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## The Use of the IFRS's Techniques and Concepts in the Individual Annual Financial Statements of the Dâmbovița County Companies

Marinela-Daniela MANEA<sup>1\*</sup>, Mariana ZAMFIR<sup>2</sup>

### *Abstract*

*After the 1990s, Romania has recorded major changes in the domain of accounting, taking over and adopting models with foreign influences, first of all of French origin, then with Anglo-Saxon influences. In this context, this material aims to analyze the way the accounting policies specific of international accounting are applied in the set of individual situations of the Dâmbovița County companies, having for a starting point the reality according to which the provisions of Romanian regulation no. 1802/2014 took over, at least on the level of definitions and concepts, LAS/IFRS elements.*

**Keywords:** *The professional reasoning; the future economic benefits; the accounting policies; the individual financial statements; the fixed assets.*

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## 1. Introduction

After the 1990s, Romania has recorded major changes in the domain of accounting, taking over and adopting models with foreign influences. The reform of French inspiration, initiated right after the 1989 events proved to be much closer to the Romanian reality of the moment, at least for the following reasons: a) in both countries, at that moment, the role of the State in the economy was manifested with strong interventionist influences; b) the Romanian civil code was, at the beginning of the 1990s, of French origin; c) the French accounting model, based on the regulations of the European Directives, matched Romania's aim of adhering to the EU; d) last, but not least, the strong cultural connections between the two countries led to the taking over of the model. This first stage of the reform (1991 - 2000) was strongly dominated by an important interference of taxation in the accounting regulations; never, during the post-communist period [1, 2] had accounting been so connected to taxation as now.

In the year 2000, there was modification of the accounting model, this time the reform presenting strong Anglo-Saxon influences. In time, a series of research works have been dedicated to the opportuneness of / need for this change in the Romanian accounting system [2, 3], the studies carried out identifying as factors generating the new reform the need of the Romanian economy to attract foreign investments, the weak development of the Romanian capital market at that time and, last but not least, the demands of some international organisms to adopt the new accounting model.

## 2. Problem Statement

The phenomenon of globalization and the expansion of the capital markets led to the emergence of a common language in accounting. Generally, the set of annual financial statements is the result of the interaction of three parties: organizations, as subjects whose activities are subject to financial disclosure, accounting information users and professional accountants. Although organizations may be tempted to release only certain information, the decision in this regard is conditioned by the expectations of users of accounting information. Starting from this reality, information, be it financial or management, plays a leading role in the current society, and how it is disseminated and processed by users can lead to optimal decisions with minimal risk.

Precisely to be able to meet the interests of a wider range of users, the information presented in the financial statements must be relevant, accurate, comparable, verifiable, timely and comprehensible. The

International Financial Reporting Standards (IFRS) underline that all events and economic transactions are recorded in accounting by professionals based on the professional reasoning. In order to avoid, based on the application of professional reasoning, the use of practices that can mask the results for the purpose of manipulating the users, the Romanian regulations in force have appealed to the provisions of the international regulations by taking over their requirements. Thus, the accounting policies related to the recognition, evaluation and disclosure of asset information have been taken over.

Also, OMPF no. 1802/2014 [4] stipulates at article no. 468, for all entities, the necessary rules to realise the explanatory notes to the set of individual situations, namely:

- “I. The accounting policies adopted, including:
- a) the bases of assessment applied to various elements;
  - b) the compliance of accounting policies adopted with the accounting principles laid down in these regulations;
  - c) any significant changes to the accounting policies adopted;
- II. If tangible assets are assessed at revalued amounts, a table showing:
- a) movements in the revaluation reserve during the financial year, with an explanation of the tax treatment of the items it contains; and
  - b) the accounting value that would have been recognized in the balance sheet if tangible assets were not revalued.”

Regarding the reporting obligations, by Order no. 470/2018 the Romanian regulator operates with a modification in the sense that the micro-entities are not obliged to elaborate the explanatory notes to the annual financial statements.

### **3. Research Questions /Aims of the research**

The objective of our study was to analyze the degree of the manifestation, in the Dâmbovița County, of the professional judgment and the accounting policies and practices of measurement and evaluation of the fixed assets of an entity submitting annual financial statements in accordance with the provisions of OMPF no. 1802/2014.

### **4. Research Methods**

Our research is descriptive, the data collection period was May - June 2018, the research tool being the questionnaire. In this regard, we have developed a questionnaire with 9 questions, grouped into two categories:

- general questions regarding the perception of professional accountants on the applicability of professional reasoning, destined to ensure their profile in the selected sample;
- questions regarding the perception of professional accountants about accounting policies adopted by the company as well as accounting policies and practices for measuring fair value.

The respondents of the questionnaire are professional accountants employed within entities operating in Dâmbovița County, whose annual financial statements I have targeted as authorized accounting expert at the end of 2017. The questionnaire was distributed to 97 professional accountants, 22 men and 75 women.

