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The role of the accounting normalization and harmonization in the context of an accounting communication

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Abstract
Providing a common accounting language has become not only a topic of discussion in international accounting circles and international business, but also a necessity manifested with increasing intensity, particularly in the European Union. In an attempt to ensure access to accounting information provided to all users of financial accounting information at EU level and globally, is absolutely necessary especially an accounting normalization, harmonization generally applicable financial statements, which are Moreover, the main source of financial and accounting information of international interest.
Keywords: contabilitate, armonizare, normalizare, IAS, IFRS.

Introduction

An economic entity may carry on activities abroad: it may perform transactions in foreign currencies or it may have foreign operations. To include foreign currency transactions and foreign operations in the financial statements of an entity, transactions must be expressed in its reporting currency and the financial statements of foreign operations must also converted in its reporting currency (R. Balun, 2012). Thus, the annual financial statements must be prepared in an internationally accepted format, but more importantly it must provide data that understand and meet the interests of foreign business partners.

The global economic boom registered in the last decades, the development of international financial markets, the increase of the number of multinational companies are just some of the causes that led to the increased need for training and use of a common international accounting language because “this language has often proved insufficient or inconsistent with accounting language belonging to other cultures“ (A. Breuer (Şofican), 2009). In other words, the language of accounting, due to the global economic context should provide minimum information necessary for understanding and interpreting data of common interest, all the more so as it “became an instrument of distribution of wealth among individuals and social groups” (I.P. Pantea, Gh. Bode, 2005, page 17).

The accounting harmonization and normalization issue was and still is a debated topic in the literature, there are some studies that approached this issue from different points of view: economic, accounting and even political, considering that political actors (government and parliament) have a significant role in setting accounting regulations. In this respect we mention studies that have analyzed the issue of accounting harmonization from a historical point of view (Zeff, 1993, 2002, 2005 and 2012), from an empiric point of view (Bertomeu and Magee, 2011) or from an analytical point of view (Johnston and Jones, 2006; Ramanna, 2008). (D. Windisch, 2012)

Accounting normalization and harmonization

Since early 2000 we started the effort to create a single set of accounting standards. The first step in providing a common language for entities operating in the financial markets and international capital, was the start of the accounting normalization, process which primarily aimed “defining the concepts, principles and accounting rules based on a precise terminology identical for all producers and users of accounting information and their application in practice in order to ensure the comparability in time and space, the relevance and credibility of accounting information”(A.Ştefănescu, 2005, page 31).

Precisely because there was a true “arsenal of power and economic interests” on the financial and capital markets in the recent decades (L.

Cernusca, 2004, page 13), against the intensification of efforts of the main bodies involved in developing and implementing a “universally understood accounting language” (D. Stephen O. Spătăcean, M.Bogdan, M. Nandra, 2006), occured the need for the international accounting harmonization process. If we refer to the etymological meaning of the word “harmonization” as defined in the Explanatory Dictionary of the Romanian language, i.e. harmonization is “the act of putting in harmony”, “to make something be or not to be in harmony” (Dictionary Analysis of the Romanian language), and considering that we are talking about accounting harmonization, we conclude that accounting harmonization is the process of establishing a common framework to which subscribe all the efforts of the national and international accounting standardization and regulation bodies in order to achieve a set of standards for financial-accounting reporting.

Normalization and accounting harmonization should not be seen and interpreted separately and singularly as two different processes, but as a whole between them existing relarions of intercondiţionalitate and mutual coordination. First, both processes have the same goal: getting a common international accounting language. Then, the normalization process is performed on two levels, one national through the involvement of national bodies, and one international, involving representatives from different countries, normalization that ignores the national character of any given country or the socio – political aspects of the countries participating to the development of standards. The international accounting standardization would not be possible without the accounting harmonization process, which, unlike the normalization notion, cannot be divided through the national - regional – international report. For a better understanding of the relation between the two processes we should not forget that the international accounting harmonization leads to the improvement of national rules and standards, often differing from one country to another, to make them comparable.

The fundamental purposes pursued by the normalization process are (L.Feleaga, N. Feleaga, 2008, page 174):

- determining the terminology and general accounting principles;
- defining the information presented in the financial statements and the presentation of such information;

- developing a chart of accounts and accounting outline of the various operations.

Another concept found in the literature on the problem of finding a common language in the financial accounting field is the accounting convergence, which often is defined by reference to IAS, IFRS and U.S. GAPP. The term convergence is used to express both the objective (single set of high quality international accounting standards) and the used routes (improvement of IFRS considering the U.S. GAPP stipulations and the removal of differences).

