ACCOUNTING POLICIES IN THE CONTEXT OF THE EUROPEAN AND INTERNATIONAL REGULATIONS

POLITICI CONTABILE ÎN CONTEXTUL REFERENȚIALULUI CONTABIL EUROPEAN ŞI INTERNAȚIONAL

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Abstract: *Since 2009, the accounting policies harmonized with the European Directives have been applied in Romania. The article presents the cases when there is the need to choose between accounting treatments and what happens in each case.*

Key words: *accounting policies, IAS, Romania*

INTRODUCTION

Once the Romanian accounting system was harmonized with the European Accounting Directives, the writing and establishing of the accounting policies by each company has become an important aspect in order to ensure the premises for obtaining certain accounting information and financial statements which are both credible and offer quality.

OMFP 3055/2009 , at article 267(1) defines the accounting policies as: "*the specific principles, bases, conventions, rules and practices applied by an entity to create and present the annual financial statements (...)"*.

In another vision, the accounting policies are options determined by certain interests, complying with certain principles, rules and conventions regarding the registration, recognition and evolution of the elements described in the accounting model, writing and presenting the financial statements[*]. When these rules become imperative, applicable by the

[*] Ristea M, Metode şi politici contabile de întreprindere, Editor: Tribuna Economică, Bucureşti, 2000, pg. 19

legislation and regulated, the accounting policy is reported and is subordinated to the accounting system[*].

In the context of the International Standards, the accounting policies are defined by the International Standard 8 (IAS 8), revised. This standard must be applied at selecting and applying the accounting policies in an entity and at accounting for the changes in the accounting policies, as well as changes in accounting estimations and correcting the errors from the previous periods.

Writing and establishing the accounting policies by the Romanian enterprises must be done under the European Accounting Directives and the International Accounting Standards IAS-IFRS.

Prof.Ph.D. Mihai Ristea creates delimitation between the accounting policies and the accounting methods. If the accounting policies are options regarding the specific principles, bases for valuation, conventions, rules and procedures adopted by an enterprise for writing and presenting the financial statements, on the other hand, the accounting methods represent the treatments or procedures used by the enterprise in compliance with the accounting policies and rules to write and offer financial information regarding the enterprise's financial position, financial performance and cash flows[†].

The accounting policies ensure a framework for selecting the economic elements which are recognized in the financial statements, the way these are presented and valued. The source of the main accounting policies is found in the accounting legislation.

Writing the accounting policies complies with the following general accounting principles used for writing the financial statements as per the requirements of the European IVth Directive and OMFP 3055/2009:

- the going concern;
- the principle of permanent methods;
- the precautionary principle;
- the accrual;
- the principle of separate assessment components of asset and liability;
- the principle of inviolability of the opening balance sheet;

[*] Ibidem 1

[†] Ibidem 1, pg. 9

- the netting principle;
- the substance over form principle;
- the principle of materiality.

The principles listed above are present in the Fourth Directive and OMFP 3055/2009 and are subordinated to the true image of the financial position, results and the changes in the enterprise's financial position.

The Romanian enterprises will have to present the situation of the accounting policies in Note 6 attached to the financial statements as stated in OMFP 3055/2009.

The responsibility for writing and establishing the accounting policies

The responsibility for writing and establishing the accounting policies in the enterprises is a task for the management. These are written and established by specialists who work in the technical and economical areas (economists, engineers, technicians, so on).

The Romanian accounting is subject to normalization as there are a series of principles, rules and procedures established for the enterprises, regardless of the object of activity or the size of the entity. Under these circumstances, the responsibility for organizing and bookkeeping is a task for the enterprise's manager. The accounting policies and the specific procedures for the situations mentioned in OMFP 3055/2009 are approved by the enterprise's manager.

