

IASB FRAMEWORK REGARDING THE HARMONIZATION OF FINANCIAL STATEMENTS

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ABSTRACT: *Accounting harmonization has imposed on a certain stage of economic and social development, as a practical necessity, seeking coordination based on uniform standards of accounting work. The purpose of this paper is to highlight the importance of general accounting framework for harmonization financial statements aiming to be a starting point for research, without exhausting the subject. The main source of information used to achieve this paper was a preliminary documentation in order to understand theoretical concept regarding the demarcation of the harmonization concept.*

KEY WORDS: *harmonization; financial statements; international accounting standards; IASB; normalization.*

JEL CLASIFICATION: *M40.*

1. INTRODUCTION

Harmonization of international accounting could be defined as an institutional process that is seeking to ensure consistency between national accounting rules and practices to ease comparisons between financial statements prepared by companies in different countries. The objective of harmonization is to ensure data equivalence and not their uniformity (Colasse, 2000, p.757). With initially only one national character, the normalization process formalizes and materializes the objectives, principles, methods, rules and procedures governing the production and use of accounting information. The normalization process has as a reference the system accounting rules and restrictions on building the truth about the heritage situation, results and financial condition (Ristea, 1998, p.18). Referring to the normalization of the accounting

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process, French Professor Bernard Colasse says:” Today in most countries the accountancies of firms are normalized; this means that they rely on common rules and terminology and prepare summary documents whose models are identical for all firms” (Colasse, 1995, p.37). Paul Holt and Cherly Hein define the harmonization as a process of reducing accounting differences to the extent of standardization (Holt & Hein, 2001). Other authors consider the term “harmonization” as only the jargon used in international accounting to define the "report to reduce differences in financial reporting between countries (Walton and others, 2003). Often called the language of business, the accountancy covers, we would say inevitably, a process of harmonization that is intended to harmonize national accounting rules and practices to ensure comparability of accounting financial statements. Therefore financial resources and necessary time are saved for transnational companies to draw up consolidated accounts and financial statements.

The harmonization of accounting regulations at an international level is accompanied by indisputable economic arguments (Niculescu, 2001):

- allows companies that prepare and submit their financial statements as required by the IASC to be listed on any financial market;
- provides to a wide range of users, in different countries, reliable and comparable informations on the company's financial position and performance;
- delivers an integrated, realistic and relevant vision on the companie’s activity;
- is a source of improvement for the enterprise analysis. The new forms and sources of communication, the methods and techniques of treating the information facilitates the analysts in-depth study of the functioning of the enterprise as a whole.

2. THE ROLE, PURPOSE AND OBJECTIVES OF THE CONCEPTUAL FRAMEWORK

A conceptual accounting framework is a systematization of the theoretical elements of accountancy through a coherent structure, designed to guide accounting practice. It can be considered a tool for the accounting profession sought to protect itself against attempts to monopolize the power of public accounting standardization activities. According to IASB companies around the world prepare financial statements for submission to external users, which are different in terms of content due to a variety of factors: social factors, economic, legal and cultural. These factors lead to the use of different definitions of elements of financial statements and assessment of their various bases. Implicitly, their area of applicability was also influenced.

The first attempts to create accounting conceptual frameworks were in 1975-1985 and they belong to the FASB American body of accounting standardization, the framework was based on the concepts adopted by other standardization bodies for their own accounting conceptual frameworks, including those developed by the IASB.

Even though it is obvious the usefulness of such a framework, the accounting systems do not have each such an instrument. Accounting conceptual frameworks are of Anglo-Saxon origin. It is a question of efficiency in accounting work in terms of using such a tool. Countries lacking such an instrument presently show the trend of

assimilation of a internationally recognized accounting framework, or are making the steps to develop their own conceptual accounting frameworks. Therefore, we mention the project of French conceptual accounting framework developed by the Standing Committee of Accounting Doctrine (CPDC), a body belonging to the Order of Chartered Accountants (OEC).