Reference points in the inetrnational accounting normalization and harmonization

Although it differs from country to country, and bears the socio-political national imprint, the normalization and accounting regulation device is defined by the following elements" (M. Ristea, CG Davies, C. Ioanăş, A. Irimescu, 2009, page 12):

- accounting or conceptual framework;
- accounting norms and standards network;
- accounting regulatory system;
- general account plan and the accounting schedule of the economic and financial operations.

The first dimension of international accounting standardization took place in the European Union, the main body involved in the development of the general accounting framework being the Commission for the development of international accounting standards, (IASB), which was created in 1973 and brings together 143 professional accountancy organizations from 104 countries, aiming the development and publication of the International Accounting Standards referring to the presentation of the financial statements as well as ensuring their acceptance and application worldwide. Although these standards are not mandatory, they exert a strong influence on national accounting practices and regulations. The general framework refers to the preparation and presentation of financial statements with general purpose, elaborated and presented at least annually.

A special role in terms of accounting harmonization at European level had the Fourth and the Seventh Directives. *The Fourth Directive - was issued by the Council of Ministers on 25 July 1978* and published in the Official Journal no. 1222, 14/08/78 page 0011, based on Article 54 (3) (g) of the Treaty of Rome, being a compromise between the legislative approach of financial reporting and the recognition of the fair view primacy.

The most important amendments included the Fourth Directive are (L. Feleagă, N. Feleagă, 2007, page 331):

- the right awarded to the Member States to use the evaluation methods that consider the effects of inflation;
- the conditions that allow small businesses to be exempted from costly rules concerning disclosure and financial statements.

The most important stipulation of this Directive is contained in Article 2 (A.Ştefănescu, 2005, page 41), where the structure of financial statements is presented: the balance sheet, the income statement and the appendix. Article 2 also provides the main objective of harmonization, namely that the financial statements must provide a fair view of the assets, the financial position and the results of companies. The same article stipulates that in order to achieve the main objective, it is necessary for companies to submit additional information as provided by the Directive, or in exceptional cases to derogate from certain details of the directive, in which case intervenes the appendix of the financial statements, where additional information will be presented.

Directive IV - also provides the evaluation rules referring to the historical cost convention, the replacement value, ie the revaluation. Given the financial globalization and the development of international accounting standards, following the adoption of this Directive, the European device incorporated a new section which provides an evaluation based on fair value.

„Currently, the stipulations of the Fourth Directive are applied throughout the European Union and even in other countries that are not EU members but who hope to join it" (C. Ionescu, 2003, page 169 - 170). The *Seventh Directive* - adopted in 1983 - it includes 51 articles, the text itself is preceded by 9 "reasons" that specifiy its objectives, aiming the consolidated accounts, i.e. the financial statements, presented and published by groups of companies.

The groups of companies, formed around a company that ensures their management, bring together legally independent companies but closely linked together by shareholding and contractual relationships.

At the global economy level, the groups of companies have increasingly evolved in number and size, which led to the emergence of some regulations, especially as they represent a special category of economic entities.

Only the accounts elaborated by the so-called mother-company may not provide sufficient information, hence the need for accounts that reflect an overview of the activities and progress of a group, called consolidated accounts.

The Seventh Directive contains 6 sections (A.Ştefănescu, 2005, page 46): conditions for drawing up consolidated accounts; modes of elaborating the consolidated accounts, the consolidated management report, the consolidated accounts control, transitory directives, final directives.

The Member States shall require from any undertaking an obligation to draw up consolidated accounts and a consolidated annual report if the economic entity (economic entity subsidiary):

The conditions of elaborating the consolidated accounts are set out, in particular, in the first article of the directive, which stipulates (C. Ionescu, 2003, page 177):

The Member States shall require from any undertaking an obligation to draw up consolidated accounts and a consolidated annual report if the economic entity (economic entity parent):

a) has the majority of voting rights of shareholders and members of an enterprise (economic entity subsidiary);

b) has the right to appoint and dismiss most of the members of the administrative, management and control body of an enterprise (economic entity subsidiary) and is at the same time, shareholder or associate of the company;

c) has the right to exercise a dominant influence over another enterprise (the subsidiary economic entity) to which it is a shareholder or associate, by reason of a closed contract or of a clause in its regulations;

d) is the shareholder or the associate of an enterprise and: if most of the members of the administrative, management and control body of the company (subsidiary), operating during the current year and prior to the elaboration of consolidated accounts, have been appointed only by the effect of the exercise of voting rights; if it controls alone, pursuant to an agreement with other shareholders or members of that enterprise (subsidiary), the majority of voting rights of the shareholders or affiliates.

The Member States may require the elaboration of consolidated accounts and a consolidated annual report, when the economic entity (parent economic entity) holds an interest, as in Article 17 of the Fourth Directive (percentage not exceeding 20 %), in another economic entity (subsidiary) and:

a) if it actually exercises a dominant influence over it, or

b) when itself and the economic entity subsidiary are placed under its single leadership.

