

COMPARATIVE STUDY REGARDING EVOLUTION OF THE HARMONISATION OF THE ACCOUNTING PROCESS AT NATIONAL, EUROPEAN AND INTERNATIONAL LEVEL

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Abstract:

Contemporary evolution of accounting is marked by three phenomenons: normalisation, harmonisation and internationalisation. In present is manifesting more and more the contingencies in the national sphere in accounting in the favour of global alignment in the field, and which has as result creation of the modern system of accounting. The unit market concept has at base phenomenons that are created by multinational companies, economic and cultural internationalisation. This needs truly a regulation almost identical in each stat. A complete harmonisation / convergence cannot be made only if exist the economic environment (fiscal regulation, companies' rights, financing ways, management systems of the companies).

Then significant difference met within the political, economic and social systems of Continental Europe countries towards those traditional Anglo-Saxon (Nobes, Poker, 1999) is that they impose reflections over the level of adaptability of international accountancy standards towards the productive reality of European economic entities, and especially to those of our country, as a rethinking over the control them at that within the entity became not justified any more by the content of economic agent costs, thus being necessary finding their theoretical localization, of models and rules on the same line with own necessities of the entity.

A real acknowledge of Romanian economic entities becomes necessary, over the impacts that new standards perform over collecting, elaborating and communicating of information process, and over the sequels that these will have over the systems of measuring the economic performance

Key words: harmonisation process, normalisation, national accounting, economic entities, IAS/IFRS

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INTRODUCTION

Applying IAS/IFRS determined and will continuously provoke a growth at the disclosure level of enterprises, thus increasing the quantity of information having managing character (information within business department, information of profit and casualty, business connections with partners, etc.), which will create the necessity of stronger integration of informational managing system and of civil informational system.

The subsequent changes will intervene over the assembly of measurements that the enterprise management and the investors use upon evaluating the activity's output, often making confrontations with similar indicators, but as concerns the competitor enterprises (spatial confrontation) or as concerns the same enterprise, but viewing the previous financial accounting balance (temporary confrontation). [3]

One may say that logic conceptual differences will rather intersect with IAS/IFRS and national regulations than those simple accountancy differences. Determining such changes becomes enough on considering the references of certain IFRS, upon using some basic techniques as regards bringing up to date the future treasury flows or upon advance using of evaluation criteria (others than the historical cost), such as evaluating the immaterial immobilizations on their properly value. The same quantity of information requested by IFRS, much superiorly of that used by the national

standards and of Romanian normalization, might determine the enterprise management on modifying the frame of indicators used on evaluating the performance as concerns the own activity and as it was already mentioned, with advanced techniques of measuring the process of value creating.[2]

The international harmonization process of accountancy balance is developed in Europe by a convergence towards the International Standards of Accountancy issued by ISAB. EU and IASCO have individualized within the International Standards of Accountancy a potential instrument more efficient on convenient and efficient accomplishment of common objective, which aims towards on improve the functioning of capital market and on protecting the financial resources of the investors. In this way, EU adopted a series of provisions that impose on quoted companies to carry out the reinforced balance in accordance to IAS/IFRS. It will be thus treated: [1]

- a directive that introduces the proper value – as an evaluating parameter of certain active and passive classes (Directive no. 65/2001 of 27th September 2001);
- a regulation that, after a homologation process, recognizes the accountancy standards issued by IASB as reference parameter on drawing up and editing the reinforced balance for the companies groups, as securities quoted on EU countries stock exchanges (Regulation no. 1606/200 of 19th July 2002).

The Romanian enterprises make out their own balances, in accordance to a system of laws and regulations differentiated on economic activity sectors, on juridical nature of the economic entity, on its dimension, on quoted and unquoted companies.

As it is known, OMFP no.1752/2005, actually replaced with OMFP no. 2374 of 12/12/2007 (MO no. 25 of 14th January 2008), inserts Directive IV (no. 78/660) and Directive VII (83/349) of EEC, foresaw specific diagrams of yearly financial situations and enlarged the accountancy evaluation criteria, which the economical entities have to use towards those used until then.

International accounting harmonisation / convergence is about reduction of differences between national accounting regulations.

