

The Normalization Mechanism in the Period of Transition to the Market Economy in Romania from the Perspective of the European Union and IASC/IASB Requirements

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Abstract

The accounting system practiced in Romania until 1990 did not correspond any more to the requirements of the users of accounting information in a market economy. The Ministry of Finance and the university professors in Romania have found solutions to normalize accounting, solutions which are solved in different stages. The article presents the stages of reform of the accounting system in Romania in the period of transition to market economy.

Key words: *normalization mechanism, new accounting system, dichotomization of the accounting*

Brief Retrospective

The fall of the communist regime in Romania created the premises of change in the economic field and implicitly at accounting level. The soviet-type accounting system that had been practised almost to half a century did not correspond any more to the informational requirements of the users of accounting information in a market economy. Consequently, the normality-makers within the Ministry of Finance and equally the university professors in Romania had to find solutions to normalize accounting. Inexistence at that time, of an adequate theory for the situation determined the choice of a solution in stages. In this respect, from our point of view, there can be identified the following stages of reform of the accounting system in Romania (table 1).

Table 1. Stages of reform in accounting system in Romania

Periods:	Characteristics:
1990 - 1993	<ul style="list-style-type: none">○ adaptation of the old accounting system to the new economic circumstances;○ introduction in the university courses of the French accounting system (“target” system for Romania);○ “building” an accounting system of French inspiration “modeled” by the university accounting professors and its popularization (publication of books, delivery of professional training courses etc.).
1994 - 1996	<ul style="list-style-type: none">○ implementation of an accounting system of French inspiration (Law 82/1991): implicit harmonization with the European Accounting Directions;

Table 1. (cont.)

1997 - 2000	<ul style="list-style-type: none"> ○ initiation in 1997 of the Program of development of the accounting system in Romania, whose target is harmonization of the accounting in Romania with the European accounting directives and the international accounting standards.
2001 - 2002	<ul style="list-style-type: none"> ○ dichotomization of the accounting: ○ small and medium companies apply the previously existing accounting regulations (Law 82/1991); ○ large companies start applying gradually the international accounting standards (O 403/1999, O 94/2001).
2003 - present	<ul style="list-style-type: none"> ○ intensification of accounting harmonization with the: ○ European accounting directives, in case of small and intermediate companies (O 306/2002); ○ European directives and international accounting standards (O 94/2001).

Period 1989-1993

The interval 1989-1993 was an intermediate period between the use of a soviet-type accounting system and the use of an accounting system of French inspiration, named in the accounting specialty literature the *New accounting system*. This interval is one during which it was tried at the same time to resume the traditions in the field of accounting organization and to align the accounting regulations and practices to the international reality.

The fall of the communist regime opened new directions also in the accounting field. The economic mutations generated by the disappearance of the socialist economy and the new transition economy that was taking shape placed the decision makers (normality-makers as well as university professors) in front of a dilemma: to reform the existing accounting system or to change it? Although up to the time the “new accounting system” became effective (January 1, 1994) there existed opinions for and against the change, the university manuals present the “operation thereof [accounting – author’s note] according to the effective or foreseeable legislation” - C. M. Dragan (1991), that is, an adaptation according to the French accounting experience - N. Feleaga (1991). The chosen “path” was that of the change, a path which in fact continues the attempt to “westernize” the accounting from 1984. The cooperation between the members of the *Institute of Finance, Currency and Prices* and professor Mihai Ristea, which resulted in a comparative study between the French accounting system and the one in Romania, could not be left without effects when the political-economic circumstances were favourable.

The year 1992 represented the moment of bi-dimensional materialization of the efforts made in the direction of constituting an accounting organization: reestablishment of the *Corps of accounting experts and certified accountants* and establishment of the *Consultative College of Accountants*. One year later (January 1, 1993), the reform meant to be applied as of January 1, 1994, entered the period of “tests”: the “new accounting system” entered the experimental stage on a sample of more than 70 economic agents of various magnitudes, ways of exploiting the capital and types of activities carried out” - M. Ristea, in EC (1993). Thus there were created the premises of a new stage in Romania’s accounting.

Period 1994-1996

In the field of accounting normalization there appeared the Accounting Law no. 82/1991 and the Regulations of application thereof, which made the change-supporting team a winner. Thus, in Romania started to be applied, as of January 1, 1994, an accounting system of French inspiration, organized in double circuit.