The option of a national accounting system to implement a conceptual accounting framework raises some problems with inconsistent data, for example in our country there are antagonistic tendencies between the concepts defined in the Framework of the IASB and the defined EU accounting directives. These contradictions that may arise between the two cultures of accounting are present in the comparison study made by the Federation of European Experts on the provision of European Directives and the provisions of state farms, namely: "*Businesses and accountants have to apply IAS in the national context - whether represented of national law or understanding of European Directives in the country*" (Ristea, 2000).

Choosing and designing an accounting system should take into account that no accounting system is perfect for a country's economic realities. He must be constantly reviewed and adapted to new requirements that are constantly changing, but in this dynamic process should be kept in mind that changes too often do not lead to stable rules and accounting practices, which has direct effects on targets of a conceptual accounting framework.

In Romania's case should there must be considered the national, European and international context. Devising of a national accounting system is a complex political and strategical process, taking into account the geography of international accounting and private interests of each country.

The purpose of the IASB framework. IASB accounting conceptual framework was developed in 1989. The aim of this framework is to provide guidance to members of the IASB Council in their work on developing standards, assist those who prepare and audit financial statements. IASB believes that the financial statements prepared on the basis of this conceptual framework provides information common to most users in making decisions, such as: assess the ability or leadership responsibility; determine fiscal policies; to assess the security that a company can provide for the loans which have been granted; determine profits and dividends that can be distributed; develop and use statistical data on national income; to regulate business activities; deciding when to buy, keep or sell parts are of the capital.

The objectives of general framework. The objective issued by the IASB is to provide a basis for the overall financial statement presentation so that it can ensure comparability both over time - the company's financial statements for previous periods, and space - with the financial statements of other enterprises.

The IASB conceptual accounting frame sets theoretical concepts that make up a reference system for the preparation and presentation of financial statements. Thus, the IASB has defined the main objectives of this general framework, which consists of the following: to assist the IASB Board in promoting the harmonization of regulations, accounting standards and procedures concerning the presentation of financial statements, providing the basis that enables the reduction of alternative accounting treatment allowed by IAS; to help develop national standards bodies in the

development of national standards; to help those who prepare financial statements according to IAS to address topics not covered by any standard; to assist auditors in forming an opinion on compliance with IAS financial statements; to help users of financial statements in interpreting the information presented in financial statements prepared in accordance with IAS; to provide information regarding the elaboration manner of the standards of those interested in the IASB activity; to assist IASB Council to develop future International Accounting Standards (IAS) and review existing ones.

As stated in the IASB Board, the general framework of the preparation and presentation of financial statements is not an accounting rule and as such it does not represent a standard for the assessment of events and transactions. Therefore, its content is clear that in exceptional circumstances where there is a conflict between its provisions and those of a specific IAS, IAS regulations will have priority.

3. OBJECTIVE OF FINANCIAL STATEMENTS

Financial statements as general objective of the IASB Framework is to provide information on the financial position, financial performance and position changes, information useful to a wider range of users in order to substantiate their economic decisions. According to the American model, financial statements are for users only an element of all their needs and does not relate to the conceptual framework accounts depending on their needs. According to the American model financial statements are prepared in two situations: 1). basis the result will be *application of accrual accounting* - under which transactions and events are registered in the time of their birth, not in the moment of their clearing; 2). *continuity of operations for the foreseeable future* - requires the company to use certain valuation bases of financial situations elements and hence to quantify transactions and events, depending on which different.

The financial position of the company is represented through the balance sheet and is evidenced by the following: economic resources that the company controls, structure of assets and equity, the liquidity and solvency and its ability to adapt to environmental changes in which they operate. Since the accounting document that reflects this characteristic is the balance sheet, by extension the equation showing the financial position is the following: $Equity = Assets - Liabilities$

The performance of business activity of the company involves primarily its profitability. Financial information in this respect is needed to assess potential changes in economic resources that the company will be able to control the future, the most important ones are those regarding performance variability. Also, this information is useful to predict the company's ability to generate cash flows using existing resources and also in the process of determining professional judgements regarding the efficiency with which the company may use these new resources. The performance is evaluated in terms of income and its evolution, which is defined in terms of profitability of the company. The performance is presented through the profit and loss, relationship through which it can be highlighted is the following: $Exercise\ result = Income - Expenses$.

