

Considerations regarding the Entities Accounting Politics

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Abstract

This study's objective is to highlight the awareness of the Romanian accounting environment regarding the development importance of the accounting policies in the present context of harmonizing the Romanian accounting system with the European directives and IFRS. The article brings into discussion the handbook for accounting policies and procedures, a comparison between the method in which the accounting policies are regarded in the Romanian accounting regulations, as well as in IFRS.

Keywords: accounting policies, procedures, European directives, accounting policies handbook, IFRS

Introduction

Before the appearance of the Romanian accounting standards harmonized with the European directs and IFRS (OMFP nr. 94/2001, OMFP nr. 306/2002, OMFP nr. 1752/2005, OMFP nr. 3055/2009), the accounting policies were asked to be filled via an Annex (the last one) of the balance sheet, without being given much importance.

As in the context of the Romanian accounting regulations approved by OMFP nr, 3055/2009 "Accounting regulations harmonized

with the European directives", the accounting policies are handled in the contents of 9.1 "Accounting policies". At the level of International Accounting Regulations (IAS-IFRS), rules of the implementations and approaches of accounting policies are handled in IAS 8 standard, "Accounting policies, changes of accounting estimations and errors". The objective of IAS 8 is to "subscribe the selection and modification criteria of the accounting policies, together with the treatment, and presentation of accounting information according to the changes of the policies, estimations and error corrections". (IAS 8, 2009, section 1)

Material and Methods

In this paper we use the comparative analysis between methods of showcasing the accounting policies in the Romanian norms (OMFP 3055/2009) and IAS-IFRS.

Literature review

In the 2000's, an important role in the development and research of the accounting policies had N. Feleaga and L. Malcui, true the publication of the books "Policies and accounting options. In their research, Feleaga and Malcui (2002) highlights in the first chapter, "Directives to define accounting concepts policies and options", two definitions of the accounting policies. The first is the definition given by the accounting dictionary of Oxford University, and the second one is the more detailed definition of Christopher Nobes.

Nobes in 1999, define the accounting policies as like "detailed methods of evaluation, measurements and recognition corresponding to the law, or accounting standards and practices, chosen by an entity".

Another contribution in the field of research, according to the accounting policies of an entity is attributed to M. Ristea. He made a distinction between accounting policies and methods. In 2000 he highlight the fact that "if accounting policies are options regarding the basic principles of evaluation, conventions, rules and specific adopted procedures at the compilation of the financial statements, then the methods are the treatments and procedures used by the entity."

Ristea and Dumitru in 2012, shows that "the accounting policies are the used steps by an entity orientated towards the adoption of principle, bases, conventions, rules and specific practices, to compile and present financial reporting".

The Business Dictionary define the accounting policies as been "principles, rules and procedures selected and consistently followed by the management of an organization (the accounting entity) in preparing and reporting the financial statements".

Feleaga et al. (2008) brings in the content of table of their book called "Policies and accounting options" a number of contributions in the field of accounting research regarding recognition, evaluation and presentation in the financial statements of the accounting policies, as like other policies regarding the financial reporting.

A. Dutescu makes a significant contribution to contemporary accounting publishing landscape in Romania. Through her book (Dutescu, 2003) she presents "a detailed model regarding the accounting policies applied in the enterprise X", model resulted from the experience gained by the collaboration with a number of significant Romanian entities.

The guide for understanding and using the International Accounting Standards (Dutescu, 2001) shows that "in the explanatory notes will contain the accounting policies adopted by the company to determine the values of the elements of the financial statements (examples: use of historical account, the value of the reevaluated assets and use of the current method for the conversion of currency)".

Results and Discussions

Accounting policies used by an entity must contain: general accounting principles according to the current regulations, calculation bases, methods and procedures, conventions, evaluation rules, specific practices adopted by the entity at the compilation and presentation of the annual financial statements. The Practical Guide to Order 3055/2009 shows that depending on the presentation for the accounting policies, these can be shown as:

- as a document (hand written) containing rules and accounting treatments according to the accounting regulations, as well as documents which are the basis of recording the economical and financial events;

- two or more documents which make up a whole, such as the case of entities which use complex software with standardized procedures and recordings.

It's necessary for the management of each entity to write down a manual of accounting policies and applying procedures for all the

operations taking place during the financial exercise, taking into account the entity's activity and the strategy used. The entity's financial and accounting specialists have to take part in filling the book of accounting policies and applying procedures. These specialists know well the activities which take place in the entity, as well as the strategy written down by the management. They must take into consideration the controls which ensure that the book is respected, when they are developing personalized accounting policies and procedures for the situation presented in the legislation.