Although in the Accounting Law no. 82/1991 and the Regulations of application thereof there are many French influences (existing implicitly in the European directives), the plan of accounts and the related regulations maintained, as in Poland for instance, certain particularities of the old system. In this idea we formulated the following hypothesis:

The accounting system applied in Romania starting from 1994 is situated on the resultant between the international present (French accounting system) and the national past (certain characteristics existing in the socialist-type accounting system).

A first aspect about which we will make some considerations is the fund of development from amortization. The question raised is the following: what were the causes which lead to the maintenance within the new accounting system the setting up of the fund of development from amortization? Our hypothesis is the following: this accounting treatment had a transitory role, being an inherited “gene” from the national past. Where setting up the fund of development from amortization is concerned there existed opinions according to which the role of rebuilding the financial resources was no longer fulfilled anyway, since money were no longer immobilized in a distinct account, which would have been anti-economic under the conditions of a market economy - L. Olimid (1996). The role previously held by the fund of development from amortization was taken over – or should have been taken over – by a prudent attitude with regard to the distribution of profit. Within the frame of an empirical study, attempting to identify the degree of prudence manifested in case of distributing the profit, L. Olimid and D. Calu (1997) find among the respondents the existence of the “preoccupation to replace the assets by profit distribution, which could be an extension of the old notion of socialist reproduction”.

Another aspect which can be remarked is the maintenance of the way of defining amortization. Conceptually, after having given up the soviet-type accounting system, amortization was defined in Romania in Law no. 19/1994, on the amortization of the capital immobilized in tangible and intangible assets (Art. 1), as being a “recovery of the physical and moral wear of the tangible and intangible assets, to rebuild the engaged capital”. This definition differs from the one existing at international level. In IAS 16 – Tangible immobilizations, paragraph 6, amortization is defined as being “an accounting allocation of the acquisition or production cost of an asset over the period in which it produces benefits”. Also, in France, according to article 8 of the Code de Commerce, amortization is defined as follows: “Depreciation of an immobilization is, subject to the provisions of paragraph 2 here below, determined by amortization. This translates into the distribution of the cost of the asset over its probable utilization duration [s.n.] after an amortization plan. Any significant modification of the utilization conditions of the asset justifies the review of the plan under execution”. We think that the way of defining amortization in Law no. 15/1994 originates in Romania’s accounting past, specifically in the period 1949-1989, when the stress fell on the recovery by amortization of the inventory value.

In the socialist economy, another often used concept was that of recording the wear of inventory objects. Thus, “Different recording of the wear of inventory objects as against that of the fixed assets is determined by the fact that these inventory objects is not financed from investment funds, but from production funds.” - V. Puchita et al. (1981).

According to the “Regulations for the application of Accounting Law 82/1991”, the inventory objects are provided for as a distinct category within the stocks. The concept was also taken over from the accounting system existing in the pre-revolution period. This aspect was commented in the specialized literature by N. Feleaga, I. Ionascu (1993 (II): “the inventory objects must be treated as immobilizations (assets with a useful life over one year irrespective of their value), while others must be included in the category of stocks under the form of consumable materials (without recording a distinct wear thereof, useless recording, in fact, from the point of view of the financial accounting targets)”.

Another accounting treatment inherited from the socialist times is the accounting of goods evaluated at retail price using the method of the permanent inventory. The aspect was pointed out and commented by M. Dumitrana and M. Negrutiu (1996) and by N. Feleaga and I. Ionascu (1998). Both papers advance the idea that the method is agreed with by the majority of retail and public nourishment companies in Romania, because it was practiced in the period of existence of the planned and centralized economy, when the selling price was characterized by a unique and fixed character for the same sort of goods. On the one hand, M. Dumitrana and M. Negrutiu (1996) think that: “the method presents numerous disadvantages and in addition it allows either the breach of certain accounting principles or the distortion of the patrimonial situation and the financial result”. In a market economy, where the price of an object is represented by the resultant between supply and demand existing for that object at a certain moment in time, it is difficult to evaluate a commodity at the moment of input at the selling price. On the other hand, N. Feleaga and I. Ionascu (1998(II)) bring economic and administrative arguments against the use of this method and make the following comments with regard to the legal framework at the basis of this accounting practice: “The regulations regarding the application of the Accounting Law no. 82/1991 does not provide for the possibility of evaluating goods at their selling price, but the Methodological Norms of use of the accounts resent the account 378, Price differences of goods, which helps keeping of records of the commercial addition (commercial margin) belonging to the goods existing in the companies with commercial activity”.

