification: M41, M19.

1. INTRODUCTION

Accounting provides a representation of the business reality, underpinning managerial decisions and influencing the distribution of wealth in society. On the one hand, professional accountants should represent the interests of an economic entity, and on the other hand they must act in the public interest, providing a climate of trust for the society in accounting information and the business environment.

Improving accounting implies change, and accounting, as a social science, has modeled itself and evolved over time as an open system, responsive to change of the economic, social, political and cultural environment. In the specialized literature, we meet the concept of "shareholder accounting" (Colasse, 2004) which aims to produce financial statements primarily to meet the information needs of investors operating in the financial markets. The role of the information professional is played not only by individuals but also by large companies that produce and sell knowledge, such as large companies of accounting consultancy and auditing services.

The issue of the suitability of the accounting image to economic reality must be appreciated by reference to qualities such as "fidelity, authenticity and validity" (Roman and Şendroiu, 2006). The concept of loyalty in accounting implies the existence of an image in which we can trust, to which we can give credit. Authenticity means sincerity in providing accounting information. Social validation is achieved, on the one hand, by accounting normalization and, on the other, by the intervention of accredited professional accountants certifying the financial statements.

As a theoretical - applicative management science, accountancy has the role of alleviating the phenomenon of informational asymmetry that has an extension in all relations between managers and external users of financial - accounting information.

In the paper titled "Accounting profession, business environment and society: a postmodern perspective", the author, Mihaela Ionaşcu, (Ionaşcu, 2006) draws a parallel between the accounting profession and the "honorable good". In general, it is found that the essence of any profession is to tend towards a good as a value in itself. (Cheffers and Pakaluk, 2005)

The good, as a value in itself that accountants have to pursue in the exercise of their profession, is the maintenance of a climate of trust by ensuring the audience of the accountancy profession that the information provided is real, correct and unbiased.

The accountant is a professional of information. By collecting, manipulating, classifying, storing and disseminating information, the professional accountant must meet the expectations and exigencies of different categories of users of financial and accounting information.

At present, the balance sheet no longer reflects the status of the enterprise's assets at a given time, but is an economic and financial balance that expresses the firm's financial position. In a global economy, financial statements need to focus on the quality of information provided to investors, but we can not overlook the fact that there are countries, including Romania, where tax and banks are still the main recipients of accounting information.

The managers of the entities, more concerned with the achievement of fiscal targets and less concerned with the capital attraction, want to apply accounting methods that result in a reduction of profit. The accounting methods leading to profit growth are preferred by firms with a high level of indebtedness, by large entities that have an important dividend policy, and by companies in which directors' remuneration is conditioned by earnings increasing or where directors have a reduced stake to capital.

2. CREATIVE ACCOUNTING BETWEEN ART AND ILLUSION

To meet the expectations and exigencies of different users of financial and accounting information, accountants often resort to creative accounting techniques. Adriana-Sofia Dumitrescu, in the article "Financial Reporting, Creative Accounting and Credibility of Information" (Dumitrescu, 2013), presents pros and cons of creative accounting, of which we retain the views of two authors. Michael Jameson (Jameson, 1988) states that applying creative accounting does not violate the law and accounting rules: "Creative accounting respects the law, but obviously not the spirit of it ... There is no doubt about the negative nature of creative accounting. It distorts the results and the financial position of the enterprise, and if we give credence to the theoreticians, it becomes an increasingly used practice. French economist Français Bonnet mentions that "if they have the right to dress well (to attract the people they are interested in), then an accountant has, of course, the right to dress well accounts (to attract bankers and investors)". (Bonnet, 1995)

In specialized literature (Dechow and Schrand, 2010), creative accounting techniques are categorized into three categories:

- the use of accounting options whose effect on investors' decision is influenced by the objectives of the economic entity;

- using financial engineers that lead to a short-term improvement of some indicators of the financial position and performance of companies;

- erroneous accounting classifications or discretionary financial reporting elements facilitated by the absence of a consolidated conceptual framework or the lack of precedents in accounting for certain economic transactions.

Given the particularly important social implications of the "accounting truth", we believe that there should be no confusion between creative accounting and the existence of many options in solving different accounting problems. Accounting professionals should not focus on finding techniques for trimming the accounting result because the accounting result does not have economic significance and the accounting does not describe the conditions under which the result was obtained. The emphasis should be on the real maximization of the financial year outcome, by better managing resources and avoiding waste. Accounting should highlight earnings and losses alongside income and expenses. Thus, accounting can provide information on both the accounting and the economic result.