Changes in financial position reflects information on operations, finance and investment for a particular accounting period. This information is useful in assessing the enterprise's ability to generate cash and cash equivalents, and also the company needs to use these funds. This situation can be presented in different ways, namely: financial resources, working capital, liquidity or cash. These indicators are calculated as follows:

1. Working capital (WC): $WC = \text{Permanent Capital} - \text{Fixed Assets}$
2. Working capital requirement (WCR): $WCR = \text{short-term assets} - \text{short-term debt}$
3. Net Treasury (NT): $NT = WC - WCR$

Cash flows are presented on three types of activities of an enterprise: operating, financing and investment. Operations on the operating activities aim at achieving the object of work of the company. Operations on financing activities aim at procuring resources to finance assets. The operations of the investment activity aim for the use of resources for the purchase of durable goods, usually in the form of fixed assets. Cash flows are determined for each category of activity in part as the difference between revenue flows and payments.

4. USERS OF INFORMATION PROVIDED BY THE FINANCIAL STATEMENTS

In our research the most important actors at company level are: on the one hand accountancy, which provides a range of information on the company's activity; on the other hand, the management which could not operate without financial and accounting information. A complete set of financial information is found in the structure of financial statements:

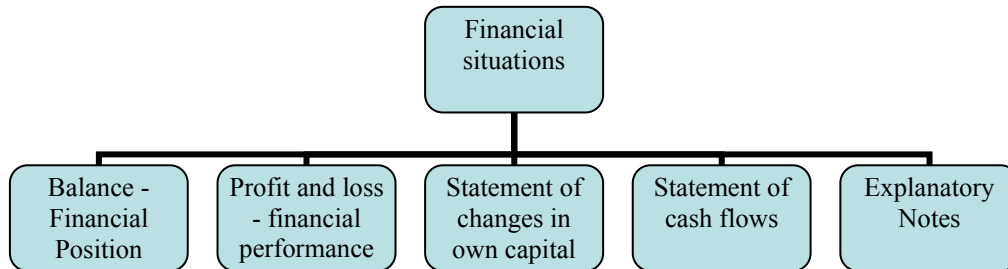


Figure 1. Structure of financial statements

Another category of actors is represented by the users of accounting information. Users of the information provided by financial statements are considered by the Council of the IASB as the most significant categories in the sense that if they are satisfied with the range of their information, others casual users have sufficient information for their information needs. This aspect is comparative from a lot of points of view. First, information needs are not closely related to the type of accounting system used by a particular country. User needs are generally common, especially regarding investors, and accounting systems provide different information in financial

statements that they present. Secondly accounting standards on which financial information is obtained have a theoretical character towards the variety of cases found in practice. Finally, in addition to the categories of users - investors and financial lenders - the needs of other users are various, different and more difficult to define. The main categories of users mentioned in the IASB Framework are:

1) **The investors** are represented by equity bidders and their financial advisers who are interested in trading and risk inherent benefits of their investment. Their information needs are to provide information to enable them to decide when to buy, sell or retain their equity parties. They also are interested in information that will enable them to assess an enterprise's ability to pay dividends. They are seen as providers of capital and its associated risks, in this sense they are interested in decision making when buying, holding or selling of equity.

2) **Employees** are represented by staff and their representative groups, and are interested in information on the stability and profitability of the enterprise. Also, they are interested in information that will enable them to assess the company's ability to provide remuneration, pensions and other benefits and career opportunities.

3) **Creditors** are interested in information that enables them to determine whether the loans and interest will be refunded at maturity.

4) **Suppliers and other creditors** are interested in information that enables them to determine whether what they are due will be paid at maturity. They are also interested in the company's activity for a shorter time period than lenders unless they are dependent on the continuity of the company's activity or when this is a major customer.

5) **Customers** are interested in information regarding the continuity of the company, especially when they have worked with it for a long time or they are addicted to it.