Period 1997-2000

This new accounting system was applied in Romania without serious modifications up to 2000. The premises of a change have taken shape since the spring of 1997, when the Development Program of the Accounting System in Romania was started. This program was initiated by the Ministry of Finance together with the Institute of Chartered Accountants of Scotland and Know How Fund for Romania. The role of this program is to harmonize the accounting in Romania with the European accounting directives and international accounting standards. From a historic point of view, three more significant problems regarding this process are pointed out generally in the written law, patrimonial countries. In the case of Romania as well, at the time there existed arguments and counter-arguments regarding implementation of the international accounting norms, in the elaboration of which predominates the Anglo-Saxon influence. With regard to the existing incompatibilities, N. Feleaga (1999 (I)) was noting several aspects, which are synthesized in table 2

Table 2. Incompatibilities between Romanian reality and Anglo-Saxon reality

Romanian reality	Anglo-Saxon reality
1. The public power manages in a large measure the economic activity	1. The market adjusts the majority of the material and monetary fluxes
2. Predominantly banking financial system	2. Predominantly stock-market financial system
3. Accounting is connected to taxation	3. Accounting is disconnected from taxation
4. Public type normalization system	4. Private type normalization
5. Inductive-type normalization using the Accounts Plan as a tool	5. Deductive-type normalization through the Conceptual Accounting Framework (General)

Later on, commenting on the regulations issued by the Ministry of Finance, M. Ristea (2000) thought that: “Romania’s option for the IASC Conceptual Framework raises the issue of the contradictions which may appear on the route: the concepts defined in the Conceptual Framework which are of Anglo-Saxon essence, the IAS provisions which are also of Anglo-Saxon essence and the European Accounting Directives. Recognition of the contradictions between the Anglo-Saxon and the European cultures is formalized by the “Study communicated by the Federation of European Experts on the Comparison between the European Directives of

the European Union and IAS”, which stipulates: “The companies and their accountants must apply IAS in the national context – be it represented by the national Law or by the understanding of the European Directives in their respective country”. For our country, the option of which is for adherence to the European Union, the accounting system can only be the European one, as elaborated by the European Directives”.

But making consistent the accounting treatments and the financial-accounting information with the international reality represents a trend which must be followed sooner or later even by Romania.

Where the phenomenon of harmonizing in accounting plane the national legislation with the European and international requirements is concerned, at the time took shape two solutions: “that of re-treatment according to the international norms of the national financial situations and that of editing from the beginning the national financial situations according to the international norms for the companies quoted on the reference financial markets” - M. Ristea (1997). With reference to the editing of the financial situations according to the international accounting norms there was noticed the appearance in future of the dichotomization phenomenon, that is the companies quoted on international financial markets will report according to the International Accounting Standards, while the small companies will be subject only to the national legislation - N. Feleaga (1997).

Period 2000-2002

In Romania, going over the presented incompatibilities, there were created the premises for the application of the international accounting standards at the level of large companies. In this respect, there was issued Order no. 403/22.04.1999 of the Minister of Finance for the approval of the accounting Regulations harmonized with Directive IV of the European Economic Communities and the International Accounting Standards, which were later replaced by Order no. 94/29.01.2001 229, with the same title.

According to Order no. 94 of the Ministry of Finance it is provided to apply gradually, between of 1999-2005, the accounting Regulations harmonized with Directive IV of EEC and the International Accounting Standards to large and medium companies. Starting from January 1, 2006, outside these regulations will be left only the companies which, according to the laws in force at that date, will belong to the category of small and medium companies. Application of these regulations implies that the companies which meet certain criteria will start to draw up reports according to the International Accounting Standards. In this respect, application of the standards must be made in their integrity, modifications, adaptations or omissions being forbidden. Also, at the time, the accounting regulations should have been consistent with the requirements of Directive IV of EEC. Also in view of harmonizing with the European Directives and International Accounting Standards there was issued Order no. 772 of June 2, 2000, for the approval of the norms regarding the consolidation of accounts. For the companies which reported or were to report according to the international regulations, there should have been taken into calculation the provisions of IAS 22, Combinations of companies, IAS 27, Consolidated financial situations and accounting of investments at branches, and IAS 28, Investment accounting in associate companies, as well as those of the international legislation.

