

# The Influence Of Fiscal Accounting On Entrepreneurial Decisions In Romania

~ Ph. D. Student **Daniela Pordea** (Western University of Timișoara, România)

E-mail: danapordea@gmail.com

~ Ph. D. Student **Maria-Adina Motica** (Advanced Studies, Romanian Academy, Calea Victoriei, Bucharest, Romania)

E-mail: adinacohut@yahoo.com

~ Ph. D. Student **Dorel Mateș** (Western University of Timișoara, România)

E-mail: mates.doloro60@yahoo.com

**Abstract:** Entrepreneurship is the soul of any economy and is based on the ability of entrepreneurs to combine the resources they have to create and maintain a business that generates profit. An essential element for entrepreneurial decisions is information. Accounting is one of the most important sources of information that can influence management choices about their business development strategies and the exploitation of the investment opportunities they identified in the market. A quality accounting information accurately reflects economic reality and can lead to better risk management for the entrepreneurs in a competitive and continuously developing economy.

Romanian accounting professionals are often victims of a fiscal stance in addressing economic transactions, caused on the one hand by the interests of the entrepreneurs in reducing tax burden and on the other hand, by the existence of an unstable and complicated tax legislation.

Through this paper our intention is to analyze the impact of the fiscal accounting on the quality of the information provided by the financial statements and implicitly on the entrepreneurial decisions which are based on this information, as well as to identify possibilities to restore the role of accounting for mirroring the reality of the business environment.

**Keywords:** accounting data, economic substance, entrepreneurial decisions, financial statements, fiscality

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## 1. Introduction

In the competitive economy of our century, the activity of small and medium-sized entities is an important factor of long-term development, with a significant contribution to job creation. The role of entrepreneurship in the evolution of a country's economy is an extensive subject of research and debate in the relevant literature.

In the context of the assumed risk and the resources involved in their business, the goal of any entrepreneur is to obtain profit. In this respect, the management structures of the economic entities are particularly interested in reducing the costs generated by the economic activity they carry out, especially those with a fiscal incidence. On the other hand, the State, as a regulatory and tax administration body, seeks to obtain information from business accounting for determining the tax situation in the process of collecting taxes and duties.

In Romania, the applicable tax laws are quite strict and in this context accountants are tempted to subordinate to fiscal issues, which may distort the quality of the information provided by the financial statements. With the adoption of International Financial Reporting Standards (IFRS), the fiscal impact on accounting policies tends to decrease, at least formally. However, small and medium-sized enterprises not applying these standards particularly use the so-called "fiscal rule".

This paper seeks to analyze how the use of fiscal accounting influences the quality and credibility of accounting information provided by the financial statements of the economic entities, as well as to identify possible solutions to optimize the presentation of this information.

## 2. Relevant Literature

Black, G. (2004) defines accounting as "the process of identifying, measuring, and communicating economic information about an organization or other, in order to permit informed judgement by users of the information".

In order to ensure the improvement of the quality of accounting information, accounting systems have been developed over time, encompassing the theories, techniques and concepts of recording and disclosing the necessary data for the entities to make economic decisions. Under the conditions of the economic globalization, the tendency to transform accounting systems into economic models aimed at providing more precise and accurate accounting information has materialized.

The credibility of accounting science requires the harmonization of accounting regulations on a global level so that the provided information is comparable. According to Epuran, M., Megan, O. (2006), the main impediment in the convergence of the accounting systems identified in the scientific world is the strong impact of fiscality, especially in continental European countries, where the primary objective of national accounting regulations is to provide information on the fiscal bases of taxes. At the same time, the above mentioned authors point out that the financial statements drawn up in accordance with International Financial Reporting Standards are mainly directed to providing the necessary information to the capital markets, which are fundamentally different from those used by the fiscal authorities.

In the same note, Zeff, SA (2007) draws attention to difficulties in ensuring the comparability of accounting information at a

global level for reasons of interpretation, language, terminology or political interference.

Cuzdriorean, D.D. (2014) addresses the issue of the influence of taxation on the accounting of Romanian entities, especially regarding the following aspects: depreciation, provisions, devaluation, revaluation of assets, valuation of incoming or exit stocks, the accounting treatment of certain categories of expenditures (sponsorship, interest, protocol expenses, etc.) as well as accounting policies and accounting errors.

