Scientific Annals
of the „Alexandru Ioan Cuza" University of Iaşi
Economic Sciences
60 (1), 2013, 107-126
DOI 10.2478/aicue-2013-0010

THE DYNAMICS OF THE ROMANIAN FINANCIAL REPORTING

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Abstract

Accounting is the social science that developed and constantly improved in order to meet the information needed for each stage of the society evolution. In its turn, the financial reporting system was frequently reconsidered in order to harmonize the supply and demand for accounting information. The main objective of this study is to create a fresco of the financial reporting system in Romania, during the last two decades, which is intended to highlight the advantages and limitations of different accounting rules with direct impact on the financial communication process. The present situation demonstrates that the National strategy for improving the financial reporting of private economic entities, mostly based on drafting the individual annual financial statements of public interest entities in accordance with IFRS requirements, encountered certain difficulties in the implementation process.

Keywords: accounting, financial reporting, Romania, national strategy, IFRS
JEL classification: M41

1. INTRODUCTION

A key feature of Romanian accounting during the last two decades is its dynamism. If we retrospectively analyze the Romanian accounting profile during 1990-2012, we would notice an extraordinary dynamic, both in the accounting regulation and their implementation.

In Romania, the abandon of the centralized economic system in the early '90s and the orientation towards a market economy, generated a huge crisis between the new economic reality and the existing old forms of representation and modeling, in accounting. Romania's transition to a market economy required the adoption of an accounting law, in accordance with the specific terms of the new free competitive economy. This step was completed by the adoption of the Accounting Law no. 82/1991. After researching the Romanian accounting history, we can state that, in the centralized economy period, there was no accounting law, but only drafted norms based on the Council of Ministers Decisions and norms adopted by the Ministry of Finance, as a single accounting ruler (Lapteş, 2007, p.226).

During the period 1990-1993 we faced the attempt to "revive" the old accounting system by introducing new concepts, such as social capital or period result. However, on the grounds of the old representation criteria the monistic system, the application of the permanent inventory rule for inventories evaluation and the classification of expenses in relation to their use were maintained.

In order to build the new accounting system, required by changes in the political, economic, social and cultural life in Romania after the revolution from December 1989, we oriented towards the French-inspired continental accounting model. The particularities of the continental accounting model can be summarized as follows:

- it is a restrictive system, highly conceptualized, based on principles, norms, methods, rules and procedures, drafted by a specialized and regulated by the state;
- it knows a high organizational and uniformity degree within the Economic European Community by issuing directives, applicable to all member states;
- the fiscal interest is mainly met and the assessment is based on accounting information.

The orientation towards the French continental accounting model was not so much surprised in sustaining the new Romanian accounting system, like the way in which such option was implemented in practice. In 1995, Richard J. concluded that "the entire Romanian legislation is based on the French financial accounting (including all its static accounting particularities, its fiscal and macroeconomic objectives)" (Neag, 2000, p.205).

Considering what happened in the Romanian accounting in the early 90s, a moment that marked the beginning of a reform, up to the present, we could mention the fact that two different stages were defined in the development of the Romanian accounting system (Laptes, 2007, p.229):

- the period 1990-1999, marked by the building of an accounting in line with the European requirements and directives, based on a general accounting plan;
- the period 2000- up to present, governed by the orientation through an international accounting, imposed by the economy globalization phenomena.

The particularities of the financial reporting system corresponding to those two stages, were reflected in the way of releasing and orientation of the accounting information, which are going to be presented in this article.

In the early 2000s, the Romanian accounting started a new reform stage, built on the connection of the international realities. The accounting evolved nowadays to another level of knowledge, a process caused by the profound changes that took place in the economic field, under the inertia of the globalization and the internationalization of the economies. The recent dynamic of accounting was called by accounting experts as accounting postmodernism. In Romania, several meanings are reserved to the accounting postmodernism (Ionaşcu, 2003, p. 22):

- the accounting theoreticians attempt to find answers to the current phenomena (the globalization of the economies, the continuous deregulations of the markets, the steady development of the consumer society and of the information society), which raises issues in the business administration;

• the postmodernist society is seen in a continuous transformation that requires a multidisciplinary approach to the economic management of the entity, a mix of economics, sociology, philosophy and law;

• the accounting postmodernist researches, started in UK after 1980, and taken over by the French specialists, are those considered to be post-constructivist, the interpretative ones and the critical radical current.

The accounting research oriented towards postmodernism show interest primarily in the accounting language and the accounting information meaning, as a way of social communication. In this context, in 2002, IASB and FASB signed a memorandum and agreed to complete a project named „The International Short Term Convergence", with the main goal of eliminating a series of differences between the IAS and the US GAAP referential, until the end of 2005. After that date, a second step was set, reflected in a common project called „Draft of Common Checking of the International Convergence" (Ristea *et al*., 2006, p. 237).

The convergence of the US GAAP/IAS is not a simple process, contrary to the normalization efforts of the two bodies, primarily due to the disagreement regarding the sphere of the influence between the two accounting referentials.

The process of the IAS/IFRS referential implementation started on the 1st of January 2004, at the European Union level, when two periods were identified (Ristea et al., 2006, 239):

• the interval between the 1st of January 2004 and the 31st of December 2004 represented the transition period, the period of the restatement of the financial statements or the comparative period;

• the interval between the 1st of January 2005 and the 31st of December 2005 represented the period of actual appliance or the period of the elaboration of the first financial statements according to the IFRS referential.