Nowadays, big business managers are increasingly concerned about financial reporting and information requirements of external users. In this way, managers think their role is to do everything possible to ensure that the financial analysts' forecasts are met or exceeded. It is aimed to achieve better results than the expected results, but, at the same time, the choice of accounting policies must correspond to the exigencies of the various economic and social stakeholders. To achieve this goal, creative accounting is applied, but not in the sense of "art of trickling financial statements", but in the sense of art of choosing the most favorable accounting option for the entity. Presenting financial statements trimmed through creative accounting is just a mere illusion. Artificially maximizing current results leads to unfavorable future results.

Next, will be considered various options specific for creative accounting and applied to tangible assets, stocks managed by the entity and judgment leading to provisioning.

3. OPTIONS IN TANGIBLE ASSET ACCOUNTING

In tangible assets accounting, the possible options envisage changing the damping method, changing the useful lifetime and changing the residual value. Depreciation is a process of transferring the cost of assets to the result of the year. Through this process a value adjustment is made and a source of financing for the renewal of the depreciable assets is provided.

When talking about depreciation, we have to distinguish between accounting depreciation and tax depreciation, between the economic useful life and the normal operating period. The method of determining the depreciation of tangible assets is a matter of accounting and tax implications.

Differences arising from the application of different tax-versus accounting methods are dealt by the International Accounting Interpretation (IAIS) through IAS 12 Income Tax. The Romanian legislation (Order of the Minister of Public Finance no. 1802/2014 with subsequent amendments and completions) makes no mention in this respect. In order for the deferred tax issue to find solutions in the Romanian legislation, it is necessary to disconnect tax from accounting.

The selection of the depreciation regime for accounting depreciation is based on professional reasoning, and in the case of tax depreciation it is strictly regulated by law, depending on the nature of the depreciable asset.

The economic lifetime established by each taxpayer may be different from the statutory period of regulated service. By the following example, we propose to analyze the accounting and tax implications of this difference.

An economic entity acquires, on 20.12.N, a truck at a purchase price of 120000 m.u., VAT 19%. From an accounting point of view, the management of the entity considers that the duration of economic use is 4 years. In order to determine tax depreciation, the entity's management decides to use a standard operating life of 6 years.

Table no. 1: Depreciation plan

Year	Accounting depreciation	Tax amortization	Tax deductible amount	Non-deductible tax amount
N+1	30 000	20 000	20 000	10 000
N+2	30 000	20 000	20 000	10 000
N+3	30 000	20 000	20 000	10 000
N+4	30 000	20 000	20 000	10 000
N+5	-	20 000	20 000	-
N+6	-	20 000	20 000	-
Total	120 000	120 000	120 000	40 000

From the analysis of the data above we note that when the economic use duration is inferior to the normal operating time, the accounting depreciation is higher than the tax depreciation. We must keep in mind that, in terms of tax, accounting depreciation is not tax deductible in determining the outcome.

The professional accountant will have to take into account the deductible temporary differences between the value recognized from the tax point of view and the accounting value. Temporary deductible differences determine deferred tax assets.

There are four types of elements that underlie temporary differences (Puentes Poyatos, 2004). These are:

- expenditure or losses recognized in accounting before being declared for tax purposes;

- revenue declared taxable before being recognized in accounting;
- revenue recognized in accounting prior being declared taxable;
- expenditure or losses declared taxable before being recognized in accounting.

Table no. 2 The situation of deferred taxes

Data	Accounting value	The tax base	Temporary deductible differences	Deferred tax assets at the end of the financial year	Observations
N	120 000	120 000	0		
N+1	90 000	100 000	10 000		
N+2	60 000	80 000	20 000	16% x 20 000 = 3 200	Establishing deferred tax receivables for the amount of 3200 m.u.
N+3	30 000	60 000	30 000	16% x 30 000 = 4 800	Establishing deferred tax receivables for the amount of 1600 m.u.
N+4	0	40 000	40 000	16% x 40 000 = 6 400	Establishing deferred tax receivables for the amount of 1600 m.u.
N+5	0	20 000	20 000	16% x 20 000 = 3 200	Resuming deferred tax receivables for the amount of 3200 u.m.
N+6	0	0	0	0	Resuming deferred tax receivables for the amount of 3200 u.m.

At the end of the N + 4 exercise, the entity will remove from the record the fully depreciated equipment that will no longer be used by the entity, but for the N + 5 and N + 6 years, the calculation of the taxable profit shall take into account the depreciation recognized from fiscal view. Deferred tax assets are recognized only if the entity expects to obtain sufficient taxable profit in the future to cover deductible differences.

Next, we consider the duration of economic use to be superior to the normal manufacturing time. Managers value a standard length of 6 years and an economic life of 8 years. In this situation, the accounting depreciation is inferior to the tax amortization. In the exceeding tax depreciation period, the expense with the amortization of the accounting will be non-deductible.

The depreciation situation of the truck is shown in table no. 3.

