IAS AND IFRS IMPACT OVER THE ROMANIAN ACCOUNTING SYSTEM

IMPACTUL IAS ŞI IFRS ASUPRA SISTEMULUI CONTABIL ROMÂNESC

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Abstract:
At this time România is across some irreversible and highly interest processes for the accounting: the number and power of internațional companies is increasing; the globalization of the economies, mostly the financial market; the increasing of the stock capitalization and the development of new financial products. Under these circumstances, the production and the communication of relevant, credible and comparable financial information which uses a common accounting language are essential to the business environment. The unique solution for the achievement of these requirements is the harmonization of the Romanian accounting with the common acquis disposals and, in the same time, the effective application of IFRS.

***Key words**: accounting standards, IAS implementation, Financial Statements, Balance Sheet*

Short history about International Accounting Standards (IAS) application

In România, February 2001, the Ministry of Public Finances has gradually implemented the reform for the Romanian Accounting Regulations, initially done through the adoption of the Ministry of Public Finances` Order No. 94/2001 for the approval of the Accounting Regulations upgraded in conformity with the IVth Directive of the European Community and with The International Accounting Standards, closely. Followed by a series of other special banking and insurance orders, as well as orders concerning the institutions regulated and supervised by the National Commission for Tangible Values (CNVM - Comisia Națională a Valorilor Mobiliare). OMFP No. 94/2001 foresees the limited application of the International Accounting Standards for the Romania companies (eg., the regulations regarding the inflationary adjustments: IAS 29/SIC 19/SIC 30, and the problem of necessity for consolidation of companies: IAS 22/IAS 27/ IAS 28). Therefore, the order provides the following issues:

- reguîations for the companies to which IAS apply gradually, selected as according to dimension and business rate criteria;
- it specifically mixes the IVth Directive of EU with IAS, which leads to some exceptions from fully implementing IAS;
- it doesn't mention the consolidation of accounts matter for the Romanian companies;
- it mentions some regulations to be applied instead of IAS.

October 2001: The adoption of OMFP No. 1.982/5/2001 which refers to the implementation of accounting rules according to IAS and EU Norms only for credit institutions. This is the equivalent for the OMFP No. 94/2001 for banks and credit institutions.

February 2002: The adoption of OMFP No. 306/2002 regarding the application of IAS and EU Norms to small to medium enterprises. This OMFP comprises „resized" standards applicable to smaller to medium companies.

December 2002: The adoption of the MFP and CNVM` Order No. 1.742/2002 regarding the application of the accounting procedures aligned to IAS and EU Norms to all institutions supervised by CNVM. This order is the equivalent of OMFP No. 94/2001 for the companies included at the Romanian Stock Exchange (Bursa), for brokers, investment funds etc.

July 2003: OMFP No. 815/2003 comes to be implemented referring to disclosure of companies`financial statements at the end of the financial year. The order foresees that all Romanian companies have to report at the 30th of June each financial year and also discloses the format for the financial statements.

December 2003: OMFP No. 1.872/2003 which clarifies the connection of Romanian accounting with the IFRS (International Financial Reporting Standards) and the OMF also specifies all the necessary future steps for the full implementation of IAS in Romania undertaken under the name of International Financial Reporting Standards (Standarde Internaționale de Raportare Financiară).

At this point, the Romanian companies incurred many advantages due to the use of an accounting system harmonized with the internațional one, based on the ***"true and fair view"***concept in accounting *(fr.„une image fidelle* ") for the disclosure of financial reports - a procedure truly useful for the Romanian business environment, especially mentioning theforeign investors. In conformity with this last measure, starting with 2006, the International Financial Reporting Standards (IFRS), as they are presented and published by the International Accounting Standards Board (IASB), are applicable to the foliowing juridical entities: credit institutions, insurance institutions, autonomous regies and other public institutions etc.

Steps for the IAS implementation in România

STEP 1: 1st of January 2005 – 31st of December 2005, so-called *"the transition period",* the period for the general review of the financial statements or *the comparative period*. In this time, the basis of the Basic Accounting system is upgraded with the previous referențial (OMFP No. 94/2001 or OMFP No. 306/2002). The financial statements are prepared and disclosed in conformity with the previous referențial. At this step the following operations are done: the recognition of assets, liabilities and owner's equity not in conformity with the IFRS regulations; the recognition of assets and liabilities not allowed by IFRS; the reclassification of all assets and liabilities in conformity with IFRS; revaluation or adjustments to assets, liabilities and owner's equity in conformity to IFRS specifications (where the utility of the real value is considered as an estimated cost); and all revaluation and adjustment differences shall be treated as owner' s equity elements.