Basically, at the European level, according to the Regulation no. 1606/2002 on the application of the international accounting standards, known as "the IAS Regulation", starting the 1st of January 2005, all the companies listed on EU capital markets, including the credit institutions and the insurance companies, were required to publish the consolidated financial statements under the IFRS. This approach led to the development of two accounting systems in the European Union countries, simultaneously applicable: an accounting system based on the IFRS and another one based on the national GAAP. The member states chose the conformity with the IFRS, both for the individual financial statements of the listed companies and for the consolidated and individual financial statements of the unlisted companies. Therefore, starting on the 1st of January 2005, 7000 listed European groups gave up the national accounting regulations in favor of the appliance of the international financial reporting standards (Ristea *et al*., 2010, p.170).

The discrepancies signaled between the accounting directives and the IFRS referential inside the European Union led to the necessity to adopt the Modernization Directive 51/2003. This directive offered the possibility of appealing to the IAS/IFRS accounting options to the companies that organize their accounting according to the European directives. It amended the European directives regarding the content of the annual statements, the balance sheet and the income statement disclosure, the valuation rules, the issue of the provisions, the structure of the audit report, the content of the annual report and others (Ristea *et al*., 2006, p. 239).

Which is, though, the situation of the implementation of the IFRS referential in Romania? In Romania, the state authorities believe that the improvement of the financial reporting in our country in the next period should have its pillars on the extension of the IFRS referential. Therefore, in 2004, by the adoption of the Government Decision no. 2170/2004, the Romanian Government approved the National Strategy Action Plan in order to improve the financial reporting in Romania. This country action plan includes the objectives regarding the development of the business environment, arising from the program of measures agreed by the Romanian Government and the International Bank for Reconstruction and Development, underlying the Loan Agreement for Programmatic Adjustment, signed at Bucharest on 27th of September 2004. The monitoring of the implementation of the Country Action Plan in order to improve the Romanian financial reporting was initially the attribution of the Accounting Advisory Board, which was organized and operated under the Government Decision no. 1449/2002. The Accounting Advisory Board, by the Ministry of Finance, informed the Romanian Government on a quarterly basis about the progress made in achieving the objectives of the Country Action Plan. In 2005, by Government Decision no. 401/2005, the Accounting Advisory Board was reorganized into the Accounting and Financial Reporting Council, an independent supervisory body, with attributions in the insurance of the convergence of the national regulations and practices in the financial accounting and auditing with the European Union regulations.

The Romanian Accounting Group, consisting of experts on accounting issues, was set up inside the Accounting and Financial Reporting Council, in order to provide support, consulting, training and informing services, in order to ensure the implementation of effective and efficient processes used in the translation of the IFRS and the related materials, and to provide a source for the development and the timely implementation of the IFRS in Romania.

The increase in the quality of the financial reports is considered a key component of the sustainable economic development in Romania. This requirement has become, in the last decades, the main priority for many countries and it presently represents the subject of significant reforms in the field. The quality of the financial reports, directly involving the accounting and auditing standards, as a legal and institutional framework for implementing them, is an end in itself. The ultimate goal is to bring added value to the financial reporting system in order to support the stability of the financial system and the economic growth in the private sector.

As part of the reform, from the end of 2002 until February 2003, the World Bank experts conducted an assessment of the existing standards and practices related to the accounting and the financial audit of the financial statements, in order to identify the necessary reforms for improving the financial reporting by the private sector. The recommendations from this evaluation were included in the Report on the Observance of Standards and Codes (ROSC) adopted on the 9th of May 2003. Another report, summarizing the actual and potential sore points of the national strategy for improving the financial reports of private economic entities was elaborated by the World Bank experts in December 2008.

The present shows that the initiative of bringing the national accounting regulations as close as possible to the international financial reporting standards had no success. Order no. 907/2005 (amended by Order no. 1121/2006) on the application of the International Financial Reporting Standards require that the economic entities, listed on a regulated market, which elaborate consolidated financial statements, have to apply the international financial reporting standards starting 2007. The other economic entities, considered of public interest, can apply the international financial reporting standards in the elaboration of the individual or the consolidated financial statements for their own information needs. However, in the relation with the state, all the entities, including those applying the international financial reporting standards, have to prepare the annual financial statements in accordance with the European directives (Jianu et al., 2009, p.15).

2. RESEARCH METHODOLOGY

In the recent years, in Romania, the accounting of the economic entities has been frequently reconsidered and submitted to a comprehensive reform process, initiated in the early 1990. The aim of our study is to build a fresco of the financial reporting system in Romania, in the last two decades. To achieve this goal we performed a normative essential research which allowed us to identify and analyze the main limits of the financial reporting system of the economic entities in Romania, on two levels:

- the transition period to market economy, namely during 1990-1999;
- the opening period of the accounting system in Romania to international relationships, namely during 2000-2012.

Which are the characteristics of the financial reporting in Romania during the 90s? What about during 2000-2012? Which are the coordinates of the National strategy for improving the financial reporting in Romania for private economic entities? Which is today's stage of implementing the National strategy for improving the financial reporting in Romania? Which are the limits for applying the National strategy for improving the financial reporting standards at the level of economic entities in Romania? These are several questions that we intend to answer to in this paper.

3. HIGHLIGHTS OF THE ROMANIAN FINANCIAL REPORTING SYSTEM IN THE EARLY 90S

For the first stage analyzed by us, after the events of the winter of 1989, namely, the period 1990-1999, we could identify two evolution phases of the Romanian accounting system (Laptes, 2007, p.236):

- the period 1990-1993, representing „an intermediary period between the practice of a soviet accounting system and the applicability of a French accounting system, in the specialty literature called The new accounting system." (Calu, 2005, p.214);
- the period 1994-1999, when defining and improving of „the Romanian accounting law" were intended (Ionascu, 2003, p.122).

