

THE PERCEPTION OF THE ROMANIAN ECONOMIC ENVIRONMENT REGARDING THE ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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ABSTRACT

The adoption of the International Financial Reporting standards by the accounting professionals who activate in the Romanian business environment has met with difficulties due to the lack of similarities identified between the Romanian accounting system and the international system of reference. This fact was often presented in topic papers and conferences by representatives of the academic environment as well as by specialists in the area. In this context, we drafted this paper through which we outline an overview of the adopting of International Financial Reporting Standards in Romania, referring to questions raised by legislators and specialists in the field within the specific literature.

KEYWORDS: *Financial statements; International Financial Reporting Standards; Accounting regulations.*

JEL CLASSIFICATION: *M41*

1. THE COMPLIANCE OF THE ROMANIAN ACCOUNTING REGULATIONS WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Although, during the two post-communist decades, it described a sinusoidal trend line, the evolution of the Romanian accounting regulations tends to fall in the direction imprinted by the process of international accounting convergence. However, the implications of the accounting convergence process represent structural and perceptible changes of the Romanian accounting environment, determined by an improper assuming of the international accounting model. The authors Feleaga and Feleaga (2006) drew attention over the incapacity of the Romanian accounting environment to shape a “Romanian accounting”, affirming that “almost always the accounting system applied in our country, whether it was a consequence of a historical fracture or not, was and it still is a product of import.”

Also using an institutional approach, Albu (2011) reiterates the same state of affairs, noting that the Romanian economic model represents a local adjustment of the international accounting model, generated through various strategies of coercive isomorphism, under the pressure of the international financial institutions. Moreover, the author emphasized the existence of some strategies of normative isomorphism, implemented at the level of large audit firms, which lay the foundation for the work conditions and methods appropriate to the specificity of the Romanian economic environment. Nevertheless, amongst the multinational companies, it can be observed a fair assuming of the accounting practices recognized at an international level, in the idea of reducing the costs of financial reporting and enhancing the comparability of the accounting information.

In spite of the signals issued by both practitioners and academics in support of the accounting convergence process, the reality records a significant variability in the practice of financial reporting, in accordance with the International Financial Reporting Standards (Nobes, 2011). The same situation happens in Romania, where the accounting system proves to be

incompatible with the international accounting references regarding the institutional frame of application for both the International Financial Reporting Standards and the differences of the cultural background. Also, the complexity of the accounting standards, the level of development of the accounting profession, the motivations of the tutors for an accounting option, the lack of resources necessary to the implementation and monitoring of the compliance of accounting policies with the requests of the International Financial Reporting Standards, the connection of accounting with fiscality, and the lack of understanding the IFRS or the professional guides are really significant (Albu, 2011).

There has yet to be seen which would be the answer of the Romanian accounting environment to the question asked by Burlaud (2013), regarding the prioritizing of the objective of the financial statements whether to be relevant or to reflect an accurate picture, acknowledging the fact that the conceptual frame of financial reporting does not claim any conflictual state in this sense. The subject is much more stringent as the mark of the French accounting model still persists in the Romanian pattern by the component of the accounting prudence principle. Although it was established and validated by the European directives, the principle often leads to conflictual states between the objective of precise representation of the financial statements and the qualitative feature of the accounting information's relevance.

A concrete example is the persistence of the practices of accounting evaluation to choose the model of historical costs, which affects the relevance of the accounting information imposed by the actors of the capital market, especially in the conditions of an emerging economic system like the one in Romania. Moreover, the complexity of the accounting standards regarding the evaluation that uses the fair value as the base of accounting evaluation mostly determines the reluctance of the accounting professionals regarding the alternative solution of the historical cost. Also, the lack of a developed capital market, prevalent of the taxation on accounting rules, emphasizes the utopia, leading to the opportunistic application of other accounting principles, such as the substance over form principle (Istrate, 2011; Istrate, 2012).

Most of the times, the cultural factor leaves a visible mark on the results of the efforts to conceptualize the accounting model, by integrating the terminology used by the international accounting references in the approaches of translating the international accounting standards. The reality is shown in the Romanian accounting environment (Albu, 2011). The author reveals various considerations regarding the deformed taking over of some fundamental accounting concepts, such as the fair image concept. This study attests once more the historical substance of the Romanian accounting model, considering that the Romanian regulators chose the alternative selected by the French accounting model, which defines the fair picture through the regularity and sincerity of the accounting policies.

Relevant are also the conclusions revealed by the study of Vladu (2012), who notes the high importance granted by the managers, auditors and accounting experts to the concept of "true and fair view." However, although the TFV concept proves to be extremely operational in the Romanian accounting environment, there are different conceptions regarding its significance amongst the three categories of actors of the accounting information's market. Starting from ten assertions which define the TFV concept in the specialty literature, they would rather explain the concept through the term of the fair picture, originated in the French accounting culture. The reason could be the fact that the international accounting standards are not fully understood, which should urge the accounting profession and the educational environment toward a real implication in providing constant consultancy and professional training. Moreover, although the local accounting regulations took over the TFV concept as the one of the fair image, the concept could not be clearly defined, a fact which generates the opportunity of a large sphere of accounting manipulation through the use of accounting estimations.

2. ADOPTING THE INTERNATIONAL FINANCIAL REPORTING STANDARDS IN ROMANIA – THE COST - BENEFIT ANALYSIS

The decision of adopting the International Financial Reporting Standards is based on the debate around the cost-benefits analysis. Although the specialty literature abounds lately in papers that treat the subject, there are voices which attract alarm signals regarding the accuracy of the results obtained as a result of the adoption of the IFRS (Christensen, 2012). They justify the low interest of voluntary adoption of the International Financial Reporting Standards at a global level by putting it on the account of the academic environment's inability to determine the problem of the balancing costs involved in adopting the International Financial Reporting Standards with the related benefits.