Accounting normalisation is the process through which is harmonised the presentation of the documents from synthesis, accounting methods and terminology, taking into account three fundamental purposes: [4]

- obtaining homogeneous information's regarding enterprises;
- capitalisation of accounting information by extern users (comprising in time and space) ;
- contribution to a better allocation of financial resources at a state level.

EVOLUTION OF THE ACCOUNTING HARMONISATION PROCESS

At its term, international accounting harmonisation / convergence is the process through which the national rules or norms differ from a country to another, sometimes divergent, are perfected to be comparable. Harmonisation /convergence is different from normalisation, which implies first of all total smoothing of the rules. It permits elimination of the main obstacles in realisation of international comparisons.

The main argument in the favour of harmonisation is research of efficiency in international transactions. The lack of information and comparability of accounting information constitutes an obstacle in international investments. [9]

A second motivation that leads to harmonisation / convergence of accounting systems represents the wish of unification of competition conditions between countries. A synthesis of the phenomenon and aspects that can be considered as causes which lead to the necessity of an international accounting harmonisation/ convergence includes: globalisation more and more powerful of the economies; requirements of users of financial situations (factor which results from the first). In this sense it will be taken into account a smoothing of the economic language and in the same time of accounting, considered instrument of informatics communication; process of European Union enlargement; phenomenon of capital market globalisation.

Tendency of increase and globalisation of activities of big companies determined a large number of acquisitions by foreign companies. This led to the increase of their financial necessities, reaching at the end development of capital international markets. Taking into account the world trends, the companies wish to apply a uniform accounting system. In a first phase they tend to an efficient economic functioning.

Leaders of these businesses reach to an optimal convergence between the internal and external information. For multinational companies is very important to comply with the demands of users. In a market economy, the accounting harmonization / convergence and normalization have as object organization of their rules of operation of the accounting information market, in order to optimize financial communications.

Accounting information can be regarded as a "legal" product because the specific production, presentation and dissemination should be regulated. Optimizing financial communication assumes control of the quantity - quality / price report, in terms of accounting information.

Harmonization / convergence and accounting normalization are needed because of the diversity of economic agents that contribute to the definition of the accounting information supply or demand and because imbalances that may exist between supply and demand. To prevent these imbalances, the normalisers, in their quality of referees of the accounting social game, it must find solutions to reduce inherent "wear" to organization of accounting system.

Fundamental problem of harmonization / convergence of accounting are related also to the note of credibility given to accounting. The statement is based on the level of confidence of users to the situation in which the same public society, for the same period, in different countries, have different images of the size of the equity and results, as result of compliance with the rules of those countries.

By those mentions, international accounting harmonization / convergence represents a positive phenomenon which achievement is determined by current trends of economic life in general and accounting in particular.

But, like any process, accounting normalization has also some limits of applicability, based on the following issues: in detriment of harmonization / convergence can be shown that this breaks the social equilibrium, does not take into account the specific role of accounting in each country. Its realisation implies costs supported primarily by small and medium enterprises, while the benefits return in large part to large companies; another problem is that of defining / determining the area in which will manifest harmonization / convergence, if this should consider all the enterprises or to limit to some of them, especially quoted companies, capital companies or those of size exceeding a certain threshold; for some enterprises, harmonization / convergence involves significant costs. A change of method can change the image of the company's financial condition and therefore will require the information of the user accounts on the effects of change.

At internal level the company supports the costs of training and information adapting. In general, accounting costs are relatively more important for small companies than large ones, because the last ones can allocate those costs (partly fixed) on a larger number of transactions. A full harmonization / convergence cannot be achieved unless exists the economic and social environment (regulatory tax, company law, financing arrangements, management systems of the enterprise).

Accounting approach in multinational firms and which aims creation of a common accounting language worldwide has focused enormous efforts. On 29 June 1973, accounting bodies from Australia, Canada, France, Germany, Japan, Britain, Ireland, Netherlands, Mexico and the U.S. established in London, The International Accounting Standards (International Accounting Standards Committee: IASC). This body will have as objective elaboration and publication, in the public interest, the international accounting rules to be followed in presenting the annual financial statements, and ensure the acceptance and application of these rules.

The first drafts of the General framework of the IASB had a broader vision. They aimed an overall analysis of external financial information. In reality, its efforts have seen only on the financial statements. Architecture of General framework of the IASB comprises 110 sections and treats the following issues: objective of financial statements; quality characteristics of them; parts of the financial statements; recognition of items of financial statements; the measurement (assessment) system; concepts of capital and maintenance capital.

