

THE APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN ROMANIA: ADVANTAGES AND MAIN PROBLEMS

Diana-Andreea, Trăistaru¹

Abstract:

This work is meant to analyze the implementation of International Financial Reporting Standards in Romania. The work tries to focus on the benefits and challenges of International Financial Reporting Standards, mainly on factors pertaining to its adoption connections, statistics and other types of analyses were used in order to show the importance that International Financial Reporting Standards adoption could represent for a large number of stakeholders. The most important features of International Financial Reporting Standards implementation are the costs, which seem to be rather high, the missing of instructions for the adoption, and its complex characteristics.

The adoption of International Financial Reporting Standards in Romania are strongly influenced by the stock market, the dimensions of companies and educational degree. The results of this study recommend that the government should start a program to support the International Financial Reporting Standards application.

Keywords: Adoption, Benefits, International Financial Reporting Standards, Romania

JEL Classification: M41 – Accounting

1. Introduction

Accounting is shaped by the economic and political forces. We assist daily to a globalization of both the economy and politics, which unavoidably leads to a greater theoretical and practical application of IFRSs. Most of the political and market forces will remain firm in the forthcoming future, so the level of convergence in the actual financial reporting practice, is uncertain.

In our research we are going to use both the IAS and IFRS labelling, because at the beginning of the accounting harmonization process, the name of IAS had been employed, and then, from 2002, after signing the Norwalk Agreement, the name of IFRS was used, including also the International Accounting Standards.

The Romania's progressive transition towards IFRS implied also a phase meant to shape the accounting system according to the IFRS provisions (an harmonization phase), followed by the entire adoption of the International Accounting Standards (IAS) in conformity with the EU requirements (a conformity phase). Thus, one of the consequences of the mandatory application of IFRSs in Romania is the fact that for a certain period of time (1999-2005), some entities adopted mandatory accounting regulations, harmonized with both the European Directives and the IFRSs, which lead to a partial application of IFRS.

Among the first reasons presented by the Romanian accounting regulators, there existed arguments for supporting the enlargement of mandatory application of IFRS, such as *the need of an alignment with the international practice of promoting the financial statements' transparency and compatibility*, creating and maintaining an attractive investments background as a consequence to *the country's concern of protecting itself from the loss of foreign stock due to the exploitation of inconsistencies in the accounting standards adopted by companies belonging to multinational groups and due to recommendations from international organizations, especially the World Bank and the International Monetary Fund, for adopting IFRS.* [2]

¹ Ph.D Student, University of Craiova, Faculty of Economics and Business Administration, e-mail: traistaru.diana@yahoo.com

The globalization process creates great transformations and challenges for the accounting system. One of them, mentioned lately by the accounting professionals to be the most important and interesting of all, is represented by the process of accounting harmonization, with all its implications, contacts, barriers and advantages.

The process of implementation of IFRS is complex and various aspects are to be considered when it comes to their evaluation: the characteristics of the RAS (Romanian Accounting System), its historical background, the characteristics and attitudes of the national companies, the users of financial statements and their expectations and also the features of the Romanian accounting profession.

2. Methodology research

The present scientific study implies a series of general methodological elements, meant to facilitate the understanding of the adopted working style. In this way, I have highlighted the main reference points which I used in my research.

The information sources set at the basis of this study are mainly represented by articles published in the trade magazines, both in the accounting area and in the economical one, books written for the domain, regulatory documents, official documents, press releases and other documents issued by various national and international organizations that cater for the accounting area (IAS, IFAC, FASB).

In order to emphasize the importance of this research, I turned to adapting the initial form of the graphic representation of Istrate, C. (2012) from a study published in 2012:

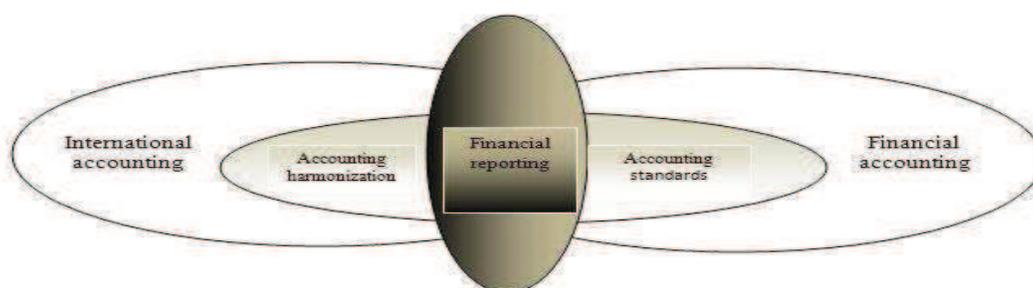


Fig. no. 1 Accounting area of research

Source: [9]

I consider that the present research process is large and complex and it implies elements of scientific knowledge and creation, its role being that of enabling the profound examination of disparities and interrelations between the components of the research process. In such a process, the ideas that were developed and the contributions made for the scientific knowledge are to be based on the reliability and relevance of the scientific language used. Accordingly, we find it necessary to reveal an image of the research process from chronological perspective, showing sequentially the steps for the research's progress.