Where the differences pointed out between Directive VII of the European Economic Community and the international accounting norms regarding consolidation are concerned, we will attempt to see what alternative was retained by the Romanian regulations. Thus, with reference to the exclusion of a branch from consolidation on grounds that it does not provide an accurate image, Order no. 722 retained the requirement provided by Directive VII.

The definition given the associate company is the one presented IAS 28 - Investment accounting in associate companies, but it is supplemented by conditions regarding the percentages of holding of the rights of vote, as stipulated in the Directive (art. 33.5). The definition given the branch is the one formulated in IAS 27 - Consolidated financial situations and accounting of investments at branches.

At the level of consolidation norms in Romania we find the successful attempt to take into account both the European regulations and the international ones in the field.

2003 – Present Day

Since January 1, 2003, the companies which do not meet the reporting criteria according to the provisions of Order no. 94/2001 will draw up financial situations harmonized only with the European Directives, aspect regulated by Order no. 306/2002. In outline, the differences are found at the level of the stated accounting principles.

Although ever more accent is placed on the qualities of the accounting information and the consequences emerging there from, an important element in the creation of the accounting treatments belonging to various transactions is represented by the accounting principles.

We notice that, except for the non-compensation principle, the accounting principles existing in the Regulations of application of Law no. 82/1991 are the ones provided in Directive IV of EEC. The non-compensation principle is preferred to the separate evaluation of asset and liability elements principle, from our point of view, this being only a difference of form and not substance.

As for the comments on the principles which act explicitly in Romania, at the level of companies which apply international accounting standards, we will make them starting from the following statement of A. Roberts (2001): The Order [403/1999, also valid for 94/2001 – author's note] prescribes the use of some accounting principles to draw up the financial situations which owe their origin more to IAS 1 than to Directive IV". In this respect there are noticed the following aspects:

- existence of the non-compensation principle, provided in IAS 1, but inexistent under this form within Directive IV. The Directive provides (7.31.1.e) that: "the elements of the assets and liabilities posts must be evaluated separately". Interesting, in our opinion, is that Order no. 403/1999 and later 94/2001 retained in the sphere of explicit accounting principles, both the non-compensation principle and the one of separate evaluation of the assets and liabilities elements evaluation, although the concept of liability, a concept of legal resonance, is not agreed with at the level of the international accounting standards, being preferred the concepts of own capitals and debts;
- adoption of the materiality principle, the fact that it was not mentioned explicitly, the accounting result being attributed to the interdependence – the fiscal result which generates a request of detailed data in order to draw up fiscal reports. This principle is not present in Directive IV;
- adoption of the substance over form principle.

Where the presence of the substance over form principle in the accounting regulations of a country of patrimonial tradition is concerned, with an accounting dominated until recently by legal aspects, the opinions are divided. Thus, R. Teller, quoted by I. Ionascu in GCF (1999), thinks that "the affirmation of the principle <<substance over form>> does not challenge the patrimonial basis of accounting but strengthens it". This means that, in case the form and legal substance do not match, substance must prevail, leading to the legal re-qualification of the operation. In other words, a new legal "framing" of an operation is reached, according to their.

It is the case of the leasing operations accounting from the German accounting doctrine, or that of goods sold with the clause of reserve of ownership from the French doctrine - I. Ionascu in GCF (1999). On the other hand, A. Roberts (2001) thinks that "incorporation of this principle [prevalence of substance over form – author's note] in the Romanian accounting regulations introduces a potential contradiction with other components of these regulations". The philosophic contradiction refers to patrimony and prevalence of the substance over form principle. Thus, "on the one hand, volume I [of the Regulations – author's note] uses the concept of patrimony, on the other hand, volumes II and III [referring to the General Framework and International Accounting Standards – author's note] reject it". The given example is the classic one, the treatment of the financial leasing contracts.