IASB Framework states that, although the financial statements may be similar from one country to another, there are differences in their level, whose causes must be studied in the diversity of economic, social, political and legal circumstances and concrete situation in various countries regarding mainly the information needs of different users. IASB is committed to closer the positions, seeking to harmonize regulations, accounting rules and procedures relating to the preparation of financial statements.

Since its publication in 1995, of the new strategy in accounting, the European Commission had as declared policy preservation of the consistency between accounting directives and international accounting standards (IAS). This policy is consistent with the interests of European companies, usually those very large, which, under the pressure from international capital markets that fund, wish to apply the IASB rules. In order to harmonize these practices, one of the upgrade strategies of the European Commission in the accounting is application of a specific mechanism to provide a legal basis to IASB standards, compliance with European directives.

Before 1990, in the conditions of centralized economy, evolution of national accounting has been dominated by the concept of the accounting norms which means making the rules, instructions and details of organization of accounting, based on plans of accounts. [5]

The basic rules regarding planning, record and calculation of costs were developed by the Ministry of Finance together with the former Committee for State Planning for the main branches of the national economy. Accounting harmonization started since 1990 imposed a new series of essential coordinates of the national accounting system operating the developed savings market, such as: *the primacy of the practical application of accounting concepts*, in particular regarding the accounting objectives and the principles generally accepted in relation to the accounting rules and regulations that refers with preference to the rules, basic methods and detailed accounting procedures; *the primacy of accounting dualism in relation to accounting monism* whose essence consists in the fact that is in the conditions of market economy, at least a part of accounting information, particularly those related to: economic situation, the economic and financial results, relations of economic agent with the third parties, must be made public through financial statements; *the primacy of the financial system across the current account system*, in which the optic of accounting system of data proceeding had to change fundamentally.[6]

Within monist accounting systems operated and operates with a stream accounting centred on exhaustive registration in accounts of the economic cycle: manufacturing - distribution - movement - consumption, based on the primacy of reflections of the production process, considered the source of value. In this case the role of the financial statements is marginalized because of intervention by managers on the basis of financial – accounting analysis is highly limited by the centralized economic system itself.

The dualist accounting systems adapted to the needs of developed competitive market economies operates with an accounting of results in which in the spotlight will be financial statements, in their quality of instruments of information of third parties. Using the current account is linked to the objectives of accounting: a faithful image of the company's situation, the establishment of results and real economic and financial situation of the company, the control of the internal production conditions; *fundamental reconsideration of the importance of different features of accounting information.*

Under this coordinate tier accounting systems over-auctions completeness and comparability of accounting information, features which created the possibility of centralized control of work. Dualist accounting systems over-auctions features related to effectiveness and efficiency of production of accounting information, namely: the relevance of information (usefulness in decision making), reliability of information (insofar as they render reality), and the relative importance (production of accounting information at a lower cost advantage to them who procure their usefulness); *the fundamental reconsideration of priorities given the various functions of accounting.* In tier accounting theories are listed and described a series of functions: *the function of exhaustive record of a business in order to achieve the activity control, the verification function, monitoring and evidence in legal force.*

In dualist accounting systems, accounting functions are structured as follows:

Financial accounting functions:

- *The function of transaction registration of an enterprise to periodic determines financial position, performance and change of financial position;*
- *The function of economic and financial information of third parties;*
- *The function of verification and evidence tool generated by legal and tax reasons;*
- *The function of information supply of needed for the macroeconomic summaries;*
- *The function of meeting the information requirements of as many users of accounting information.*

Accounting management functions:

- *The function of costs determination on products and sectors;*
- *The function of determination of the profitability of products, works and services;*
- *The function of production and supply of information required to prepare budgets of income and expenditure, upgrade the management indicators needed in forming the board panel of the company;*
- *The fundamental re-evaluation of the principles of heritage and management in relation to the evolution of demand-supply report;*
- *The fundamental re-evaluation of accounting normalization in the sense of opening accounts at international level.*