6) **The Government and its institutions** are interested in resource allocation and hence the activity of enterprises. The information requested relates to regulate their activities to determine the fiscal policy and for the calculation of macroeconomic indicators.

7) **The public** is interested in a variety of ways, namely: the contribution to the local economy, number of employees, working with local suppliers, recent developments and future company activity, sphere business. Analyzing the structure of the priority users listed by this referential, the specific situation in our country has come a crossing route from the prevision of European accountancy rules to the accounting norms of international accounting standards. Currently, the general assimilation of the IASB Framework, the priority structure of the users is similar to the one agreed by the international body.

5. LIMITS OF THE GENERAL FRAMEWORK IN ACCOUNTING HARMONIZATION PROCESS

Achieved international accounting harmonization is a necessity imposed by requirements of users of financial statements. The need for this process is shown by the following factors: globalization, the globalization of economies and capital markets, which prints the international character of accounting rules; creation of regional power

centers, by extending the borders of the European Union (EU), which result is in the rise of international circulation process of capitals; diversify globally competitive methods; designing a uniform accounting system and generally able to determine the efficient functioning of enterprise activities; creating an optimal convergence between internal and external system in terms of financial informing.

These phenomena taken both in particular and through the interdependencies that are created between them, are leading to the marketing aspects of accounting, namely accounting information market. Home side which shows this type of market is legal and its objectives are classified according to the preference for certain categories of users, namely investors and third parties for the purpose: developing accounting and financial information published, increasing the intelligibility of accounting information, increasing power in space and time comparison of accounting information.

Achieving these objectives has its resultant in the process of creating accounting rules capable of providing financial information useful in making decisions by its users, which is based on the strength of their information. The process of creating accounting rules generated in two streams:

- *the conceptual and deductive current* in which accounting concepts and principles are determined by professional reasoning, being found in the methods and procedures applied in practice;
- *the pragmatic or inductive current* in which the developing of concepts and principles is based on the experiences and traditions. These currents have led to the creation of two major global accounting systems, namely continental accounting system (conceptual current) and Anglo-Saxon accounting system (pragmatical current).

The usefulness of the general accounting framework gives a certain status in the process of standardization of accounting rules. IASB conceptual framework is criticized in connection with the evaluation of financial statements in the sense that he made only a listing of measurement bases, and paragraphs that have shown the maintained capital are too descriptive.

This framework sets out seven categories of users and their information needs, it does not present problems of the existence of conflict between their different information needs. Another limit is that this framework has been developed to assist in developing future international accounting rules and revising existing ones, so they do not constitute an accounting rule, but is the theoretical basis of international accounting normalization.

6. CONCLUSIONS

In conclusion, we can say that because of changes occurring internationally, Romanian accounting could not remain unchanged. Practically, all these changes are real challenges and issues of contention for professionals in the field, whether practitioners or academics. It always tried to align to the processes of normalization, harmonization and convergence, both on the actions of national organisations for accounting normalisation, but also on their actions of surveillance the capital markets, independent

from the efforts made by the bodies representing the accounting profession. Romanian accounting is in the application phase of International Financial Reporting Standards (IAS / IFRS). Thus, it moved from the accounting regulations harmonized with Directive IV of the European Economic Community and the International Accounting Standards, on the one hand, and the accounting regulations harmonized with EU directives, on the other hand, to the accounting regulations according with Directive IV and VII of the European Economic Community. So, all companies are required to conduct compliance accounting, accounting law and regulations mainly harmonized with Directive IV and VII of the European Economic Community.

In conclusion we can say that the harmonization of accounting is a necessity, especially in conditions of free movement of capital, the investors in securities refusing to accept information on a company's financial position and the results presented differently depending on the location of its registered office. Such a process enhances the credibility and reliability of information provided by companies, regardless of the location of their social headquarters, and provides the support of mutual recognition of annual accounts.

Despite the many advantages brought by the international accounting harmonization and convergence, the number and diversity of those who are pushing for this process are relatively low. The accounting frame is an important basis to members of the IASB Council in standard-setting activities, to assist those preparing and auditing financial statements.

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