The relationship between accounting and taxation is complex and derives from the need of the fiscal body to obtain information based on data recorded in the accounting. A representative work in this respect is *Accounting and the state in a post-communist Romania* (Deaconu, A., Cuzdriorean, D.D., 2016, which provides a complex analysis of the influence of fiscal policies on accounting in the historical context of our country. The state has a double role: it is the one regulating and, on the other hand, the one who uses the accounting information.

### 3. Research Methodology

The research methodology considers several steps to enable the necessary data to be obtained and analyzed in order to formulate some final conclusions that would improve the presentation of the financial statements by increasing the transparency and accuracy of the information provided by the accounting.

a) Motivation of research and establishment of the research theme

The fiscality is the system by which a state collects the taxes and duties. In order to achieve its main objective, the tax system

primarily pursues taxpayers' financial results, which determine the basis of taxation or the tax base. The State as a fiscal body is therefore an important user of the financial statements of the companies and has as main purpose the satisfaction of budgetary needs.

The ultimate goal of accounting is to present a true image of the financial position and financial performance of economic entities, useful for a wide range of users: management structures, investors (existing and potential), fund lender (bonds, banks, leasing companies), suppliers, customers, social partners (employees, trade unions), tax authorities.

Different interests of the users of the financial statements cause the degree of subjectivity in the presentation of accounting information, which can alter the perception of the financial statements of entities and tends to discard accounting science from its main purpose. That is why we considered it important to analyze the fiscal influence on the presentation of the accounting information.

#### b) Documentation

From the necessity of understanding specific events and processes, we have carried out theoretical investigations and documentation by using the specialized literature in the field of chosen theme.

#### c) Research strategy

In order to identify the technical details that lead to valid information useful in obtaining the results, we have documented the practical aspects at the level of an entity in Arad. This research process has a qualitative, inductive and interpretative character and starts from the factual reality in order to clarify and improve some theoretical concepts.

#### d) Information processing

The obtained data have been synthesized in case studies, in which we have

formulated different assumptions for obtaining a general answer on the addressed topic: the way in which the fiscal orientation of entities' accounting in Romania alters the information presented to the users through the financial statements.

e) Communication of results

The conducted comparative analyzes led to concrete conclusions on the topic and allowed to formulate possible solutions for improving the practical work in the field of accounting and for the development of the accounting profession.

#### 4. The Time - The Main Unknown In The Economic Reality

The accounting policies and procedures of each entity are the basis for determining and providing accounting information that is useful in making decisions based on rational considerations. The principle that governs the entire activity of the professional accountant is that of the true and fair image of the financial statements. The accountancy has on the one hand an operational and administrative role to record chronologically and systematically the economic operations and, on the other hand, a strategic one, of evaluation and estimation of various events and transactions, with a strong influence on the decision-maker.

In a first approach, reducing the tax burden on the entity is a prerequisite for fiscal accounting, but an in-depth analysis of the phenomenon reveals a number of motivations that lie on the one hand with the technical and informational difficulties encountered by professional accountants valuations and estimates of value and, on the other hand, in an often unpredictable and unstable

evolution of tax legislation over time.

In a philosophical sense, time is one of the most enigmatic ingredients of the universe, and therefore any form of anticipation is a tremendous challenge in the process of formation and development of human society. Economically, time is the only variable that specialists can not control, but which intervenes consistently and unswervingly in all the processes and transactions, and has therefore required the development and refinement of numerous techniques and prediction models.

Time is thus the main unknown that requires resolution in the respect of the principle of true representation of the economic reality by the financial statements and is therefore a challenge for the accounting professionals in the processes of valuation and estimation of the balance and result elements.

Evaluation is an accounting process that gives monetary expression to various structures related to the financial position, financial performance and cash flows for their presentation in the financial statements. Any evaluation process is susceptible to uncertainty that arises either because of the evaluator's experience or knowledge, or by the inability to obtain sufficient information to measure the value of the respective phenomenon. For this reason, the value of an element or process is always considered uncertain, representing an opinion or an image of its users on that element or process at a given point in time. The notion of evaluation is close to identification with that of the estimate and reflects the value measurement process that is based on incomplete data.

The economic concept of value regards, on the one hand, the most likely price that could be paid in a hypothetical and balanced

transaction (exchange value), and on the other hand is the measure of the future benefits that may result from the entity's ownership of an asset (value of use). In both approaches to the notion of value, the time factor plays an essential role and is the decisive challenge for specialists in attempting to represent, using appropriate techniques and professional reasoning, a transparent picture of the carried out processes and transactions.