THE EVOLUTION OF NORMALIZATION AND HARMONIZATION / CONVERGENCE PROCESS ON INTERNATIONAL LEVEL

Analysis of this development is done with the basic study, fundamental differences between the two accounting cultures prevalent worldwide, which is manifesting on the following essential plans: *on political - strategic level*, Anglo-Saxons give priority to information needed for decision-making by investors, their design bears the hallmark of economic liberalism, giving less importance or applications over national accounts, while the French concept of accounting normalization wants more balanced among accounting information protagonists which must be provided in a much more formal frame.[8]

Under the influence of these two major power blocs of accounting, national accounts systems shows large differences, which have generated especially in the post-war period initiation of a process of harmonization, of approach of accounting systems of different countries and groups of countries; *on institutional level* the mainland accounts is highly codified, standardised and directed by a general accounting plan, including a large number of mandatory rules, while Anglo -

Saxon accounting is based on traditions and customs, not formalized in a general accounting plan; *on technical – applied level* the mainland accounting operates with economic classification of expenditure and revenues, which generates objectively the keeping of the two types of accountings: financial and management, while Anglo-Saxon accounting operates with the classification of expenditure and revenues by destination, which not imposes a strict separation of financial accounting for the management accounting.

This harmonization is required primarily, but not exclusively, by the major international investors, who wish to be able to guarantee compare the equal criteria, opportunities of capital placement, which cannot be achieved if companies are not subject to the same rules of publication of economic - financial information.

In the regional level have been constituted several international governmental organizations or NGOs whose purpose is active contribution to the harmonization of accounting.

The most representative actions of accounting normalization have been those initiated by the following organizations: the Western countries most industrialized (OECD) which in 1976 published a document on guiding principles appropriate for multinational enterprises as recommendations which aim in particular better public information on the structure , activities and policies of these companies.

Without legal constraint, practical applicability of these recommendations is based on the support of social partners: business circles and trade unions, which have been associated with their development; intergovernmental group of UN experts, established in 1982, whose main objective is watch of the interests of developing countries, UN members, regarding the publication of accounting data considering that multinational companies do not provide sufficient accounting information to permit the control by developing countries of the activities of multinational companies on their territory; the group of EU countries, which developed and distributed to member countries, since 1968, a General Accounting Framework and has adopted several important directives such as: Directive IV, VII and VIII (which recently was repealed by Directive 2006/43/EC of 17 May 2006).

Fourth Directive aims structure, content and presentation of annual financial situations - balance sheet, the profit and loss account and explanatory notes. Directive VII of aimed preparation, publication and control of the consolidated accounts. Directive VIII refers to the rights and obligations of persons authorized to audit the financial statements.

These directives are recommended to Member States, and they are obliged to implement in national laws their provisions.

At the beginning, these directives were viewed favourably, were later criticized by some areas of the European accounting world. *Prost and Klee* teachers from NHIC Paris, in an article entitled, "*The unseen face of European accounting directives*" indicates that in their application are put many obstacles that must overcome, such as: language barriers; national traditions; management and information techniques; options game on the principles for drawing up, evaluation, presentation and publication of financial statements.

The most important barrier seems to be the language regarding the concept of “true and fair view” that is reflected in national accounting laws of all community countries in the various meanings, oscillating between a dual and unit expression, namely:

Dual-expression: true and fair: true and fair (UK and Ireland); true and correct: true and correct (Italy); true and appropriate: true and proper (Portugal).

Unified expression: faithful: determination, sincerity (France, Belgium, Luxembourg, Spain, Netherlands); according to fact: according to the facts (Germany); real: real (Greece); looking right: correct, not-misleading (Denmark).

From this classification of the concept of true and fair view results that it constitutes a common denominator of all Community accountings, but the significance of the concept, especially the implementation way, creates yet significant differences. Quality of the “*true and fair view*” must be achieved through the explanatory notes in three ways, namely: development which explanatory notes behave, like specifying the applied evaluation principles and rules; information complements

of explanatory notes, such as presentation of claims and liabilities according to maturity; operated derogations in draw up the balance sheet and profit and loss account, with their implications on the financial position, performance and change of the company's financial position, social partners: business circles and trade unions, which have been associated with their development;

Worldwide, in terms of accounting harmonizing, are active mainly two organizations: the *IASB* and the *IFAC*. *IASB* created in 1973, regroups 143 professional accounting organizations in 104 countries, aiming development and publication of International Accounting Standards on presentation of financial statements, and ensure their acceptance and implementation worldwide. Although these standards are not mandatory, they exert a strong influence on national accounting practices and regulations. *IFAC* founded in 1977, has concerns particularly linked to the International Standards on Auditing, professional ethics and professional accountancy training.