The scientific endeavour implies many methodological elements with general character which are being appointed to make for the understanding of the working process. In order to enhance the undertaking's relevance, we used as approaches for the research both the deductive approach and the inductive one.

Through the deductive approach, I considered the presentation of some principles and quantitative data, the results' generalization, the explanation of associations between different variables and the application of a theory starting with the given information. Through the inductive approach, I appealed to the use of data from a qualitative point of view, I offered an understanding of the context of research and I circumstantiated the results as they had been obtained.

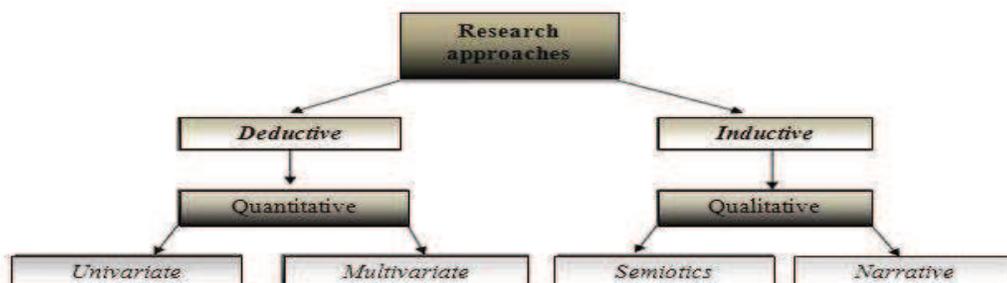


Fig. no. 2 Ways of analysing the collected data

Source: [11]

3. IAS and IFRS adoption by the Romanian Accounting System and possibilities for their improvement

The history of the IFRS adoption in Romania consists in different stages of development. Therefore, there is a phase of voluntary adoption, that implies entities which need financial reporting for the IFRS, and this stage takes place in the period of 1990-2014. The voluntary adoption of IFRS's application has also been mentioned in the accounting legal framework starting with 2006, being regarded only as an opportunity for the application of the IFRS in a separate set of financial statements. [14]

Subsequently, starting with 2012, there was another phase of the expansion of the IFRS's adoption in Romania, which aimed to the introduction of IFRS in the individual financial statements of entities listed on a continuous market and to the exclusion double reporting for these companies.

Among the first reasons presented by the Romanian accounting regulators, there existed arguments for supporting the enlargement of mandatory application of IFRS, such as *the need of an alignment with the international practice of promoting the financial statements' transparency and compatibility*, creating and maintaining an attractive investments background as a consequence to *the country's concern of protecting itself from the loss of foreign stock due to the exploitation of inconsistencies in the accounting standards adopted by companies belonging to multinational groups and due to recommendations from international organizations, especially the World Bank and the International Monetary Fund, for adopting IFRS*. [3]

Hereby, companies with capital bonds accepted for trading on a continuous market are required to apply the IFRS in the individual financial statements. However, the Romanian accounting regulators supported a transitional period before the complete implementation so that for the year of 2012, the annual financial statements should be prepared according to the IFRS, through the release of those pursuant to the Romanian Accounting Standards. [9]

Usually, the influence of IFRS in Romania develops, if we consider their adoption by the banking and insurance companies and also by those controlled by CNVM – brokerage firms. Thus, the application of IFRS by the banking entities was an imposed provision as a result of the agreement signed in 2010 with the IMF (International Monetary Fund), the EC (European Commission) and the WB (World Bank), in order to maintain the financial stability in the Romanian environment. [9]

In the main, the factors that are and will be implied in the IFRS' adoption are those presented in Figure 1.3:

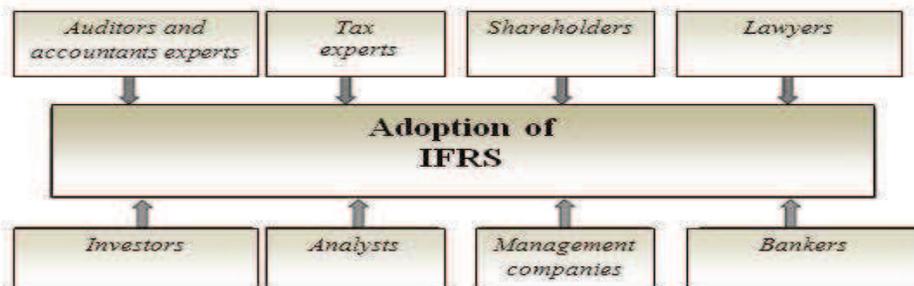


Fig. no. 3 Ranges of members for IFRS's adoption

Source: [14]

The expansion of IFRS adoption in Romania was due to the conditions imposed to the Romanian authorities by the international creditors – The International Monetary Fund, as an instrument of development (the improvement of financial stability and of the investors' trust in the Romanian economic area). For that, in 2010, the Romanian National Bank and the Ministry of Public Finance reconfirmed their commitment of adoption of the necessary legal framework for the comprehensive application of IFRS at the beginning of 2012 (Section 25 of the letter of intent signed by the Romanian authorities in Bucharest, in 2010, 16th of June, Act 257/2010). [5]

As a consequence, starting with 2012, all entities adopt the IFRS after a three years transitional period (2009-2011) during which they were required to prepare two sets of financial statements: one of them in conformity with the European Union Directives, considered to be the official one, and another set according to IFRS, resulted after restating the financial statements in concordance with the European Union Directives and meant to inform those interested in such financial reports. In addition to this, the entities that are authorized, regulated and supervised by CNVM, have to apply IFSR after a transitional period during which the financial reporting is being achieved for the local accounting standards and also for the international ones. [8]

These institutions have the obligation to release for the 2011, 2012 and 2013 financial years, a secondary set of financial statements according to the IFRS, obtained by reissuing those prepared in conformity with the local accounting regulations that comply with the conditions of the Fourth Directive of European Economic Community (EEC). [12]

In the same time, the insurance industry is also considered for the adoption of IFRS to be “the accounting background for the annual financial statements”. Therein, the regulators have completed a *pilot* phase of adoption, involving 11 insurance companies that have to prepare a secondary set of annual financial statements, in conformity with the IFRS, by reformulating those in concordance with the local regulations. The *pilot phase* is intended to function for three year, with the possibility of reducing the period to two years, depending on the results achieved.

For issuing European accounting regulation, a process of proposing a project by a commission of accounting professionals, firstly takes place. This project is going to be approved by the Council of Ministers, and then it is being examined in the European Parliament. The next stage consists in numerous negotiations that lead to the review and redrafting of the regulation that is to be adopted by the states of the European Union. [4]

The precise image of the French regulations refers to the conformity of financial statements which describe a faithful image of the company. Regulations from different countries have distinct foundations, determined by the society and the economy specific for each of them.

Moreover, the European Directives may display inconsistencies when it comes to their application, as a result of the complicated process of drafting.

Romania experimented for the first time the adoption of the IFRS in 2000, through a convergence phase, the improvement of the accounting framework taking place in adherence with the European and international principles and aiming to the elimination of the original elements pertaining to the economic process.

The harmonization with the European Directives remains necessary for the adherence to the European Union, as well as the application of IAS (International Accounting Standards), so long as they are conforming to the European regulations.

The factors which are influencing the improvement of the accounting system involve the total assimilation of the European regulations in what concerns the financial statements' drafting [4]:

- The conformity of financial statements and reporting with the configuration of the annual accounts and the compulsoriness of providing precise information about those accounts;
- The adoption of new accounting regulations;
- The conformation to the rule of "precise image";
- The assimilation of professional language, according to the European Directives;
- The initiation of a project regarding the adoption of IAS (International Accounting Standards) and the issue of NAS (National Accounting Standards);
- The draft of guidelines for a good implementation of the project for the accounting system's development.

The company's management strategy will become more efficient along with the accounting harmonization according to IFRS, which determines a better transparency and a lower complexity of scheduling and reporting. The Committee that issues the International Accounting Standards seeks for creating a single global set of standards.