The uncertainty of the value of the economic elements and the multitude of variables that require deepening in the estimation process can lead to subjective or questionable options and choices in the application of specific accounting treatments. For this reason, the tendency to standardize and uniformize the methods is becoming increasingly on a global level. Nevertheless, the dynamics of the economy has increased the complexity of transactions and thus the need for particular

treatments to reflect the economic substance of each process, so that accounting referentials provide alternative options based on economic considerations.

On the other hand, the Romanian tax legislation has a strict and rigorous character, coming from the state's interest in collecting taxes and fees from the contributors. In the process of elaborating the fiscal regulations, the Romanian legislator often omits the prevalence of the economic character, the fiscal policies being oriented towards the realization of the budgetary needs. The multiple political influences on the fiscal measures adopted by the Romanian state have led to numerous changes and adaptations in the legislation. An example in this direction is the legalization of tax treatment of revaluation surpluses, which has undergone several changes in the legislative approach in recent years, as shown in Table 1:

Table 1 - The evolution in time of changes in tax legislation regarding the reserves from the revaluation of fixed assets

Reference time interval	Deductibility of depreciation expense related to revaluation reserves
until 31.12.2003	deductible expenses
between 01.01.2004 and 31.12.2006	non-deductible expenses (excluding those recorded before the reference period)
between 01.01.2007 and 30.04.2009	deductible expenses (but the depreciation expense of the reserves incurred between 01.01.2004 and 31.12.2006 remains non-deductible)
from 01.05.2009 to present time	deductible expenses (but taxation of the reserves treated as income as a result of the decrease in the respective assets has been introduced)

Source: adaptation after Rapcencu, C. (2012), p. 176

Although the trends in the harmonization of accounting regulations that are emerging globally produce a positive impact on the quality of the accounting information reflected by the financial statements of the entities, most accounting specialists in our country are influenced in their professional reasoning by the fiscal system and the fiscal accounting approach is predominant in those economic processes that are most influenced by the time factor: estimating the value of provisions, revaluing and depreciating assets.

### 5. Case Studies Concerning The Impact Of The Use Of Fiscal Accounting On The Decision-Making Process Of Romanian Entrepreneurs

#### Example 1 - Accounting and fiscal treatments of provisions

An entity that operates in the construction field has highlighted as non-current receivables the performance execution

guarantees retained by its clients for the executed work contracts in the amount of 863,359 lei. In order to comply with the principle of prudence, for these guarantees the entity registered provisions.

The amount of the recognized provisions in the fiscal and accounting (economic) approach differs as follows:

Fiscal approach: the recognized amount of provisions corresponds to the value of the guarantees retained by the beneficiaries = 863.359 lei.

Economic approach: the recognized value represents the best estimate of the future expense for settlement of the current liability at the end of the reporting period = 150.000 lei.

The impact of the two types of approaches on financial-accounting information is compared in Table 2:

Table 2 - Comparative analysis of the main indicators in the financial statements according to the economic and fiscal approach of the provisions

<b>Profit and loss account at 31.12.2017</b>				
No.	Elements	Value in fiscal approach	Value in economic approach	Differences
1	Turnover	6.267.149	6.267.149	
2	Operating revenues - total	6.504.120	6.504.120	
3	Expenses related to inventories	3.503.861	3.503.861	
4	Personnel expenses	821.537	821.537	
5	Depreciation	460.222	460.222	
6	<b>Provisions</b>	<b>863.359</b>	<b>150.000</b>	<b>713.359</b>
7	Other operating expenses	641.633	641.633	
8	<b>Gross result (rd 2 - rd 3 - rd 4 - rd 5 - rd 6 - rd 7)</b>	<b>213.508</b>	<b>926.867</b>	<b>-713.359</b>
9	<b>Tax on profit (16%)</b>	<b>34.161</b>	<b>148.299</b>	<b>-114.137</b>