STEP 2: lst of January 2006 - 31st of December 2006, called the *„effective application period"* or the period for preparing and disclosing the first financial statements in conformity with IFRS, a period characterized by: the new treatment of the information disclosed in the financial statements in full conformity with IFRS regulations at the 31st of December 2005. In order to insure a comparative disclosure, the new treatment foresees both the information at the lst of January 2005 and the ones at 3 lst of December 2005. In other words, this means

the retroactive application of all the IFRS, in such a way that at the 31st of December 2006 all financial statements shall be disclosed in conformity with IFRS. This is a very delicate moment for the Romanian Accounting System and we have to recognize the merit of the Ministry of Public Finances for such an action, but still implies a great challenge for the involved companies in applying the IFRS regulations. Such a „challenge" actually means the following:

• understanding the main and real problems a company faces and their potențial impact upon that company;

• planning, responsibility allocation and solution finding to different problems;

• personnel training for the efficient and actual implementation of IFRS regulations in their daily activities;

• generating new information in conformity to the new accounting system and insuring their quality;

• the disclosure of budgets and company forecasts in conformity with IFRS.

The adoption of IFRS means more than just the modification of the old accounting regulations and procedures. It is a new system for evaluating performance - a new system of procedures - which must be implemented at the level of the entire organization. This will definitely change the way companies work and it is very likely that new ways of regarding a company's strategic management and accounting strategies will emerge.

The pure accounting new points of view refer mainly to:

• fully implementing standards never used before (like: IAS 39 *Financial Instruments: Recognition and Measurement;* IAS 36 *Impairment of Assets* etc);

• applying new IFRS standards (IFRS 1 *First Time Adoption of International Financial Reporting Standards* and the standard through which other 13 standards are revised) and the withdrawal of IAS 15 *Information Reflecting the Effects of Changes in Prices.*

As it was to be expected, in our country, as in the rest of the EU, the program for the accounting systems' development has made as a main objective the application for the tirst time of the International Financial Reporting Systems starting with lst of January 2006, for approximately 100 companies and major Romanian institutions. The passage to IFRS will have, for some of the major companies and business groups, important effects upon their way of presenting and disclosing their financial statements and business performances. Such a new accounting system will lead to a reaction of the markets, regarding the new methods used for disclosing financial information by the challenged companies in România. So, the companies will be able to benefit from the IFRS regulations.

Study case - IAS 1 *Presentation of Financial Statements*

The objectivc of IAS 1 (revised 2003) is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. Standards for recognizing, measuring, and disclosing specific transactions are addressed in other Standards and Interpretations**.**

Scope: Applies to all general purpose financial statements based on International Financial Reporting Standards [IAS 1.2]. General purpose financial statements are those intended to serve users who do not have the authority to demand financial reports tailored for their own needs [IAS 1.3].

Objectîve of Financial Statements: The objective of general purpose financial

statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet that objective, financial statements provide information about an entity's [IAS 1.7]: assets liabilities; equity; income and expenses, including gains and losses; other changes in equity; cash flows. That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Components of Financial Statements: A cornplete set of financial statements should include [IAS 1.8]: *a balance sheet; income statement; a statement of changes in equity showing either: all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders; cashflow statement; and notes, comprising a summary of accounting policies and other explanatory notes.*

Reports that are presented outside of the financial statements - including financial reviews by management, environmental reports, and value added statements - are outside the scope of lFRSs [IAS 1.9-10].

Fair Presentation and Compliance with IFRSs: The financial statements must „present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the defmitions and recognition criteria for assets, liabi-Hties, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation [IAS 1.13]. IAS 1 requires that an entity whose financial statements comply with IFRSs make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs [IAS 1.14]. Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material [IAS 1.16], IAS 1 acknowledges that, in extremely rare circumstances, management may conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure [IAS 1.17-18].

Going Concern: An entity preparing IFRS financial statements is presumed to be a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures [IAS 1.23].

Accrual Basis of Accounting: IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting [IAS 1.25].

Consistency of Fresentation: The presentation and classification of items in the financial statements shall be retaincd from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS [IAS 1.27].

Materiality and Aggregation: Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial [IAS 1.29].