These professional organizations are strongly influenced by the American Accounting Normalization Board FASB, mainly on the following elements: the objectives of financial statements: content, performance, evolution; quality characteristics of financial information: clarity, relevance, reliability, capacity for comparison; component elements of financial statements: assets, liabilities, income and expenditure; methods of assessing the component elements of financial statements.

These issues constitute the main domain of accounting harmonization dispute that follows the concepts, accounting and conventions rules that do not represent nor at national level, neither at international level a scientific paper, but rather a process of drafting accounting rules, *strategic-complex*, in which each party shall defend their rules.

In perspective, the process of international accounting harmonization will be in a relationship force between: professional organizations, international political organizations, large multinational companies, the powerful industrialized nations, international audit offices, particularly those of Anglo-American origin, who vehicles the model and manage most of the time to impose it in this international competition.

An important role tend to occupy in the next period the supervision organism of financial institutions, regarding the capital market, insurance – reinsurance institutions, credit institutions, etc., through their option for the accounting system used in order to prudential supervision of these sectors of activity.[7]

IASB aims to develop and publish in the public interest, international accounting standards which should be observed during the presentation of the annual financial statements, and to ensure acceptance and application of these standards worldwide. They have no legal force of community accounting directives.

IASB works are refined in development of the International Accounting Standards / International Financial Reporting Standards (IAS / IFRS), whose procedure is long and calls to numerous consultations, both at the advisory group, as well as members of the IASB, materialized in the following steps: after discussions, the IASB council chooses a subject considered as requiring a uniform accounting standard for recognition and presentation of financial statements and is assigned to a working group.

All member organizations are invited to send their ideas; working group, assisted by the secretariat of the IASB, examines the issues raised and presents a statement on the various positions on the issue; working group gathers the board's comments and prepares a preliminary draft for the proposed standard; the Board reviews the draft that sends to all member organizations, for comments; the working group prepares a revised draft which after the approval of at least two-thirds of the board members, is published as a survey statement.

Any interested party is invited to comment; in each stage of preparation of projects, member organizations are counselled by the accounting research committees of their own organizations; at the end of each period of comment, they are sent to the IASB, to be studied by the working group responsible for the project; working group then submits the revised draft to the board, for approval as IAS / IFRS; publication of an IAS / IFRS requires a favourable vote from three-quarters of

board members, after voting the IAS text is sent to all member organizations for translation and publication.

International Accounting Standards can be used in many ways, the most common are: direct application, as the national accounting standards, such as in Singapore; as useful documentation in the development of national accounting rules; as a reference to ensure comparability of national accounting rules with international accounting standards.

In this context *Gerald Gilbert (as member of the IASB and liaison officer with French normalizers)* believes that the IASB does not advice in an over-normalized which federalizes everything, but the work of this body submits for the national or regional normalizers two interests: serves as a documentary basic reference; serves as support for a thorough reflection on the accounting objectives and even the whole conceptual accounting framework.

Compared with the drafting of international standards, development of European accounting rules browses another route. This process is being subject of the preparation of a project by the European Commission. The object is subject to the Council of Ministers which transmits it to the approval of European Parliament and the Economic and Social Committee for comment. After a series of negotiations concluded with a review of the project is done drafting the directive, to be applied by Member States through its full incorporation into national laws.

CONCLUSIONS

Although this provision is mandatory, most Member States have not made a general review of national accounting laws, they are thinking by complement of national legislation only with certain provisions based on their interests, the options offered by the Directive IV being very practical.

This directive states that the main objective of the annual accounts is to present an accurate picture of the enterprise situation, while French accounting requires that these accounts to meet the conditions of regularity and sincerity. Dealing the content of Directive IV in French law was realised directly by adding the term of accurate picture in the accounting rules which states that the financial statements should be fine, honest and provide an accurate picture of the company.

From here detach the conclusion that national accounting laws continue to have different bases, being related to aspects of the economy and society as a whole. This affects influences also the way of selection and application of accounting principles, assessment rules and its presentation way.

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