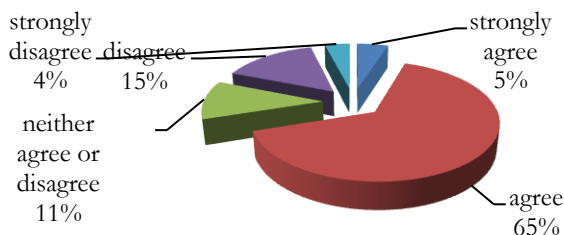
## 5. Findings

1. Perception of professional accountants regarding the applicability of professional reasoning in the Romanian accounting area

In order to achieve the goal, the questions proposed for the analysis are as follows:

- Are the Romanian professional accountants aware of the role and responsibility they have in applying the professional reasoning promoted by the international accounting rules and taken over by the Romanian regulations in force?

**Figure no. 1** - The role and responsibility of the Romanian professional accountants in applying the professional reasoning

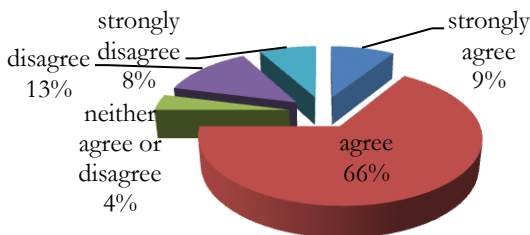


*(Source: the author's own creation based on the questionnaire answers)*

As shown in Figure no. 1, 70% of the interviewed professionals consider that they are aware of the role and responsibility they have in applying the professional reasoning promoted by IFRS.

- Do you believe that the Romanian professional accountants have enough information/training necessary not to become simple tools for managing the company's results by applying practices to the limit between legality and creativity?

**Figure no. 2** - The professional trainings and information details by the accountants to prepare the results of a company

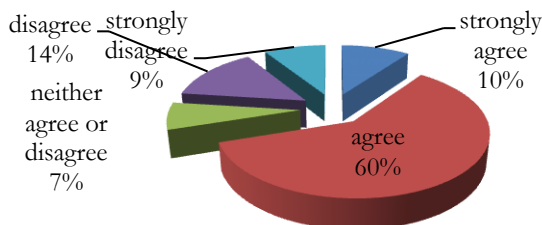


*(Source: the author's own creation based on the questionnaire answers)*

From Figure no. 2 we can easily observe that 75% of the interviewed professional accountants believe they have the necessary training not to apply handwriting of results and their information allows them not to become simple management pawns.

- Do you consider that the Romanian professional accountants apply accurately the professional reasoning in the elaboration of the set of individual situations?

**Figure no. 3** - The use of professional reasoning in the preparation of the individual financial statements



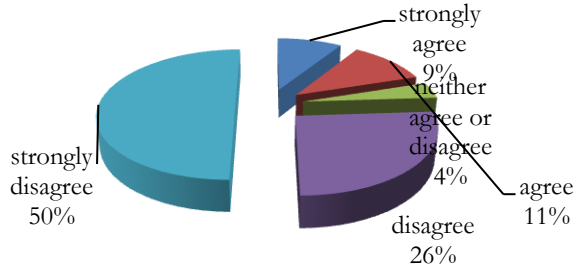
*(Source: the author's own creation based on the questionnaire answers)*

70% of respondents admit that the provisions of the Romanian accounting regulations in force ensure the application of the professional reasoning in the elaboration of the set of individual situations. In fact, the Romanian regulator has been constantly concerned with improving and harmonizing the domestic accounting system with the European Directives and the international referential.

2. Perception of professional accountants regarding the accounting policies and practices for measuring the fair value

- In determining the revalued amount of the fixed assets, do you use professional reasoning when modelling fair value?

**Figure no. 4** - The use of professional reasoning in determining the revalued value of the fixed assets

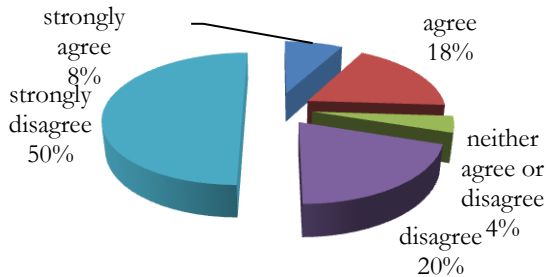


*(Source: the author's own creation based on the questionnaire answers)*

76% of respondents do not apply professional reasoning when modelling fair value, although 70% of them were aware (in the general question field) of the role and responsibility they have in applying professional reasoning.

- When measuring fair value, do you use the provisions of the three modelling levels in IFRS 13 “Fair Value” taken over by the Romanian legislation in force?