Table no. 3: Depreciation plan

Year	Accounting depreciation	Tax amortization	Tax deductible amount	Non-deductible tax amount
N+1	15 000	20 000	20 000	-
N+2	15 000	20 000	20 000	-
N+3	15 000	20 000	20 000	-
N+4	15 000	20 000	20 000	-
N+5	15 000	20 000	20 000	-
N+6	15 000	20 000	20 000	-
N+7	15 000	-	-	15 000
N+8	15 000	-	-	15 000
Total	120 000	120 000	120 000	30 000

From the example presented, we can conclude that the separation of accounting depreciation from tax depreciation is very clear. Accounting depreciation has as main objectives the accurate determination of the financial result of the entity and the reconstitution of the invested capital. Accounting depreciation is consistent with the actual change in the value of the asset. Tax depreciation is neutral to the financial result and implies a certain risk for the reproduction of employee capital.

In the case of accounting depreciation, the duration of use is determined on the basis of professional judgment, based on estimations of the period when the use or retention of the asset brings economic benefits. The economic lifetime is either the period in which an asset is expected to be available for use by the economic entity, or the number of produced units or similar units that are expected to be acquired by the entity using that asset. In the case of tax depreciation, the normal period of operation is determined in a conventional manner, without taking into account the extent to which the asset participates in the realization of the taxable income. The normal service life is regulated within a range of values ranging from a minimum value to a maximum value.

IAS 16 Tangible Assets specifies that the entity shall choose the depreciation method that reflects as accurately as possible how the future economic benefits embodied in the asset are consumed. There are opinions in the specialized literature that disagree with this theory. "Its main drawback is that it assumes that the rhythm of the economic benefits from the use of the asset approximates the rate at which the asset is consumed. Future economic benefits are usually estimated on the basis of projections (asset income forecasts) (Bunea, 2017). Future economic benefits embodied in an asset are consumed by the entity, in particular through its use. However, there are other factors that have the effect of diminishing the economic benefits that could have been obtained from an immobilized asset. Such factors are the technical or commercial moral use and physical use of the asset when it is not used.

In an entity, revenue is generated by activities in which fixed assets are involved, but it can not be shown that they generate benefits directly. The rate at which an activity generates future economic benefits can not be considered relevant in assessing the consumption of an asset involved in that activity if it is not the only asset used.

4. ESTABLISHMENT OF PROVISIONS – A DECISION AF PROFESSIONAL REASONING

Respecting the prudence principle to integrate the uncertainty in the accounting evaluation aims avoiding the risk of transferring in the future the present uncertainties that may strike the economic entity. The main consequence of this principle is the creation of provisions.

While the risk is associated with a possible future situation, uncertainty also characterizes a future situation, but is likely not to be achieved. The risk is "a situation or a set of simultaneous or consecutive events whose appearance is uncertain" (Barthelemy, 2000, quoted by Jianu, 2007). There are situations where managers need to make decisions without knowing the set of possible or probable events as they relate to future achievements and not past or present.

Provisions are not uncertain debts because their underlying liabilities meet the criteria for recognizing the debt. Provisions result from obligations assumed by contracts with third parties or from events that are not controlled by managers, such as legal disputes. The maturity of provisions is uncertain because it depends on future events that escape the managers' control.

In addition to maturity, uncertainty may also cover the amount of a provision. The liability underlying a provision may have a known value but may also have a value that results from an estimation process under uncertainty. The uncertainty about the amount of a provision should be insignificant, so the evaluation can be considered credible. It is probable that the first estimation of the liability's amount, considered credible at the initial stage, will not be maintained over time because the circumstances on which the first estimate was based may change over time. If the obligation underlying the recognition of the provision is settled after several accounting periods, it is probable that recurrent changes will be made in estimating the amount of the obligation. Through the following example, we intend to demonstrate that the assessment and forming of a provision are determined by professional judgment.

Example: An economic entity sells in the financial year N products with a one-year warranty period. We take into account that defects can occur during the warranty period and the entity must bear the cost of repairing the products. On the basis of professional judgment, the entity may constitute, in year N, provision for guarantees to customers. To reflect the impact of professional judgment on the result of the exercise, we consider that both in financial year N and in financial year N + 1, the entity has achieved a profit of 50 000 m.u., excluding the costs of repairs required and the impact of recognition and derecognition provisions. The value of the products sold is 20 000 m.u. and the estimated amount of the provision for guarantees to customers is 10% of the value of the sold products.

Let us assume that in the N + 1 exercise the entity records repair costs with sold products worth 1 700 m.u.

The following table summarizes the data that demonstrates the influence of professional judgment regarding provisions on the result of the year.