In case of groups, is necessary to elaborate a set (handbook) of procedures regarding the specific activity and the adopted strategy. After finalizing the procedures created for the preparation of consolidated financial statements, this will be sent to all of the entities included in the group, contributing to the consolidated financial statements.

The main procedures and methods are presented as follows:

- evaluating and accounting procedures of the fix and intangible assets;
- evaluating and accounting the financial instruments;
- accounting the leases;
- accounting the public subsidies and the information regarding public support.
- valuation and accounting method for the cost of inventories and work in progress;
- accounting method for the tax results as well as for the deferred taxes;
- accounting method for the expenditures on pensions;
- accounting the effects of variations in foreign currency rates;
- criteria to establish the business segment and the geographical segment as well as methods to assign the income and expenses between segments;
- accounting the provisions for risks and changes;
- accounting the borrowing costs;
- recognition and valuation of the income and events occurring after the date of the balance sheet;
- policies regarding the accounting of groups;
- direct and indirect methods used for calculating the cash flow from operating activities, investments and funding;
- methods of valuation and accounting for the short-term and long term receivables;

- methods of recognition and valuation of short term employee benefits, percentage of profit and bonus plans;
- accounting the income from the ordinary activities;
- methods of calculating the index “earnings per share”;
- accounting politics and options regarding the comparability of financial statements.

Controls should be taken into account in order to ensure that the handbook is used correctly (controls should be taken to evaluate the weak and sensitive spots, find the anomalies as well as to fix them in order for the financial statements to offer relevant and credible information according to the needs of the users who take decisions based on them).

In the following table, we make a comparative study regarding the accounting policies used, based on the Romanian norm OMFP 3055/2009 and on IFRS.

Romanian norm OMFP 3055/2009	IFRS
<p><i>Defining the accounting policies</i> The definition of the accounting policies present in OMFP 3055/2009 is the same as the one in the IFRS (OMFP 3055/2009, pct. 267(1)) The method of depreciation is regarded as accounting policy.</p>	<p><i>Defining the accounting policies</i> According to IAS 8, pct. 5, the accounting policies “are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.” The depreciation method is regarded as an estimate (IFRS for small and medium entities)</p>
<p><i>Selecting and applying the accounting policies</i> Toma et al (2010) says that “OMFP 3055/2009 does not contain a hierarchy of guidance which should be used when there’s no strict ruling in the national norms, or a general exception for the significant transactions”.</p>	<p><i>Selecting and applying the accounting policies</i> In order to select and accounting policy, when IFRS doesn’t give specific ruling for a certain transaction, event or condition, the entity’s management should refer to and take into account, applying the following sources, in the following order, according to IAS 8, pct. 11: a) what the IFRS says when referring to similar issues;</p>

	<p>b) definitions, criteria, recognition and concepts of valuation for assets, debt, income and expenses in the general framework.</p> <p>If there isn't an IFRS which treats a transaction, an event or condition in a specific way, the entity's management should use the professional reasoning in order to create an accounting policy, which offers relevant and reliable information.</p>
<p>Changing the accounting policies can be done at the initiative of the entity's management or are required by the law (it's the decision of an authority which creates the accounting norms).</p> <p>In the first situation, the change in policy should be explained and justified in Note 6 attached to the financial statements.</p> <p>In the second situation, the change in accounting policy won't affect the notes attached to the financial statements.</p> <p>In OMFP 3055/2009, pct 40(2) compiles the situations which can lead to changes of accounting policy. The Romanian norms comments on the differences in accounting policies and estimates.</p> <p>Feleaga et al (2008) says that the estimation techniques are "methods and estimations used by an entity in order to determine the monetary value which correspond to the measuring basis selected for the assets, debts, incomes, losses and the evolution of owners' funds".</p>	<p>Berheci (2010) says : "the change in accounting policies should be made only if it's required by the entity's statutory document or by an organism which creates accounting norms or if the change has as effect a better and more reliable presentation of events or transaction in the financial statements (more relevant and more reliable information is obtained). A change in accounting policies should be applied to the past, with the requirement to determine the impact of the change on the oldest opening balance sheet, comparatively, as if the new method has always been applied.</p>

Conclusions

In order to use an accounting system which offers performance, adapted to the European directives and IFRS, developing accounting policies within each entity becomes an essential aspect in order to offer reliable information on financial position, financial performances and cash flow within the entity.

The accounting policies used and established by the management of each enterprise represent a decisive factor in filling out and presenting the financial statements, which have to offer readable, relevant and reliable information to the users in order for the decisions to be based on them.

A modern accounting harmonized with the European and international norms means creating improved accounting procedures and politics, as well as estimating techniques. The entities' management and the practitioners located outside the accounting world have started to understand the importance which needs to be given to developing accounting policies and estimating techniques, as long as we want an improved accounting system adapted to the European and international demands.

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