

Accounting Communication Considerations and Recommendations to improve it

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Abstract

The present paper attempts a critical approach of the efficiency of accounting-financial communication, especially through the Synthesis financial reports.

The paper identifies the communication problems, their causes, it defines and delimits the various aspects of informational efficiency and proposes ways of improving it.

Keywords: accounting- financial communication, synthesis financial reports, efficiency

Introduction

Nowadays, the financial communication faces a wide range of obstacles, in terms of homogenizing forms of communication. Moreover, under the conditions of increased globalization, the communication on capital markets has started to face a visible phenomenon of change. Thus, people from different corners of the world, although they managed to overcome the barriers of the language of communication, among various international collaborations they face the huge differences regarding the purchase and delivery of the financial information. It is well know that each decision is based, particularly, on the information from the financial statements. But both, the form of these synthesis financial statements as well as the conceptual language used to elaborate them presents numerous conflictual hints.

In decreasing the effects of the differences of financial – accounting culture IASB left its mark also (The International Accounting Standards Board), having as main objective the homogenization of the financial report, the irrefutable proof being the

gathering of international financial report standards IFRS (International Standards for Financial Report).

Material and methods

The article starts from the premise that they are issues generated by the communication of accounting information to users. In this point, the article analyzes theoretically the problems noticed during the evolution of the modern Romanian accounting system, as they are mentioned in the specialized literature

Literature review

The problem of preparing the financial statements was the object of many studies. Thus, the standardization bodies and accounting researchers, practitioners and theorists were concerned about the extent to which the financial statements through their contents satisfy the information needs of users. International Accounting Standards and International Financial Reporting Standards, the European Directives in the field of accounting and the work of authors such as Stancu I. (2008), Duțescu A. (2000,2003), Cotleț D., Megan O., Pistol I. (2007), Bătrâncea I. (2006) have analyzed this issue by demonstrating the limits of accounting communication through annual financial statements.

Results and discussion

Romania currently faces some economic, political, social, cultural irreversible processes which are of great interest for accounting:

- increasing the number and power of the transnational companies;
- globalization of the economies, mainly of the financial markets;
- development and emergence of new financial products.

To adapt to this new reality, the Romanian accounting system has to harmonize with the provisions of the communitarian aquis and implicitly, the effective implementation of the International Standards for Financial Reports. At the „reconciliation table”, all the producers and users of financial – accounting information must be invited. Although IASB meets almost all categories of users of accounting information, the role of the Romanian standardizes remains essentially in the process of convergence and regulation of the profession of accountant, especially because of the peculiarities of the Romanian economic environment. Gratifying is that the latter have realized the

need to align to the norms of the communitarian aquis in respect of financial-accounting report. Once you start down this road, there is no turning back. Therefore, through the normative acts which were implemented, commendable contributions in terms of assimilating the international conceptual accounting framework were made.

The start of harmonization of the Romanian accounting legislation with the regulations of the European Community was made with the publication of the OMF 403/1999 „The Accounting Regulations Harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards”. Two years later the OMF 94/2001 was issued by which additions were made to the process of connection with the provisions of the IVth Directive of EEC, with the mention that small and medium sized companies will apply the IAS provisions, but in a simplified form. Later by OMF 306/2002 the regulations regarding the simplified financial report statements, harmonized with the European Directives, were approved. The OMFP 1752/2005 provides a removal of the Romanian conceptual accounting framework from the provisions of the International Accounting Standards, preferring a focus on the vision dictated by the European Directives. Perhaps, hoping for a late reconciliation, the legislative authorities issue OMFP 3055/2009 brings no alterations to the format of the annual financial statements, but produces changes at the level of accounting strategies and policies.

All these normative acts were intended to identify the optimal solution for „the recipe” of an impartial financial report, which should aim the revealing of the true picture of the economic state of an entity.

The question mark raises when, although the user of accounting information gets this information in due time, at a low cost, the adjustments considered theoretically correct, differ significantly from the actual values registered in the future.

The explanation of the obtained estimation differences consists in not obeying a basic working hypothesis, used in the theory of capital markets and not only and namely the hypothesis of the financial markets.

In his extensive work (2008, *Finanțe - piețe financiare și gestiunea portofoliului*, București, Editura Economică) professor Ion Stancu believes that „An efficient financial market is that market in which the arbitrage opportunities of the differences between the market

price and the actual value of the investment in buying the financial title are missing”.

The financial efficiency may be analyzed from three different points of view: informational efficiency, organizational efficiency and operational efficiency.

Interesting for us in the context of work is the informational efficiency. Through the informational efficiency, the market ensures the reflection of all relevant information, related to the transacted securities and to the characteristics of the market, in prices, without omissions and distortions.

Given that, through informational efficiency we understand a cumulative integration of historical data, of the information available and of the privileged information, owned only by shareholders and managers. In his study, Eugene Fama made a pyramidal distinction regarding the concept of efficiency of the financial markets, defining three forms:

- the weak form, in which the prices of the assets reflect all the historical information, without the possibility of higher gains obtained by some operators on the market, only with the help of this information;
- the semi-strong form, in which the prices of the assets incorporate not only the historical information, but all the information that are available related to the characteristics of the assets;
- the strong form, in which the prices of the assets reflect not only the information related to the historical evolution of the current assets, but the privileged information also, held by shareholders and managers.

Preparing the financial statements, although tacitly dictated by the provisions of the European directives in that field, must take into account the specificities of the national economy, the needs of the social actors, their own financial culture and last but not least, the influence of the political factor, which exercises a pressure on the accounting profession, through a sudden pollution of heavy tax items.

In addition, we renounced to an adjustment to IAS provisions, which offer more flexible solutions regarding both, the format of the financial statements as well as the accounting strategies and policies, and we choose for a variant of the European directives, which are more rigid.