The adoption of the European Directives is compulsory as they represent the background for the accounting authority. Every country takes into account these directives and European standards when it issues its own national standards. [2]

There are accounting bodies that allowed the application of international standards, following the Italian or French model, while other companies chose to apply entirely or partially those standards (for example, Germany or Switzerland). The global economy is on a transitional phase toward a system focused on a group of multinational companies which develop their activity at a global level. Multinational companies comprise a large number of other individual companies maintaining commercial relations, financial or other type of relations. The largest companies aim to internationalization as this one enables the existence of markets, of tax benefits, financing sources and also cost deduction. The local capital market may be influenced by activities that take place at large distances, as a result of companies' spreading on large geographical areas, the providing of comparable financial information from various parts of the world being necessary at the same time.

Accounting normalization consists in issuing regulations and norms in a group of countries, for a group of companies or accounting professionals. It is also necessary that some control bodies may check the functioning and implementation of these regulations in the best circumstances.

These stages are presented in Figure 1.4, and they mark out their general characteristics.

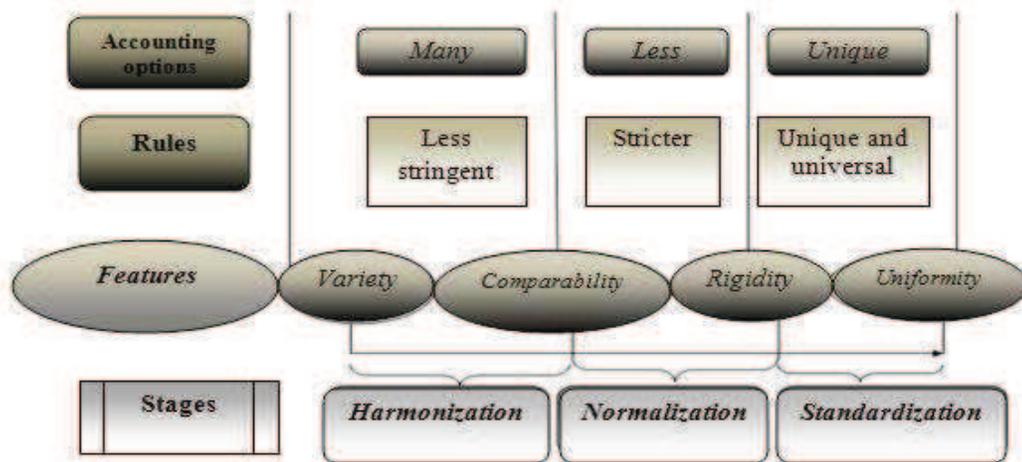


Fig. no. 4 Characteristics of the harmonization, normalization and standardization process
Source: [12]

4. Conclusions and future predictions

This study examines the IFRS adoption, its benefits, the challenges of IFRS application and the factors that might influence their adoption in Romania, mainly referring to those companies which have implemented this standard.

The research investigated a large area of issues attached to the IFRS adoption in Romania, focusing on organizations that have already initiated reports on the basis of these international standards and the following conclusions have been drawn:

- *The Romanian Government expressed its endeavour to correlate the financial statements with the International Accounting Standards;*
- *Public Interest Entities have to comply with the IFRS in their financial reports.*

The results of this study refer to the fact that the IFRS should have been implemented earlier in Romania thanks to their great benefits. On the other hand, there are companies that don't apply all these standards although they are obliged to use the IFRS in preparing their own financial reports.

IFRS adoption in Romania determines important benefits for a large number of stockholders, benefits that are going to improve the effectiveness and efficiency of financial reporting for companies.

Considering the economic business by removing the different accounting methods for various transactions, IFRS adoption contributes to the improvement of comparability and trust in adopting these standards.

This application presents also de advantage of transparency for companies, fact that diminishes the problems between management and stockholders.

IFRS adoption will provide better information for the decision making of the management department, and it facilitates a more efficient risk management.

The main challenges implied by the adoption process of IFRS involve important application costs, the need for preparing, the complex nature of some IASB and the lack of appropriate guidelines for implementation.

It would be useful for the future to make researches on the subject of the conformity of IFRS adoption in Romania. This would imply the detailed adoption of standards and how efficiently do the Romanian companies apply these standards. In addition to this, it is not known the degree in which the IFRS mandatory adoption affects the financial

statements and we thus wonder if these statements become more informative when they are in conformity with the compulsory implementation of IFRS.

Another research area could be the way in which the small and medium-sized enterprises adopt and keep up to the IFRS.

Finally, this study has tried to focus on factors influencing the IFRS adoption in Romania. Although the research revealed various important factors that affect the IFRS application, I recommend the performance of much more studies in the area of financial reporting.

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