**Figure no. 5** - The measuring of the fair value in accordance with IFRS 13 “Fair value”

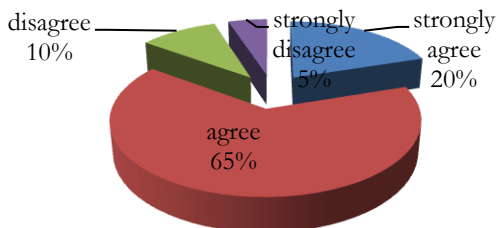


*(Source: the author's own creation based on the questionnaire answers)*

70% of respondents do not use the modelling levels in IFRS 13 “Fair Value” where professional reasoning is fully applied. I could not identify whether the non-application is directly related to the lack of knowledge of the IFRS 13 provisions.

- In the company you work for, the fair value modelling is made by specialized evaluators?

**Figure no. 6** - The use of professional evaluators to modelling the fair value



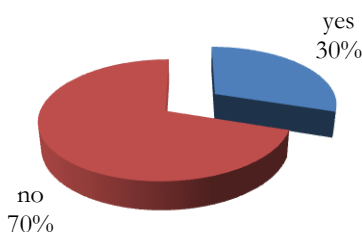
*(Source: the author's own creation based on the questionnaire answers)*

As 75% of the respondents said they were calling on evaluators specializing in fair value modelling, the results obtained in the two previous questions are confirmed: our professional accountants do not need to know the fair value modelling levels promoted by IFRS 13 and, respectively, nor why to apply professional reasoning when modelling fair value, since they are not those to whom the company resorts to when modelling fair value.

### 3. Perception of professional accountants regarding the accounting policies adopted by the company

- Is the valuation bases applied to various items of tangible assets being discussed by the company's management with the active professional accountants?

**Figure no. 7** - Collaboration of the professional accountants with management in the valuation bases of the fixed assets

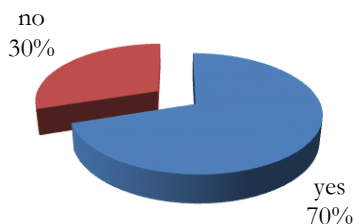


*(Source: the author's own creation based on the questionnaire answers)*

70% of respondents are not consulted by management on the application of the valuation bases of the various items of tangible assets.

- Are the accounting policies adopted by the company consistent with the accounting principles in force?

**Figure no. 8** - The accounting policies adopted by the companies

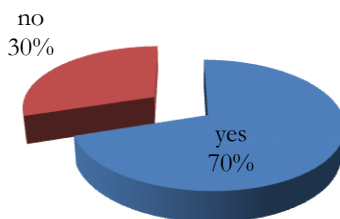


*(Source: the author's own creation based on the questionnaire answers)*

70% of interviewed respondents consider that the accounting policies adopted by the local company respect the national accounting principles identified in the regulation in force.

- Is the accounting policies developed when presenting financial statements a formal exercise?

**Figure no. 9** - The accounting policies developed by the companies as a formal exercise



*(Source: the author's own creation based on the questionnaire answers)*

Although the accounting policies adopted by the company are in line with the accounting principles in force, as shown in Figure no. 8, however, these are just a formal exercise without impact and relevance on the transparency of information (see the Figure no. 9).

## 6. Conclusions

The research reveals, for the general questions part, the position of the interviewed professional accountants regarding the general framework of applicability of the professional reasoning in the elaboration and presentation of the individual annual financial statements of the companies that comply with the provisions of OMPF no. 1802/2014 2014 in the

Dâmbovița County. They believe, in an overwhelming proportion of over 70%, both that the Romanian regulations in force ensure the correct application of the professional reasoning, and that the accountant practitioners are, on the one hand, aware of the role and responsibility they have in applying professional reasoning, respectively, on the other hand, that they have the necessary training in order not to promote in the accounting the manipulation of the results.

Regarding the perception of professional accountants about accounting policies and practices for measuring fair value, although the modelling of fair value involves the professional accountant's use of professional reasoning, the study has led us to a surprising result: practitioners do not use their professional reasoning in measuring fair value simply because the organizations they are part of are using the services of specialized evaluators to perform asset revaluations. Additionally, our Dâmbovița County practitioners seem to be unaware of the three levels of fair value modelling set by IFRS 13 "Fair Value" and taken over by the Romanian legislation in force.

In this context, although the questions shaping the profile of the professional accountants gave us the idea that the professional reasoning was applied consistently and freely in the Dâmbovița County accounting field, the set of questions that focused on the fair value modelling led us surprisingly to the diametrically opposite conclusion, that our professional accountants are not at all artisans of applying professional reasoning, the management considering them only as accounting reporting tools and not partners in modelling decisions.

In addition, reinforcing the above mentioned, it is noted in Part III of the questionnaire that accounting policies adopted by companies are only formal exercises without impact and relevance to the transparency of information, which requires the compilation and presentation of complete financial statements, comparable and verifiable, useful to as many users as possible.

As the transparency of the information presented by the companies is influenced by the way they are lead and managed, it is still desirable to reconsider the role of the professional accountant in the Dâmbovița County.

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