The task of the Romanian standardizers in the process of harmonizing the Romanian accounting framework with the proposals of the international accounting legislation is not easy at all, but we

consider the approach to the proposals of IASB to be convenient and, at the same time, noting some innovations brought together with the FASB works. (Financial Accounting Standards Board). Although, at European level, a unification of the intra-communitarian countries is desired, the provisions of the European Directives are not a solution. We consider the solutions submitted by IASB projects much more appropriate to ensure the success of the process of European accounting convergence.

Last, but not least, hard works have the appraisers and the financial auditors, by their legal representatives, ANEVAR and, respectively, CAFR. You shouldn't forget the trade – union representatives or the bank creditors, taking into account that there is the need for development of a social movement to protect the employees and a balanced mediation of conflicts as against to the main owners of capital funds in the continental countries.

The accounting information is elaborated taking into account the accounting strategies and policies, permitted by law and adopted by the entity, hence, of a nuanced manner, giving birth to the concept of „creative accounting”.

Since the accounting treatment used by the entity in elaborating the financial strategies have multiple capacities of calculation and interpretation, it is necessary a certification of the quality of the accounting information, in order to eliminate or at least to diminish the effects of creative accounting.

A reasonable conclusion regarding both the accounting engineering's and the calculation errors encountered or the deficiencies of the informational system, can only be issued by the financial auditors, but as SNA 200 mentions that „The objective of an audit of the financial statements is to express the auditor's opinion whether the financial statements of the economic agent are prepared in all significant aspects, according to the requirements established towards these financial statements.”

In turn, the investors, creditors and other users of the accounting information turn to the related services of a special category of specialists, namely the appraisers. These are those who use the information from the financial statements elaborated by the entity and approved by an independent auditor, in order to carry out various economic and financial analyses, which in particular, aim at assessing the entity in terms of market. Both, the profession of auditor and that of appraisers are subjective, like the profession of accountant, to the

process of harmonization with the international profile provisions. Thus, through the National Audit standards (SNA) and respectively the National Evaluation Standards (SEV), one intends to align to the requirements of the European legislative framework in terms of audit of the financial statements and evaluation of the companies.

Nationally, the profession of audit has been regulated by OMF 75/1999, regarding the activity of financial audit. The 44 Audit Standards, harmonized with the collection of International Audit Standards ISA, establish, among other things, the general framework for auditing the financial statements, the responsibility of the auditors, the audit planning, the risk assessment, the selection of audit evidence, references to the conclusions of the auditor and reporting upon the financial statements.

As for the relationship accounting – evaluation, the connection proves to be very tight, as most problems claimed by the specialists in elaborating the financial statements of synthesis come from evaluating the financial structures.

Indeed, the problem of evaluation in accounting raises many questions regarding the basis of evaluation used, or the methodologies used. Next, we will point some aspects of the concept of value approached from the point of view of the standards of evaluation, compared with the concept of value used in accounting.

The Committee of International Valuation Standards (IVSC) is trying to convey a more accurate definition of the concept of „market value”, considered by the appraisers as being the fair value of the financial balance structures. By these standards, a set of alternative bases of evaluation are defined, references are made to the evaluation report (IVS), norms of evaluation are established, which are useful to the financial reporting, or for guaranteeing loans (IVA), or evaluation practices are proposed for various financial structures (GN) as evaluation of the movables (GN5) or evaluation of properties (GN1).

The Romanian standardizers have managed to synthesize as part of the National Evaluation Standards (SEV) both the section of conceptualizing the evaluation approach and the practice of such a profession. An important milestone in the process of reformatting the current accounting system is that of approaching the concept of „fair value” in accounting, which is well defined in SEV.

This concept can take many forms, in terms of its calculation, because of the differences of opinion arising between different users of

accounting information. Therefore, an appraiser prefers „the market value” of an asset, given that there is a market where that asset can be transacted. But a manager chooses for a fair value to reflect the economic potential of the analyzed asset, namely the use value, determined by updating the future benefits obtained by using the asset assessed in the activity of the holding entity.

Therefore, the format of the financial statements has to be established in collaboration with all the participants in the overall activity of the entity. As for the financial fund of the reports, the solution of a true image of the economic situation of a company can be feasible only if the process of deregulation results in success. In the last years, professional bodies such as CCECAR, ANEVAR or CAFR have managed to consolidate their decisional positions more and more in the approach of legislative regulation of the accounting and evaluation profession.

Also, despite the many differences between the rules issued by IAS, respectively FAS, which are also underlined in the paper „Comparative accounting systems” of Professor N. Feleagă, the current changes describe a tendency to homogenize the international accounting referential.

Conclusion

All these confirm the necessity of a new direction which the Romanian accounting system has to follow to meet the needs of the users of accounting information. Although, by the new regulations in the matter, our country is moving away more and more from the spirit of the conceptual IASB framework, we keep hoping for a new stage, in which the Romanian standardizers choose a rather economical approach, released from the tax burden, which focuses on an extensive information. Their mission seems quite difficult, a cause-effect „analysis” can offer viable solutions to the problems the accountants in our country are facing. It is also true that any law is subject to interpretation, but by establishing some methodological norms of clear and concise implementation, based on stimulations made in advance, one can also create an efficient implementation framework. Moreover, an improvement of the financial reporting must not be based on providing information in large quantities, but rather on providing less, but qualitative information.

Providing foreseeable information or renouncing step by step to the accrual accounting, drafting of reports meant to inform the employees or to reveal the way of forming the indicators of added value and of the contribution of each production factor that contributes to its creation are only a few ways to solve the form and content problems of the approach of financial communication.

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