Maintenance within Order no. 94/2001 of the principle of the intangibility of the opening balance sheet and introduction among the explicit accounting principles the principle of separate evaluation of the assets and liabilities denotes, in our opinion, the fact that there was attempted the incorporation in the national legislation, in equal shares, the principles provided by the European and international regulations.

Explicit non-incorporation of the principle of evaluation at acquisition price of production cost could be justified by the inflationist environment which characterizes the Romanian economy.

However, on the occasion of the first recognition in accounting, the principle is active all over the place. On ulterior recognition (balance sheet) there could appear, however, yet other evaluation rules.

Also, the non-explicit mentioning of the accurate image as a principle we think is in connection with the fact that in the Anglo-Saxon environment it is considered a requirement that must be fulfilled by the financial situations (an optic found at the level of IASC/IASB), and in the continental environment it is considered an object (a point of view emerging also from din Directive IV of EEC).

Seeing that the preceding regulations in Romania considered the accurate image a requirement (the balance sheet must present an accurate image), it was preferred to maintain the same point of view.

According to Directive IV of EEC (Art.31 -f), the opening balance sheet of an exercise must correspond to the closing balance sheet of the previous exercise". This evaluation rule is met in the current legislation of Romania under the heading of intangibility principle (the opening balance sheet). The action of this principle influences the treatment applied in connection with fundamental errors discovered after the drawing up and approval of the balance sheet. The principle does not allow correction of an error in the balance sheet of the closed exercise. This must be done in the balance sheet of the current exercise.

Fundamental errors are the errors discovered in the current period and which have an important significance threshold, so that the financial situations corresponding to one or several previous periods cannot be considered as presenting confidence on the date of issuance - IAS 8 – The net profit or the net loss of the period, fundamental errors and modification of the accounting policies. According to this standard, there are two ways of correcting fundamental errors: basic treatment and alternate treatment.

The basic treatment involves the modification of the initial balance of the Reported Result by the amount representing the correction of a fundamental error recorded in a previous period. In addition, the information required to make comparisons must be recalculated in case this is possible.

The alternate treatment allowed consists in the modification of the net result corresponding to the current period by the amount corresponding to the accounting error which has to be corrected. The comparative information must also be presented in the same way in which they

were reported in the financial situations of the previous period. On the other hand, if this is not impracticable, pro forma additional information must be presented, prepared according to the requirements of the basic treatment.

The basic accounting treatment is recommended by the Committee of International Accounting Standards and applied in the Anglo-Saxon countries. The process of harmonization of the accounting in Romania both with Directive IV of EEC and the International Accounting Standards lead to the maintenance of the principle of intangibility of the opening balance sheet (stated by Directive IV).

This forbids in fact application of the basic treatment requested by IASC/IASB. Consequently, the only applicable treatment is the alternate treatment.

In our opinion, introduction of the substance over form principle and the significance threshold principle for companies which repost according to international accounting standards was necessary. As for the principle of intangibility of the balance sheet, even if this is among the principles stated by Directive IV and is presented in the Accounting Law, it could have been abandoned. Anyway, its mentioning among the explicit principles does not represent a major inconvenience.

As for the companies which do not report according to the international accounting standards (they apply Order no. 306/2002), conceptual dissensions generator seems to be only the inexistence of the substance over form principle. In this respect we specify that, by the regulations existing in the field of leasing there exists a demarcation line between the financial leasing contracts and those of operational (exploration) leasing but, for the companies subject to Order no. 306/2002, a conceptual framework was not created, probably due to the fact that there was followed ad litteram the line of harmonizing with Directive IV of EEC, not taking into consideration that there exists sometimes a substance which also requires a form.

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Mecanismul normalizării în perioada de tranziție la economia de piață în România, din perspectiva cerințelor Uniunii Europene și ale IASC/IASB

Rezumat

Sistemul contabil practicat în România până în anul 1990 nu mai corespundea necesităților utilizatorilor de informații contabile dintr-o economie de piață. Ministerul Finanțelor și profesorii universitari din România au găsit soluții de normalizare a contabilității, soluții care au fost puse în practică în trepte. Articolul prezintă etapele reformării sistemului contabil din România în perioada de tranziție la economia de piață.