The real beginning of the Romanian accounting system reform took place on 1st of January 1994, when the French inspired accounting was implemented, organized in a dualist manner. The heart of the Romanian accounting system was represented by the work called The accounting system of economic agents*,* published by the Ministry of Public Finance in 1994, bringing together the Accounting Law no. 82/1991 and the Government Decision no. 704/1993 for approving the implementation measures of the accounting law, through which the following items were approved: the regulation for implementing the law, the chart of accounts, the methodological norms for using the accounts, the monography of the main economic transactions, the nomenclature of registers and pre-printed documents templates regarding the financial and accounting activity, the usage rules of the accounting ledgers, the financial statements formats, the methodological norms regarding their preparation and presentation, and, finally, the implementation of the accounts balances from the trial balance at 31st of December 1993 in the new general chart of accounts.

An important characteristic of the Romanian accounting regulations during 1994-1999 was represented by the compatibility with the European Union accounting law, by integrating the provisions regarding capital entities financial accounts, mainly from the 4th EC Directive, in the Romanian accounting law.

We have to mention that in the 90s, the financial statements were known as accounting balance sheet, in a conceptual way. According to article no. 27 of the Accounting Law no. 82/1991, the accounting balance sheet had to be drafted yearly or when mergers or activity ending of companies happen. We note that, at that moment, the financial statements consolidation procedure was not considered, in the absence of certain circumstances requiring such transactions.

During the period 1994-1999, the Romanian accounting balance sheet had the same structure: balance sheet, profit and loss statement and annex. These documents were accompanied by the management report. The known objective of the accounting balance sheet is to provide an accurate, clear and complete image of the patrimony, the financial statements and the result of the period. During that period, many experts noticed that the way the accounting synthesis documents were named was not the best one: confusion could easily appear between the accounting balance sheet, representing a full set of synthesis accounting documents and the balance sheet, as the main part of the accounting balance sheet: "keeping the actual name may create confusion between the synthesis accounting documents as a whole, on one hand, and on the other hand in their structure – balance sheet itself. Therefore, the name of "annual accounts" may be adopted within the Romanian accounting system." (Deaconu, 1999, p.50).

We consider that, by assigning to the full set of synthesis accounting documents the name of accounting balance sheet, the Romanian setter noted a keen interest for the balance sheet itself and for reflecting the economic entity's patrimony. Moreover, the Ministry of Public Finance stayed the tributary of the usages of the period 1970-1989, when the full set of the financial statements was defined also as balance sheet, represented by: the balance sheet itself, the annex and the explanatory report (Lapteș, 2007, p.240).

During that period, the Romanian accounting norms offered to economic entities the possibility to draft the balance sheet, with a different detailing degree, depending on the size of the entity: theoretically, a simplification system for small and medium size entities and a fundamental system for large sized companies were outlined. Contrary to this provision, in practice, the accounting balance sheet was drafted using the fundamental system, irrespective of the entity's size. On an annually basis, for drafting and publishing the accounting balance sheet together with the management report, technical norms for completion and content were issued. Thus, the uniformity of the synthesis accounting documents was ensured, which helped the centralization of the accounting information at a macroeconomic level (Laptes, 2007, p.240).

The balance sheet was defined by the accounting provisions from that period as "the accounting synthesis document through which the assets and liabilities of the patrimonial entity at the year closing, as well as other cases stipulated by the law".

Using the French accounting system, the Romanian setter opted for a bilateral scheme of the balance sheet – assets on the left side and liabilities on the right side. The patrimony items were classified as assets, based on the economic destination, and as liabilities, based on their source. Liquidity and chargeability represented only second criteria. In contradiction with the Anglo-Saxon accounting, in France, as well as in Romania, at the level of balance sheet groups formed after the main criteria, the structural items were ascending sorted by their liquidity, in case of assets, and by their chargeability, in case of liabilities. Taking into account the economic destination and the legal nature of the main classification criteria, the Romanian setter aimed the orientation to the national accounting request and external financial analysis of the balance sheet information. In this respect, there was the possibility to capitalize the information in relation to a financing board, similar with the utilization and resources board. Therefore, the patrimony analysis based on a static representation of an entity, involving the utilization of liquidity and chargeability concepts in favor of a functional approach was abandoned. The balance sheet of Romanian entities, during 1994-1999 was built on the legal-patrimony theory, promoted during the interbelic period by the great Romanian professor Spiridon Iacobescu (Laptes, 2007, p.241).

As nowadays, the assets were presented at the fair value, obtained from the gross value adjusted with reversible and irreversible depreciation determined during the exercise. This practice is opposite to the French balance sheet model, where assets included three categories of information related to the year ended: gross value, depreciation and net value.

As compared to the balance sheet scheme applicable in Romania before 1989, new structures were introduced, specific to the economic market – intangible assets, natural resources, namely lands, securities etc. However, in the same time, we stayed tributary to funds, which were mentained in the Romanian accounting until 2001 with the following structure: development fund, personnel profit-sharing fund and other funds. Moreover, we included, in the capital structure, the regulated provisions structure, taken from the French accounting, that had never been operable in the Romanian accounting field and which subsequently was lately abandoned (Laptes, 2007, p.242).

As regards drafting the accounting balance sheet, during exceptional events in the life of an entity – dissolution, merger or division, the specific Romanian literature of that period questioned quite evasive the balance sheet methodology in such cases. Moreover, as far as we know, a low number of entities dissolutions or mergers were registered in the real practice, during that period. The same issues was also for the consolidated financial statements, who were later regulated in Romania, in 2000, through the Ministry of Public Finance Order no. 772/2000, including the Norms regarding accounts consolidation harmonized with the 7th EC Directive and with the International Accounting Standards.

While the balance sheet provided information in respect of the patrimony at the end of the financial year, the profit and loss statement pointed out how the final patrimony status was reached, as well as the revenues and expenses flows which affected the entity evolution between the beginning and the end of the financial year.