According to article 267(4) from OMFP 3055/2009, "*the accounting policies must be written in such a way to ensure, by the use of the annual financial statements, the provision that the information offered are:*

a) intelligible;
b) relevant to the needs of users in decision making;
c) credible, in such a way that they:
  - *accurately represent the assets, liabilities, financial position and profit or loss;*
  - *are neutral;*
  - *are cautious;*
  - *are complete in all relevant regards;*

- *events and transactions are accounted for and presented according to the substance over form principle, if it has been used.*

THE CONSISTENCY IN USING THE ACCOUNTING POLICIES. CHANGING THE ACCOUNTING POLICIES

There must be consistency from one financial exercise to the other when it comes to using the accounting policies in the enterprise. The enterprise's management may take decision to change the accounting policies, but there must be a reason to do it.

The users (investors, employees, creditors, suppliers, clients, the state's institutions and other authorities, the general public) need to have information about the accounting policies and the procedures approved by the enterprise's manager as well as about the changes in these policies and the effects of the changes on the financial position and cash flow.

The changes of the accounting policies can be done at the initiative of the enterprise's management or can be imposed by the law. In the situation in which the change of an accounting policy is voluntary (the enterprise's management wants to change it) , it has to be justified in the explanatory notes attached to the financial statements. If the change is requireD by law, there's no need to write the reason of the change in the explanatory notes, but the change must be mentioned.

Article 40(2) from OMFP 3055/2009 presents a series of examples of cases when the accounting policies need to be changed, such as:

- admission to trading on a regulated market of the enterprise's short-term securities or withdrawing them from trading;
- ownership change as a result of joining a group, if the new methods ensure better financial information;
- mergers and assimilated actions done at accounting value, case in which the harmonization of the accounting policies with the ones used by the acquiring company is needed.

Examples regarding the accounting policies

OMFP 3055/2009 lists in article 267(1) a series of examples regarding the accounting policies:

- choosing the method of depreciation of the fixed assets;
- reevaluation of tangible assets or preserving the historic cost;
- capitalization of interest or recognizing it as an expense;
- choosing the method of stock assessments;
- accounting for stock using the continuous or intermittent inventory, so on.

Accounting treatments for valuing the fixed assets at the time of writing the balance sheet

OMFP 3055/2009 offers two accounting treatments regarding the valuing of fixed assets when writing the balance sheet:

- the benchmark treatment according to which the fixed assets must be presented in the balance sheet at historic costs, diminished with the cumulative depreciation and the value of all losses which come from the depreciation;
- the allowed alternative treatment says that after recognizing an asset, a fixed asset will be registered in the balance sheet at the reevaluated value, as well as accounting for the future losses due to depreciation.

Example: An enterprise buys equipment on 31.12.N-1 at the cost of 40.000 lei, the depreciation time is 8 years and the enterprise uses the linear depreciation method. After two years, the equipment is reevaluated and the reevaluated value established by the specialists is 60.000 lei.

-lei-

Indexes	**Situation before the reevaluation**	**Situation after the reevaluation**
The gross book value	40.000	80.000
The cumulative depreciation	10.000	20.000
The net book value	30.000	60.000

The reevaluation reserve is 30.000 lei. According to note 6 annexed to the financial statements, the enterprise will present:

- the assets which is reevaluated;
- the methods which show the values after the reevaluation
- the historic cost of the reevaluated asset;
- the fiscal treatment regarding the reevaluation reserve;
- the changes in the reevaluation reserve.

Accounting for the borrowing costs

When it comes to the accounting treatment of the borrowing costs IAS 23 offers two treatments among which the enterprise's management can choose from:

- the benchmark treatment according to which the borrowing costs are accounted for as expenses during the current financial exercise, being treated as period costs;
- the allowed alternative treatment according to which the borrowing costs are considered as an element of the buying costs or production costs of the asset and aren't different from other expenses which are accounted for as such.

Example: A company gets a loan of 50.000 euros for buying an asset from a supplier in Italy.

	The interest is not capitalized	**The interest is capitalized**
Accounting for the interest costs of 2000 euros x 4 lei / euro = 8000 lei	666 = 1682 20.000	2131 = 1682 20.000

In note 6 annexed to the financial statements the chosen accounting treatment regarding the borrowing costs will be stated, along with the value of the interest included in the cost of the assets and the influence on the result.

The stocks

Different methods used to value stocks when they exit the enterprise's management lead to different accounting results.