Offsetting: Assets and h'abilities, and income and expenses, may not be offset unless required or pemiitted by a Standard or an Interpretation [IAS 1.32].

Comparative Informations: IAS 1 requires that comparative information shall be disclosed in respect of the pre-vious period for all amounts reported in the financial statements, both face of financial statements and notes, unless another Standard requires otherwise [IAS 1.36]. If comparative amounts are changed or reclassified, various disclosures are required [IAS 1.38].

Structura and content of financial statements in general

Clearly identify [IAS 1.46]: the financial statements, the reporting enterpnse, whether the statements are for the enterprise or for a group, the date or period covered, the presentation currency, the level of precision (thousands, millions etc).

1. BALANCE SHEET

An entity must normally present a classified ba-lance sheet, separating current and non-current assets and liabilities. Only if a presentation based on liquidîty provides information that is reliable and more relevant may the current/non-current split be omitted [IAS 1.51].

Current assets are: cash; cash equivalent; assets held for collection, sale, or consumption within the enterprise's normal operating cycle; or assets held for trading within the next 12 months. All other assets are non-current [TAS 1.57]. Minimum items on the face of thebalance sheet [IAS 1.68]:

(a) property, plant andequipment;
(b) investment property;
(c) intangible assets;
(d) financial assets (excluding amounts shown under (e), (h) and (i));
(e) investments accounted for using the equity method;
(f) biological assets;
(g) inventories;
(h) trade and other receivables;
(i) cash and cash equivalents;
(j) trade and other payables;
(k) provisions;
(1) financial liabilities (excluding amounts shown under (j) and (k));
(m) liabilities and assets for current tax, as defined in IAS 12;
(n) deferred tax liabilities and deferred tax assets, as defined in IAS 12;
(o) minority interest, presented within equity; and
(p) issued capital and reserves attributable to equity holders of the parent. Additional line items may be needed to fairly present the entity'sfînancialposition [IAS 1.69].

2. INCOME STATEMENT

In the 2003 revision to IAS 1, the IAS 7 is now using „profit or loss" rather than „net profit or loss" as the descriptive term for the bottom line of the income statement. All items of income and expense recognized in a period must be included in profit or loss unless a Standard or an Interpretation requires otherwise [IAS 1.78]. Minimum items on the face of the income statement should include [IAS 1.81]:

(a) revenue;
(b) finance costs;
(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
(d) a single amount comprising the total of

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognized on the disposal of the assets or disposal group(s) constituting the discontinued operation;
(e) tax expense; and
(f) profit or loss.

Certain items must be disclosed either on the face of the income statement or in the notes, if material, including [IAS 1.87]:
(a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
(b) restructuring of the activities of an entity and reversals of any provisions for the costs of restructuring;
(c) disposals of items of property, plant and equipment;
(d) disposals of investments;
(e) discontinuing operations;
(f) litigation settlements; and
(g) other reversals of provisions.

3. CASH FLOW STATEMENT (IAS 7) The objective of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period aceording to operating, investing and fmancing activities.

Presentation of the Cash Flow Statement: Cash flows must be analyzed between operating, investing and financing activities [IAS 7.10]. Key principles specified by IAS 7 for the preparation of a cash flow statement are as follows:

operating activities are the main revenue-producing activities of the enterprise that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and emplo-yees [IAS 7.14];

investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents [IAS 7.6];

financing activities are activities that alter the equity capital and borrowing structure of the enterprise [IAS 7.6]; interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period [IAS 7.31]; cash flows arising from taxes on income are normally classified as operating, unless they can be specifically identified with financing or investing actîvities [IAS 7.35]; for operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable [IAS 7.18]; aggregate cash flows relating to acquisi-tions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures.

4. NOTES TO THE FINANCIAL STATEMENTS

The notes must [IAS 1.103]: present information about the basis of preparation of the financial sta-tements and the specific accounting policies used; disciose any information required by IFRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity, or cash flow statement; and pro vide additional information that is not presented on the face of the bal ance sheet, income statement, statement of changes in equity, or cash flow statement that is deemed relevant to an understanding of any ofthem.

Disclosure of judgments: New in the 2003 revision to IAS 1, an entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements [IAS 1.113].

Examples cited in IAS 1.114 include manage-ment's judgments in determining: whether financial assets are held-to-maturity investments; when substan-tially all the significant risks and rewards of owner-ship of financial assets and lease assets are transferred to other enb'u'es; whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.

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