Starting with 1st January 1994, the vertical (list) format of the profit and loss statement was introduced in Romania, with expenses and revenues disclosed by their economic nature. Unlike the practice of other countries, according to the Romanian accounting norms, the entities were not allowed to choose between the two profit and loss statement models: the model based on the economic nature of revenues and expenses or the model based on the entity functions, namely the destination of expenses. This can be explained by the fact that, during 1994-2000, the Romanian synthesis accounting documents particularly aimed the informational needs of the state. Perhaps, for that time, the solution adopted by the Romanian setter in respect of the financial report is justified as long as most part of the

Romanian economy is still owed by the State. We consider that a flexibility of the Romanian setter was welcomed in the way that, for the profit and loss statement, the national legislation could have considered both models: classification by the nature and by the destination of expenses, so that the economic entities could have opted for the best way of information disclosure. This was the case of Hungary and Poland which accepted such a formula (Lapteș, 2007, p.242).

While at article no. 135 of the Regulation regarding the applicability of the Accounting Law, approved by GD no. 704/1993, the Romanian setter defined the balance sheet, no definition was assigned to the profit and loss statement within this regulation. This demonstrates the main attention which was erroneously assigned to the balance sheet. Article no. 136 of the Regulation regarding the Accounting Law mentioned, outside any definition, only the content of the income account: "The profit and loss statement includes: the turnover, the revenues and expenses of the financial year, sorted by their nature, as well as the result of the period (profit or loss). The result of the period is divided in: current result, exceptional result and profit tax."(Laptes, 2007, p.242).

In the specific literature of the referring period, the profit and loss statement was defined by the Romanian specialists as follows: "the results account represents the accounting synthesis document measuring the activities' performances of an entity, during a given period. It represents a synthesis of the accounting flow alt microeconomic level, due to the fact that it highlights the value streams which contributed to the growth and reduction of an entity wealth, for a certain period." (Feleagă and Ionascu, 1998, p.133).

In the results account, similar with the actual practice, revenues and expenses were highlighted, in accordance with the matching principle, upon their set-up, irrespective of the cash-in date of the revenues or the payment moment of expenses.

The results account structured by the three activity levels – operational, financial and extraordinary – ensures the computation of value indicators defining the economic behavior of the entity, also known as management intermediary balances. These indicators appear as balances, called margins, and show the level of development of the period result. Moreover, by the centralization performed at the level of the entire national economy, they allow the computation of macroeconomic indicators having a large informational power.

During the last period, we abandoned the extraordinary revenues and expenses structure in favor of the extraordinary items, in accordance with IAS 1, *Presentation of Financial Statements*.

Consequently, the entity performance was showed by the profit and loss statement and the profit was computed based on economic grounds, the result of the period being determined as a difference between revenues and expenses of the related period.

During 1994-1999, in order to be additionally informed on the economic position of an economic entity, the balance sheet and the profit and loss statement were accompanied by the annex and the management report. Coming back to the Romanian accounting regulation valid during the period 1994-1999, article no. 139 of the Regulation regarding the applicability of the Accounting Law, approved by GD no. 704/1993, stipulated that "the main objectives of the annex are the filing in and the explanation of the data included in the balance sheet and the profit and loss statement, and it includes information regarding the patrimony and financial position, the results related to the ending year…"

During the 90s, the content of the annex initially gathered a set of seven standard situations, as follows:

- situation of fixed assets;

- situation of inventories and work in progress;
- situation of debts and receivables;
- situation of other provisions;
- fiscal result computation;
- current result distribution;
- other information regarding the accounting rules and methods as well as complementary information.

Subsequently, the format and order of the above mentioned situations were subject to certain amendments.

In our opinion, during 1994 and 1999, the balance sheet annex did not receive the needed attention in Romania, as accountants were more interested in the balance sheet and the income statement methodology. This situation was most likely caused by the failure of Romanian accounting regulations from that time to effectively provide a conceptual dimension of the annex, as a document, built from the need to implement certain accounting principles, especially the true and fair view principle and the materiality principle (Laptes, 2007, p.246).

For Romanian accounting, the period 1990-1999 represents the adjustment and upgrading of a new system, brought about by Romania's turn to the market economy. A number of discrepancies and certain regulatory gaps did occur however, but they were most likely natural, should we consider the historical context. Romania was settling into a transitional economy at that time, and expert accountants needed training and adjusting to the extraordinary regulatory dynamics. It was a period of accumulation and, progressively, we managed to harmonize the Romanian accounting system with the European realities, by referring, at the beginning, to the 4th EC Directive.

4. BOUNDARIES OF FINANCIAL REPORTING SYSTEM IN ROMANIA DURING 2000-2012

Since 1990, Romanian accounting theory and practice is in a constant search of identity. Since then, we have assisted to the "importation" of accounting solutions that turned into true referential, which helped us to orient ourselves towards every moment of change.

The year 2000 marked the beginning of a large Romanian accounting process especially in term of conceptual reconstruction. Since 2000, Romanian accounting was faced with accounting regulations that were intended to be a mix between the provisions of the European accounting directives and recommendations of the International Accounting Standards. By the emergence of Order no. 94/2001, Romanian accounting has opened to the international accounting. Basically, this was a fundamental reconsideration of the process of obtaining and disseminating the accounting information for the major entities in Romania. Small and medium entities registered themselves on the same route of financial reporting under the old accounting rules, until 2003, when the compliance with the European directives was decided for their accounting, by the approval of Order no. 306/2002.

Under Order no. 94/2001, the entities prepared annual financial statements including: balance sheet, profit and loss statement, statement of changes in equity, cash flow statement, accounting policies and explanatory notes, all of them being equally important items in the balance sheet format.