The Seventh Directive also deals with cases of exemption from consolidation, cases of small enterprises and cases of subsidiary elimination.

The convergence IAS - IFRS - Accounting convergence concept emerged in 2001, once with the objectives of the International Accounting Standards Board (IASB), the main objective being: "to work in an active way with national bodies of standards regulations in order to identify quality solutions for the convergence of national accounting standards with the standards issued by IASB "(A. Pop, 2004).

The new independent body, the International Accounting Standards Board (IASB), preceded the International Accounting Standards Committee, and has as main objective the development of accounting standards that are applicable worldwide. These standards are called International Financial Reporting Standards (IFRS) and the interpretations issued by the Committee on International Financial Reporting Interpretations (IFRIC) bears the name of IFRIC Interpretations. Since the development of standards until present IAS and SIC have undergone a series of changes concerning, on the one hand the reduction of the accounting treatment options and, on the other hand, changes that enrich the existing accounting treatment. So far eight IFRSs, 16 IFRIC and 11 IAS were developed (IFRS official rules issued from 1 January 2009).

The need for the review and modernization of the Accounting Directives primarily emerged from the fact that in terms of standards fund, they have not been changed since their adoption, although the admitted accounting practices have evolved considerably. The first review focused on modernizing and updating the EU accounting texts, and was achieved through the adoption of Directive 2003/51/EC of the European Parliament and of the Council of the European Union. Secondly, the need to ensure equality of data processing by companies that apply or not the IFRS regulations, led to the elimination of incompatibilities with IFRS standards.

The IAS and IFRS philosophy is to provide a general guide, easy to understand and use, which is based on principles leaving more room to professional judgment. In some countries the International Accounting Standards are applied as they are issued by the IASC / IASB. Other countries national standards are developed in the spirit of IAS / IFRS. Finally, there are countries where the normalized body publishes the international standard as well as the national one. The national standard prevails (R.Petriş, 2009).

IFRS standards developed since the beginning of 2005, are used today in 115 countries being mandatory for businesses in Europe, and a new wave of adoption of standards is produced in countries such as Brazil, Korea, Canada, Japan and Malaysia.

The convergence U.S. GAPP - IFRS, although developed by the IASB IFRS regarded as a direct result of the convergence project, however there are some differences (Stefania Maria Cristea, 2007):

- differences in the choice IAS 1 (Presentation of annual financial statements) on the financial statements compared to the previous year;
- differences for IASB to develop a proposal on the debt refinancing of IAS 1 (Presentation of annual financial statements);
- differences for which IASB develops a proposal to FASB on IAS 17 (Leasing contracts) relating to leasing operations;
- differences in FASB recommendation to address the IASB (IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, referring to accounting policies);
- differences for which IASB recommends the FASB approach, as in IAS 12 (Income Taxes), regarding the classification of deferred taxes;
- differences occured after the convergence process regarding the revision of IAS 39 (Financial Instruments: Recognition and Evaluation) regarding options at fair value;
- differences for which FASB elaborates a proposal to IASB, regarding the refund debts, from IAS 1 (presentation of annual financial statements).

Regarding the adoption of IFRS by the United States a series of studies have been conducted that highlight the economic consequences and the effects on users of accounting information. Thus most studies conducted in this regard stress out that adopting IFRS would improve the quality of reporting in the U.S., considering the set of US GAPP stipulations that „is a set of high quality standard" (L. Hail, Ch.Leuze, P. Wysocki, 2009).

The convergence between IFRS and U.S. GAPP is not an easy process to do, due to a number of factors (including accounts by taxing its politicization, fighting between U.S. representatives want to impose regulations require U.S. GAPP and EU representatives who try to customize standards issued by IASB), the success of this process depends on IFRS recognition worldwide.

Conclusions

Financial accounting represents an area of interest ever since the appearance of the first forms of trade, especially in the context of globalization.

Today, accounting faces a deep harmonization process determined by the types of economic relations based on movements of capital on international capital markets (globalization). The purpose of accounting globalization is to transform the accounting system in a business and financial model, to inform the users of accounting information as accurately and quickly as possible. We can see the new facets of accounting information in the current economic relations; they must satisfy a number of categories of users participating in the economic stream. This challenge, i.e, minimizing the differences between the national regulations and creating a common language for all companies in the world can be found in the basic principles of IAS and IFRS, underlining the need for normalization, convergence and harmonization of accounting information, phenomena that have a significant influence on the future of accounting.

Globalization in accounting involves finding a common language of communication. In our opinion, finding a common language of communication would require the national normalization and regulation bodies in the financial accounting field, to develop their own standards based on the principles set out in IAS and IFRS corresponding to the needs but especially to the Romanian economy.

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