Table no. 4: The influence of provisions on the result of the exercise

Items	The analysis of the situation when the provision is made	The analysis of the situation if no provision is made
The result before recognizing the provision	50 000	50 000
Provisioning expenses	(2 000)	-
The result of financial year N	48 000	50 000
The result before derecognition of the provision and recognition of repair expenses	50 000	50 000
Expenses generated by products under the warranty period	(1 700)	(1 700)
Income from provisions	2 000	-
The result of financial year N+1	50 300	48 300
The result of financial year N and N+1	98 300	98 300

From table no. 4 it is noted that if the professional reasoning establishes the provisioning, the profit of the exercise N is lower than the profit of the N + 1 exercise. This analysis demonstrates that professional reasoning takes into account the risk and uncertainty, preferring a lower profit at present than a larger profit reduction in the future. The result of exercise N was reduced by the estimated provision for guarantees to customers. The result of the N + 1 exercise was positively affected by the difference between the revenue generated by the resumption of the provision and the cost of repairing the products under the guarantee period. The difference of 300 m.u. is due to uncertainty in estimating the provision.

If there is no provision for guarantees to customers, the profit situation is reversed. The performance of the entity is not impaired because the cumulative result of N and N + 1 exercises is the same regardless the professional judgment regarding the provisioning of guarantees for third parties.

5. EXPECTATIONS AND REQUIREMENTS IN STOCK ACCOUNTING

Inventory accounting is important for most economic entities due to the impact that the balance sheet and the profit and loss account may have. Expectations and exigencies in the organization of stock accounting are based on careful research of structure and dynamics elements, as well as on deciphering the future trends of the phenomena that occur in the enterprise and its external environment.

Depending on the expectations of investors and managers, professional accountants call for alternative accounting treatments for the inventory accounting, aiming at increasing or diminishing outcomes. An overvaluation of inventories will underestimate the cost of the goods sold and, as a result, the net profit will be overstated.

The entity may resort to different solutions in its intention to overestimate stocks. For example, managers may show an optimistic attitude and delay as much as possible the deletion of depreciated stocks, of morally used ones, or whose turnover is low. Managers believe that these situations can be capitalized in the future, especially in the situation of an economic recession. Another way to manipulate the results is that entities can increase the reported inventory value without changing their physical quantity by valuing inventories above the real ones.

We believe that alternative accounting treatments that aim to manipulate the outcome should be limited by the requirements of the International Financial Reporting Standards also through the application of financial audit practices.

The result of the financial year may be modified by changing the inventory recording method when leaving the management. In order to achieve convergence in accounting standards and to promote uniformity among entities reporting under IFRS, the LIFO method has been removed from the alternative treatments allowed to determine the cost of inventories. Economic entities can opt for one of the FIFO and CMP methods to determine inventory costs.

Determining the cost of production is an important issue in stock accounting and allows the use of creative accounting techniques such as the incorporation of financial expenses and the incorporation of the sub-cost into the cost of production.

Borrowing costs attributable to long-run assets are included in their production costs when they are related to the production period. Interest on borrowed capital to finance the purchase, for construction or production of long-term assets will be included in borrowing costs.

Incorporating the cost of the sub-activity into the cost of the inventory production allows the sub-activity loss to be transferred to the next exercise. This increases the current result and decreases the result of the next exercise. Managers' expectations regarding the impact of the cost of sub-activity being included in the cost of production are limited by the requirements of current accounting standards that stipulate that losses from sub-activity should not be included in the cost of the sub-activity. The cost of sub-activity includes losses from maintenance work (repairs and revisions) and losses from scrap due to technical failure of production. The unit production cost should be determined independently of the entity's activity level. This means that stocks of finished products need not be valued at an amount higher than their cost of production, which would include the cost of sub-activity.

6. CONCLUSIONS

Accounting research primarily pursues accounting language and the significance of accounting information as a social communication tool. The professional accountant has the difficult task of keeping up with the frequent updates and changes in accounting regulations at international level.

Accounting classifies and records operations and transactions according to a multitude of criteria. By multiplying the criteria for reporting and measuring accounting information, answers to various predetermined information requests can be found.

Every recipient of accounting information interprets it from the point of view of its own truth, but the professional accountant must provide a single representation of reality, focusing on the quality of accounting information. By making a compromise between multiple expectations and exigencies, accounting achieves its functions and allows for a formal truth, based on rules, regulations, principles and professional judgment, to be achieved.

Creative accounting, applied in a positive way, should not be confused with falsifications of reality or with the phrase "legal adornment of financial statements". The concept of accounting must relate to the existence of many options in solving different accounting problems. These options are set out in IFRS and give the accounting profession a certain degree of discretion in assessing accounting values but do not justify subjectivity in evaluating and presenting credible accounting information.

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