We note that, by the international accounting referential alignment, two new documents were introduced in financial reporting practice in Romania – the Statement of Changes in Equity and the Cash Flow Statement, both recommended by IAS 1, *Presentation of Financial Statements*. Moreover, the role of the Annex to the balance sheet was taken over by the accounting policies and explanatory notes, a replacement that contributes to better information on economic and financial situation of entities. If annexes detail only the items presented in the balance sheet and profit and loss statement, the explanatory notes provide additional information for each item in the balance sheet, profit and loss statement, statement of changes in equity and cash flow statement (Laptes, 2007, p. 291).

Regarding the balance sheet, from the accounting history research in Romania, we found that, before 2000, in our country, only the horizontal format, built on "Assets = Owners' Equity + Liabilities" equality, was used in the accounting practice. The Romanian setters sought liquidity and chargeability only in a second plan. Through Order no. 94/2001, the preparation and publication of a different balance sheet, in vertical format, taken rather from the 4th EC Directive than the International Accounting Standards was proposed: a mandatory standard scheme for imposing order and position of balance sheet items was adopted (Laptes, 2007, p.291). It is already known that, IAS 1, *Presentation of Financial Statements* does not require a specific format of the balance sheet, but only recommends a minimum list of items required. The balance sheet adopted by Romanian regulators in 2001, preserves the classification based the origin and destination, being built on "Assets - Liabilities = Owners' Equity" equality. In this form, owners' equity appears as a residual element representing the residual interest of shareholders into the assets of an enterprise after removing of all debts.

Since 2001, for large companies, a clear grouping of receivables by liquidity and of liabilities by their chargeability was carried out in the balance sheet. Assets and liabilities should be recognized in the balance sheet according to the period of time that estimated economic benefits will be generated or diminished. By this criterion, assets and liabilities have been classified into fixed assets and current assets, or long-term liabilities and current liabilities.

Therefore, the balance sheet in the list format, proposed by Order no. 94/2001, and also applied to current accounting rules, approved by the Order no. 3055/2009, is better adapted to economic and financial analysis. Moreover, in the balance sheet structure there are two indicators with great informational resonance: working capital and need of working. We note that the net cash is not computed, aspect justified by the existence of a statement of cash flow, as a distinct situation. This model of balance sheet also includes in his structure the assets held through leasing contracts, which clearly shows the substance over form. (Laptes, 2007, p.293).

Research costs were removed from intangible assets as they did not met the assets definition from the general framework for preparation and presentation of financial statements (there is no certainty that they will generate future economic benefits), and, therefore, they are included in the profit or loss account. The set-up expenses based on the model of the 4th Directive and the goodwill acquired, which meet the recognition criteria on credible valuations, are still maintained in the assets.

As regards the profit and loss statement, the Romanian setter opted for maintaining the list format and the classification of revenues and expenses by their nature. However, by Note 4, Period Result Analysis*,* the disclosure of operational expenses and revenues by their nature becomes mandatory. Perhaps, the most obvious change at the level of the profit and loss statement was the replacement of the concept of "exceptional" items with that of "extraordinary" items. The latter represents revenues and expenses arising from transactions and events beyond the entity's control: disasters losses (except for insurance companies), expropriation losses, subsidies granted in case of disasters.

The exceptional items of the Romanian accounting that did not fulfill the conditions in order to be recognized as extraordinary items, were transferred to other revenues respectively to other operational expenses. Therefore, the current result concept does not correspond with the content of the item. We have to mention that, at an international level, further to the 2004 amendment of IAS 1, *Presentation of Financial Statements*, the "extraordinary revenues and expenses" structure was abandoned, the profit and loss statement being concluded on two levels related to operational and financial activity. In Romania, up to this moment, the extraordinary items are included in the profit and loss statement.

As regards the statement of changes in equity, by appealing the 4th Directive, Order no. 403/1999 did not require drafting such a new document for the Romanian financial reporting practice. Subsequently, Order no. 94/2001 observed the recommended criteria by IAS 1, *Presentation of Financial Statements* and imposed the liability of drafting a new financial reporting document by providing in detail the reserves and retained earnings. The statement of changes in equity shows all the variations of the entity's net asset incurred during the financial year. Taking into account these items of the financial statements, both profit and loss of a company could be analyzed, as well as their capacity of maintaining or not the initial capital.

By the obligation of presenting the cash flow statement, the Romanian setter demonstrates its wish to answer to potential investors' informational requirements, the latter being interested in knowing the entity's economic capacity to create future liquidities and, thus, to remunerate accordingly the invested capital. The same image of cash flow allows the time comparability of many entities' results, by removing the applicability of different accounting policies effects for the same transactions and events. Related to the form of cash flow statement, Order no. 94/2001 provides the possibility of an entity to opt for one of the two presentation options, as stipulated in IAS 7, *Cash Flow Statement,* when the cash flow statement is estimated based on the operational activities: using either direct or indirect method. We have to mention that the international norms regarding cash flow recommend the direct method due to the fact the information obtained is useful for the estimation of future cash flows (Laptes, 2007, p.295).

The four financial reporting documents mentioned above are complete and shown in detail by the explanatory notes, the latter offering information about the preparation basis of the financial statements and accounting policies used by the entity. In relation to the balance sheet annexes, the explanatory notes role and the information number presented by these notes has significantly grown, leading to an increased transparency of the financial statements.

By implementing the Ministry of Public Finance Order no. 1752/2005 for approving the accounting regulation in accordance with the European Directives, a normative act through which both Order no. 94/2001 and Order no. 306/2002 were repealed, an evolution stage of the Romanian accounting system was reached. This was positively evaluated by most of the specialists in our country, considering that the directives' provisions should be implemented in the accounting law of each member state. "Considering that some general rules have no concrete answer in the accounting policies plan, the compliant regulations take over and integrate a set of solutions (provisions) from the IASB general framework and the referential. The most common case is represented by the definition and recognition of assets and liabilities, revenues and expenses through the own theoretic and normative IFRS referential." (Ristea *et al.*, 2006, p.240).