In Romania, the debate is at the beginning of the road, prevailing the *ex-ante* analysis which follows the modeling of the perceptions of the tutors and users of the financial statements, in relation to the decision of adopting and implementing the International Financial Reporting Standards in the absence of a consistent database.

Ionascu (2007) managed to outline four types of costs afferent to the implementation of the International Financial Reporting Standards: personnel costs; costs necessary to the adjustment of the informatics systems; consulting costs; and costs arising from the report of a double set of financial synthesis statements. It should be remarked the fact that reporting a double set of financial statements was signaled in a small extent (only 23.7 percent) by comparison with the other costs earlier mentioned.

But the study attests that these costs should not be neglected even if we discuss reconciling the numbers reported according to the local accounting regulations. Moreover, the study reveals a relatively low level of the cost of implementing the International Financial Reporting Standards in relation to the operational profit of approximately 0.0035 percent. However, the variation of the cost in relation to the size of the entity determines the appreciations of the authors, who sustain that such discrepancies can be justified by a partial adoption of the international accounting reference of the smaller entities. But these appreciations have to be considered with caution, taking into consideration that fact that the capitalization of an entity is not translated necessarily into a complicated business model, some complex economic transactions or a high volume.

Moreover, Girbina (2012) attests the importance granted by the actors of the Romanian accounting environment to the significant level of the cost of implementing the International Financial Reporting Standards in the bank institutions, generated by the sustained efforts of modifying the internal system of accounting evidence. However, in the same study, the account's tutors confirm a substantial reduction of the costs of financial reporting, by completing only one set of financial synthesis statements.

Ionascu (2011) realizes a clear distinction between the two categories of benefits. He observed that the level of quality of the accounting information increases with the adoption of the International Financial Reporting Standards because of the improvement of the accounting information's comparability and relevance, by using its fair value as the base for evaluating or improving the informational transparency, increasing the volume of revealed accounting information both through the financial synthesis statements and the structure of voluntary financial reporting. The new requests, regarding the financial reporting, lead to a better notifying of the investors, provide guidance on the accounting for some unexpected economic transactions by the European directives, and facilitate the financing of the economic entities to a reduced cost, by reporting the management strategies and policies of risk and uncertainty, that the entities face in the environment of a competitive market economy.

Sacarin (2013) also realizes a study in which he analyzed the perceptions of the accounting profession over the benefits, costs and difficulties experienced during the implementation of the

International Financial Reporting Standards. Regarding the benefits, the author reveals a growth of the accounting information's relevance for the main beneficiaries, investors, and managers. However, the results regarding the benefits of adopting the International Financial Reporting Standards proved to be contradictory. For example, Mihai (2008) showed that adopting the International Financial Reporting Standards do not determine a quality improvement of the accounting information regarding the asymmetrical recognition of the economic losses in relation to the economic incomes. Moreover, the same study records the importance of the integral approach of adopting the International Financial Reporting Standards, which cannot take into account only the quality of the accounting standards. It is necessary also to focus the attention over the complex of institutional factors and motivations which stand behind the accounting practices according to the international accounting references.

Even if not all the studies managed to confirm a significant increase in the quality of accounting information, the specialty literature confirms the necessity of adopting the International Financial Reporting Standards not only because of the requests of the institutional factors but also through the angle of a cost-benefits analysis. The perception of the Romanian accounting environment proves to be favorable to the scenery of adopting the International Financial Reporting Standards not only at the level of financial statements, but also regarding the statutory financial statements (Mates, 2006; Girbina, 2009; Bunea, 2012; Albu, 2011; Ionascu, 2011; Jianu, 2012; Sacarin, 2013).

3. CONCLUSIONS

The implications generated by the adoption of the International Financial Reporting Standards at the level of financial statements in Romania represent a continuous concern of the Romanian academic environment. That is because of the studies created to debate the comparability of the Romanian accounting system with the international references, and the stage of the amortization steps and the conformity of local accounting regulations with the stipulations of the International Financial Reporting Standards (Ratiu, 2014).

Whether we discuss the tax implications or the informatical ones, the legal frame of financial reporting in Romania suffered a long series of form and fond changes. However, the last decade's reality created a differential approach to the process of financial reporting of the national regulation organism, which is the Ministry of Public Finance, through the Direction of legislation and accounting regulations.

The differential approach of the legal frame of financial reporting is also confirmed by the practitioners, through the balance of the cost-benefits report, released by the approach of financial reporting. In this context, the process of adopting the International Financial Reporting Standards in the Romanian accounting environment assumes a gradual transition which targets the integral adoption of the International Financial Reporting Standards by the listed companies, while the financial statements of the unlisted companies remained under the incidence of the local accounting regulations which went through a process of accounting harmonization with the international accounting references. This state led to the duality of the Romanian accounting system which sustained adopting the International Financial Reporting Standards by the companies listed on the capital markets, contrary with the small and medium entities that, although were seeking a simplification of the financial statements' requests, expressed their reluctance in adopting the International Financial Reporting Standards for the small and medium companies (Albu, 2011; Bunea, 2012).

Currently, the Romanian accounting regulations are according to the European accounting directives, while the untreated cases are assumed from the international accounting references (Albu, 2011). The main differences between the Romanian accounting rules and the international

references refer to the presentation of the financial statements, the recognition policies, the evaluation, recognition, and presentation of the financial statements' elements, and the aspects regarding the voluntary financial reporting.

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