According to note 6 (h) annexed to the financial statements "*if the value presented in the balance sheet, obtained as a result after using the FIFO, CMP or LIFO methods, differs significantly , at the date of the balance sheet, compared to the value determinate on the basis of the last known market value before the date of the balance sheet, the value must be presented in the explanatory notes as total, for each category of fungible asset"*.

According to OMFP 3055/2009, the accounting treatment regarding the recognition of the stocks' cost as an expense is done differently, considering the management method used:

- the continuous inventory method; or
- the intermittent inventory method.

When closing the financial exercise, the stocks will have to be valued at the lower of cost and net realizable value.

Example: Showing the value at which the stock of goods is shown on 31.12. N , as well as the bookkeeping regarding the depreciation of value is done as it follows:

Type of stock	V_i	V_{rn}	**V**	**Bookkeeping the depreciation**
A	137	110	110	6814 = 397 27
B	150	140	140	6814 = 397 10
C	105	150	105	-
D	90	90	90	-

where: V_i = inventory value (the cost of buying the stocks)

V_{rn} = net realizable value on 31.12.N

V = the value of the stocks which will be showed in the financial statements on 31.12.N

The option between the two accounting methods for the construction costs

According to the International Accounting Standard, accounting for the construction costs is the object of IAS 11 "Construction Contracts". The object of this rule refers to the accounting treatment regarding the income and expenses made during a construction contract. The problem needed to be solved in the case of the long term contract is the choice of the accounting method. According to IAS 11, the enterprise's management can choose among the following:

- percentage of completion method ; or
- completed method.

Example: The choice between the two methods differs according to the moment in which the result of the construction in established, as it can be seen from the following table:

Method	Financial exercise N	Financial exercise N+1	Financial exercise N+2	The result of the contract
Completed method	0	0	700.000	700.000
Percentage of completion method	225.000	292.000	183.000	700.000

The result of the contract is the same: 700.000 lei; the only difference is the method applied to the contract during its existence.

During the completed method, the result of 700.000 lei is recognized only during the financial exercise N+2 when the contract is finalized , while during the percentage of completion method, the result is spread onto the three financial exercises (225.000 in financial exercise N, 292.000 in financial exercise N+1 and 183.000 in financial exercise N+2).

In note 6 annexed at the financial statements, the enterprise's management will have to present the method used and the influence upon the result. Also, the change from one method to another must be mentioned (if that's what the management decides), as well as the influence upon the profit and loss account.

The depreciation policy

The depreciation policy chosen by the enterprise's management influences the enterprise's performance. In order to understand the influence, first let us look at the three variables which determine the depreciation method:

a) the useful economic life;
b) the residual value
c) the depreciation method.

a) According to OMFP 3055/2009 , the useful economical life is established based on the Catalog while IAS 16 says that it's established by estimation done by the enterprise's experts. The International Standard recommends a period revision of the useful economic life to make sure it reflects the current reality. The useful economic life can be determined as a result of a technical process or can be prolonged as a result of repairs or upgrades being done upon the equipment or asset.

b) IAS 16 states that when buying an asset the residual value must be taken into account, and this value can be revised during the economic life of the asset. The deduction of the residual value affects the depreciation, by diminishing it and the result increases. The Romanian enterprises most often ignore the residual value when they calculate the depreciation.

c) Different depreciation methods lead to different imagines projected upon the result.

The distribution of depreciation costs varies according to the depreciation method chosen by the management.

The provisions and adjustments policy

Creating provisions must be done with care by the enterprise's management engaging estimation, caution and previsions. The provisions policy is an efficient instrument used to "*smooth the result"* offering the management enough opportunities for creative accounting.

According to point g) from note 6 annexed to the financial statements "*if the assets are the object of exceptional value adjustments for financial purposes exclusively, the sum of the adjustments and the reasons they were done must be presented in the explanatory notes."*

In place of a conclusion

In the context of extending the professional reasoning on the background of current accounting legislation harmonized with the European Directives and International Accounting Standards , writing and presenting the accounting policies becomes and important aspect in obtaining credible and qualitative financial statements.

The image presented by each enterprise with the help of their financial statements is dependent on the accounting professional's ethics as well as on the accounting information presented to the public.

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