We also point out that, by Order no. 1752/2005, only few changes were introduced in the financial reporting plan in Romania, related to the balance sheet and the profit and loss statement structure. However, the adjusted items mainly refer to conceptual changes. Starting 2006, the hedging accounting concept was introduced in the Romanian accounting. During the last years, the management report was replaced by the administrators' report together with the annual financial statements "containing at least a fair description of the activities developments and the performance of an entity, as well as its financial position together with a description of the main facing risks and doubts" (Lapteș, 2007, p. 302).

During that period, the accession process to the European Union provided to the Romanian Government a conceptual framework for the reform of the accounting, the financial auditing and the financial reporting, represented by the community acquis.

The Accounting Advisory Board, which operated under the Ministry of Public Finance and brought together representatives of the government, the regulatory authorities, the accounting and auditing professions, the business environment and the academics who showed interest in the financial reporting issues, was appointed to develop a country action plan in order to improve the financial reporting in Romania. The Council's activity aimed to increase the confidence of the users of accounting information in the financial reporting and the corporate governance.

In 2004, the National Strategy Action Plan for improving the financial reporting in Romania was approved by the Romanian Government through Government Decision no. 2170/2004.

According to the Government Decision no. 2170/2004, the country action plan to improve the financial reporting in Romania is a detailed document which sets out the specific actions to be completed in order to achieve the reform objectives. This plan is a dynamic document, because it is based on the community acquis, which is constantly evolving, and because Romania will change its ability to adopt and carry out the reform as the objectives will be achieved. In April 2004, the Accounting Advisory Board, with the World Bank's assistance, started to develop the Country Action Plan with the strategic goal "The fulfillment of the major accounting and auditing obligations, arising from the community acquis prior to 2007 - the accession date".

In 2009, the Romanian professional accountants faced other changes in the accounting regulation system. The Ministry of Public Finance repealed Order no. 1752/2005, which was latter replaced by Order no. 3055/2009, Accounting regulations according to the European Directives.

In the transition to the IFRS, Romania joined the pilot group of countries that carry out the Report on the Observance of Standards and Codes (ROSC) for accounting and auditing. The ROSC program and its component for accounting and audit are a part of the initiative to strengthen the international financial architecture. The current international economic context, under the sign of the global economic crisis, demonstrates the understatement of the importance of the pillar represented by the accounting and auditing standards. For Romania, the World Bank experts have made an initial assessment of the existing regulations and practices in the accounting and financial audit, in 2003, and the findings were presented in the ROSC report on accounting and auditing, published in May 2003. At that time, Romania's progress in accounting in the recent years was highlighted and a number of basic policy recommendations were formulated, including: the harmonization of the laws and standards; the financial reporting of the credit institutions, the insurance companies and the pension funds; the consolidated financial statements disclosure; the accounting and auditing surveillance; the Chamber of Financial Auditors of Romania independence; a twinning agreement for Chamber of Financial Auditors of Romania to help the transfer of knowledge, education and professional training (World Bank, 2003).

Although, in the recent years, Romania has made significant progresses in increasing the quality of the financial reporting by implementing the National strategy for improving the financial reporting of the private economic entities, in the Report on the Observance of Standards and Codes on accounting and auditing, published by the World Bank experts in December 2008, some issues to be corrected in the future were identified.

In what follows, we intend to present the sticking points, actual and potential, of the National Strategy for improving the financial reporting of the private economic entities, as identified by the representatives of the World Bank and the International Monetary Fund in the ROSC on accounting and auditing, published in December 2008 (World Bank, 2008):

- compared to the Ministry Order no. 94/2001, Accounting regulations harmonized with the European Directives and the International Accounting Standards, the explicit reference to the IFRS referential was removed from the Ministry Order no. 3055/2009, Accounting regulations in accordance with the European directives. The absence of an explicit reference to the IFRS, when the Romanian Accounting Regulations don’t provide detailed guidance, is seen by the accounting and auditing professions and by those who prepare the financial statements as a problem. According to the Ministry Order no. 94/2001, the IAS/IFRS referential was applied when no other specific treatment was indicated. In the content of the Ministry Order no. 3055/2009, there is no explicit reference to the IFRS;
- if the banks and the listed companies prepare consolidated financial statements according the IFRS approved by the European Commission, the banks and the listed companies without subsidiaries are not required to prepare financial statements in accordance with the approved IFRS. This reality leads to a potential lack of comparability between the listed entities and the banks: while the parent companies prepare the consolidated financial statements according to the IFRS, other banks and listed companies without subsidiaries prepare the financial statements according to the Romanian accounting regulations;
- according to the Accounting Law no. 82/1991, the insurance companies prepare the consolidated financial statements using either the approved IFRS or the Romanian accounting regulations in the insurance sector, which is a transposition of the Insurance Accounts Directive. For 2006, the Romanian insurance companies didn’t prepare the consolidated financial statements in accordance with the IFRS. The Insurance Supervisory Commission should require all the insurance companies to publish their financial statements prepared in accordance with the approved IFRS, because they are public interest entities. Moreover, the Insurance Supervisory Commission should allow the insurance companies to supplement the provisions of the IFRS 4, Insurance Contracts with other accounting standards. Currently, the IFRS 4, Insurance Contracts is incomplete and some insurance companies include provisions of U.S. GAAP in their accounting policies, to the extent they are consistent with the IFRS 4;
- the Emergency Ordinance no. 90/2008 on the statutory audit introduced a system of public oversight by the establishment of the Public Oversight Board of the Statutory Audit

Activity, which will have to undertake external quality assurance for the statutory auditors and the audit firms that audit public interest entities;

- although the Body of Expert and Licensed Accountants of Romania and the Chamber of Financial Auditors of Romania professional bodies have changed in the recent years the governing principles, the agreements and the governance practices, they are not fully understood or known. Therefore, an independent person should conduct a review of the governance arrangements of both professional bodies;
- particular attention should be paid to the program of quality assurance and review, initiated by the Chamber of Financial Auditors of Romania in 2003: the department of monitoring and professional competence activates with 7 hired persons (5 inspectors and 2 assistant inspectors) under the responsibility of an authorized inspector. The inspectors were intensively trained on the IFRS and ISA issues by experts from the Institute of Chartered Accountants of Scotland (ICAS). However, the work quality reviews take, on average, only one or two days and are conducted by inspectors who don't have significant experience in auditing. Two of the inspectors are students of ACCA (Association of Chartered Certified Accountants) and the other five are qualified financial auditors. Although the inspectors from the Chamber of Financial Auditors of Romania monitoring department have received adequate training, their minimal professional experience as auditors, is a shortcoming that can't be neglected. The lack of practical experience in auditing could affect their ability to review the audit working papers, especially when reviewing the audit working papers for banks or insurance companies. One solution would be to include auditors with experience in these areas in the monitoring teams, on an ad hoc basis. Furthermore, the average time allocated to the review and quality assurance activities in the field of the financial audit varies from one to two days. The period of time for the individual controls must be extended significantly for a better quality review of the audit work performed by the auditors;
- the small number of specialists in accounting and financial audit, as required by IFRS, is doubled by a lack of skilled graduates in accounting. Traditionally, the audit firms staff rotation is very high and it often happens that a graduate, who has only two years of experience within a member firm from an international network of audit firms, to be offered a manager position in the financial or accounting department. Therefore, there is a clear need for the Romanian universities to demonstrate their ability to produce graduates able to meet new market requirements;
- the consultation process for issuing the accounting and auditing regulations could be improved. In Romania, there is a lack in terms of implementing an effective process of consultation with those who prepare the financial statements, the auditors and the users of financial statements. It is possible that the consultation process is not efficient as long as the entities feel that their opinion does not influence the body that regulates and supervises their activity;
- in general, the surveillance bodies focus more on monitoring the prudential criteria than on the financial reporting;
- the Romanian Accounting Regulations provides little or no information about the matters covered by the following IFRS: IFRS 2, Share-based payment; IFRS 6, Exploration for and evaluation of mineral resources; IFRS 8, Operating Segments; IAS 40, Investment Property and IAS 41, Agriculture.

Although Romania has implemented the relevant accounting directives, the absence of many necessary elements for supporting the infrastructure, combined with the Romanian tradition of the rules-based accounting, is challenging in terms of ensuring that the principles set out in EU legislation are applied in a such a manner that the quality the financial reporting is ensured. The International Financial Reporting Standards are based on concepts and not on rules, calling for the professional reasoning of the accountants and the auditors. At the same time, in obtaining financial information, the emphasis is placed on the evaluation before the accounting recognition of a transaction, but also on the principle of materiality and on the cost-benefit ratio. All these requirements were new approaches to the Romanian accounting since the passage to the international financial reporting standards, even if a partial one, involved not merely a change in the accounting rules but a whole process of change at the company's level (Jianu *et al*., 2009, p.15).

Studies that have been conducted in Romania in the recent years on the opening of the economic entities to the accounting based on IFRS show the reluctance of the majority towards the reform of the financial reporting system in this direction, the main justification being related to charging the companies with additional costs (costs of audit, staff training costs, software costs etc.).

A study conducted in 2009, shows the reluctance of most professional accountants involved in the research to the reform of the financial reporting, based on the philosophy of IFRS: 84.8% of the respondents considered that the harmonization of the Romanian accounting regulations the IFRS for the large firms during 2000-2005, was purely dictated by political decision. Only 12.1% of the respondents saw in the process of harmonization of the Romanian accounting regulations with the IFRS referential a necessity imposed by the development and the globalization of the capital markets (Lapteș and Popa, 2009, p.31). Regarding the delimitation of an area of application of the IFRS referential in the Romanian accounting, we find, from the same study, the following (Lapteș and Popa, 2009, p.32):

- 45,4% of the respondents considered that the IFRS referential should be adopted by all the economic entities;
- 15,1% of the respondents considered that the IFRS referential should be adopted only by the listed companies, both for the consolidated and the individual financial statements;
- 15,1% of the respondents considered that the IFRS referential should be adopted only by the big companies by the public interest entities;
- 12,1% of the respondents considered that the IFRS referential should be adopted only by the entities that want choose so;
- the other respondents consider IFRS referential is useful for the economic entities that are interested in financing their activity from the international market.

Another study, done in 2009, in the companies providing accounting and audit services, referring to the opportunity of the IFRS referential implementation in relation to the professional accountants level of training in this area, demonstrates that at the implementation date most of the Romanian accounting professionals didn't know this referential, the awareness degree being an alarming one, less than 20%. Nowadays, 75% of the respondents who were the object of the research consider that the accounting professionals master the IFRS referential, but the other respondents, 25%, believe that the Romanian accounting professionals are not ready to apply the IFRS referential (Jianu *et al.*, 2009, p.19).

The training of the staff involved in the IFRS application is a long-term goal. The public interest entities must train their own experts, because, presently, there aren't enough experts on the IFRS application. On the other hand, the IFRS are in a continuous development process which involves a continuous training of the professional accountants.

In Romania, although there were some progresses compared to 2003, the quality assurance system and the enforcement mechanisms for the general purpose financial statements and the audit requirements are still insufficient. For example, the system adopted by the Chamber of Financial Auditors of Romania in order to ensure the quality is operational, but the monitoring team, which includes five professional auditors, lacks the experience and the professional skills in auditing, especially in the financial sector. The Chamber of Financial Auditors of Romania needs to significantly improve the monitoring team and the quality assurance system in order to achieve the objectives set by the 8th Directive (World Bank, 2008). In this respect, in Romania, a Strategy for the public oversight of statutory audit work was developed in 2010, being initiated by the Public Oversight Board of the Statutory Audit Activity, an organization founded in 2008 by the transposition of the Directive 2006/43/EC. The key strategic objective of the Public Oversight Board of the Statutory Audit Activity is to promote and to follow the increase in the public confidence in the statutory auditing of the annual financial statements and the consolidated financial statements (Public Oversight Board of the Statutory Audit Activity, 2010).

If the Romanian National Bank monitors and adopts the financial reporting requirements applicable to the banks and the non-banking financial institutions, the insurance supervisory bodies haven't published any example of application of the financial reporting requirements. In this context, the effectiveness of the Insurance Supervisory Commission in monitoring the quality of the general purpose financial statements issued by the insurance companies becomes questionable. For the economic entities in the insurance sector, the IASB decided to implement a specific standard for this activity, which will be gradually applied over two-stages. In the first stage, this specific standard was not used, the applicable principles being those provided by: IAS 32, Financial Instruments: Disclosure and Presentation, IAS 39, Financial Instruments: Recognition and Measurement and the IFRS 4, Insurance Contracts. The second phase ended in the late 2010 with the adoption of the specific standard to the insurance domain (Insurance Supervisory Commission, 2006).

On the other hand, the unit responsible for monitoring the listed companies, set up inside the National Securities Commission, began its activities in May 2008 and is challenged to review the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Moreover, the Romanian National Bank, by the Order no. 9/2010 on the application of the International Financial Reporting Standards by the credit institutions, as a basis of accounting, decided the elaboration of the annual individual financial statements in accordance with the IFRS starting from the fiscal year 2012.

In conclusion, in Romania, the national strategy for improving the financial reporting of the private economic entities is mostly based on the elaboration of the individual annual financial statements of the public entities under the IFRS referential, but the experience of the recent years demonstrates unequivocally that in our country, there are some difficulties in implementing the IFRS, as follows (Toma, 2010):

- the misinterpretation of the IFRS or the terminology problems, sometimes generated by the translation errors or the multiple translations;
- the confusion that occurs between the standards and the regulations; wrongly, we come to equate the two concepts, even if they are different issues: the standards have a recommendation character, they aren't mandatory and are issued by non governmental bodies, while the regulations are mandatory and are issued by government institutions;

• the IFRS nature is another issue for the Romanian accounting professionals: when reading an International Financial Reporting Standard, the Romanian accounting specialists are particularly concerned about the accounting investigation, rather than the elements regarding the accounting information disclosure in the financial statements;

• the financial reporting refers to the general financial statements, the same way the IFRS treat this subject, while the accounting regulations in Romania laconically question the general financial reporting;

• the confusion connected to the applicability of the IFRS: the international financial reporting standards are issued in order to be applied by the economic entities and can't be brought to a governmental level in order to consolidate a nationally centralized accounting;

• the relationship between taxation and accounting, which is not settled at the European level, because two issues can be identified in this area: first, issues of cost, generated by drawing two sets of financial statements, second, drawbacks related to the reliability (when information from balance sheets prepared according to different accounting referentials are read, it's hard to believe that no question was raised: what are the actual results?);

• internationally and nationally no clear import pattern of the IFRS emerged: taking over the IFRS, adopting some national standards of financial reporting or setting up of national standards based on the IFRS principles?;

• difficulties in applying the IFRS for the small and medium enterprises, considering that in the Romanian law these entities are not clearly defined small and medium enterprises;

• issues related to IFRS implementation costs, while the Romanian state is facing difficulties in applying the international financial reporting standards in the public sector system;

• in the context of implementing the IFRS, the human factor, that is the accounting professional, should not be neglected, considering that at his level, possible training, ethical and professional reasoning issues can be identified, due to his universally recognized subordination to the taxation.

5. CONCLUSIONS

The accounting professionals have repeated on various occasions that, nowadays, the accounting community is driven by the strong desire of standardization and harmonization of the international accounting practices and, more recently, of convergence in the accounting field, in order to increase the comparability and the credibility of the information disclosed in the financial statements. Since 1990, the Romanian accounting theory and practice is in a constant search for an identity. Since then we have witnessed the "import" of accounting solutions that have been transformed into genuine referentials that helped us to react in every moment of change.

There can only be one conclusion: over the past decade, the Romanian financial reporting system has acquired a number of new traits. If a comparative analysis is to be made between the Romanian financial reporting system of the 90s and that of the 2000 - 2012 period, one would certainly observe a series of changes that led to an actual enhancement in the quality of accounting information, disseminated through the financial statements. If in the 90s, the Romanian financial reporting system was designed to mainly deal with the state's informational interests, as inertia originating in the realities of the 1948-

1989 period, starting with 2000, the financial communication process has been actually giving proper attention to informational interests of the investor.

Year 2000 was for the Romanian accounting the beginning of a large process of reconstruction, especially in the conceptual field. Furthermore, as the accounting reform went ahead the economy reform, the supply of accounting information did not follow, but anticipated the demand. Since 2001, with the adoption of the Ministry Order no. 94/2001, Romania experiences the implementation of the IFRS referential and, presently, a national Strategy of improving the financial reporting of the private economic entities is now outlined.

It remains to be seen whether, contrary to all the difficulties, the path that we intend to follow, will lead to the increase of the quality and the reliability of the financial reporting of the economic entities. Certainly, an important role in achieving this goal belongs to the accounting professional, whose difficult mission is to keep up with the frequent reconsiderations of the accounting rules, largely decided at the international level.

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