<b>Balance sheet at 31.12.2017</b>				
No.	Elements	Value in fiscal approach	Value in economic approach	Differences
10	Total assets	4.475.104	4.475.104	
11	Non current liabilities	757.230	757.230	
12	Provisions	863.359	150.000	713.359
13	Equity	1.313.967	2.027.326	-713.359
<b>Key indicators for the interpretation of financial statements</b>				
No.	Elements	Value in fiscal approach	Value in economic approach	Differences
14	Patrimonial solvency <i>Equity</i> <i>Total assets</i>	0,29	0,45	-0,16
15	Return of Capital Employed <i>EBIT</i> <i>Capital Employed</i>	0,10	0,33	-0,23
16	Debts to equity ratio <i>Non current liabilities</i> <i>Equity</i>	0,58	0,37	0,20

Source: authors projection

A first analysis of the profit and loss account presented in our case study reveals that the fiscal approach to the treatment of collateral provisions has a major influence on the tax burden, the profit tax due to the state budget being significantly reduced in this case.

But at the level of the balance sheet, the fiscal treatment of the provisions affects the level of the company's equity, by diminishing it. In the context of an entity's equity being the main source of financing for its economic activity, its level is of particular interest to users of financial statements.

Considering the need for entrepreneurs to attract external resources (from banks or other funding), we notice an alteration of the main financial analysis indicators in the fiscal

accounting approach to the economic one:

- the patrimonial solvency, which expresses the entity's ability to self-finance and the extent to which it can honor its payment obligations, is in a fiscal approach below a threshold of 0.30 considered reasonable;

- the return of capital employed is also low, given that this indicator is compared with the cost of the capital employed; a level of 0.10 denotes that the resources attracted to the entity's development will generate lower profits compared to the costs of attracting them;

- in terms of the debts to equity ratio, at 0.58 in the fiscal approach, we can say that the entity's possibilities to indebt on a long run are lower compared to the economic view.

In conclusion, although through the fiscal accounting the entity significantly reduces its tax on profit, the possibilities of developing its activity by attracting external financing sources are reduced. At the same time, the accounting information that emerges from the financial statements presented by the entity is significantly affected by the fiscal impact.

**Example 2 - Revaluation of tangible assets**

On December 31st 2016, an entity owns a bulldozer equipment used in the construction activity it carries out. As of 31.12.2016, the equipment had an entry value of 790,968 lei, a cumulative depreciation of 428,440 lei and the remaining duration of use of 22 months.

The entity’s accounting policies provide the historical cost disclosure in the financial statements, as the fiscal regulations do not require revaluation of the equipment and the entity has taken into account the costs of such revaluation as well as the considerations of simplifying the accounting activity in the context of future tax treatments (the fiscal law imposes tax on income-assimilated reserves with the decrease in fixed assets).

In this approach, the accounting treatments in 2017 are as follows:

$$\begin{aligned} \text{Remaining value at 31.12.2016} &= \text{Entry value} - \text{Cumulative depreciation} \\ &= 790.968 \text{ lei} - 428.440 \text{ lei} = 362.528 \text{ lei} \end{aligned}$$

$$\begin{aligned} \text{Monthly depreciation} &= \frac{\text{book value}}{\text{remaining time of use}} \\ &= \frac{362.528 \text{ lei}}{22 \text{ months}} = 16.479 \text{ lei} \end{aligned}$$

$$\text{Depreciation of the year 2017} = 12$$

$$\text{months} \times 16.479 \text{ lei} = 197.743 \text{ lei}$$

$$\begin{aligned} \text{Remaining value at 31.12.2017} &= 362.528 \text{ lei} \\ &- 197.743 \text{ lei} = 164.785 \text{ lei} \end{aligned}$$

If we analyze from an economic perspective, for financial informations to be credible, they must be neutral and verifiable. Fair value reflects the price that would have been received for the sale of the assets to which it relates in a regulated transaction at the valuation date, according to the International Financial Reporting Standard no.13 (IFRS 13) Fair value measurement. Because it is based on market data at a given point in time, fair value provides a more transparent view for users than historical cost and thus increases the informational value of the financial statements.

The fair value of the equipment determined by an authorized valuer on December 31, 2016 was 400.000 lei.

The disclosure of the equipment at revalued amount influences the entity’s financial position and financial performance through the following accounting treatments:

- the cumulative depreciation in the amount of 428.440 lei is canceled by imputing it on the input value of the equipment;
- there is recognized in the revaluation reserves the difference of 37.472 lei between the fair value of the equipment (400.000 lei) and its book value ( 362.528 lei);
- the monthly expense with depreciation is recorded in 2017 starting from the reevaluated value:

$$\begin{aligned} \text{Monthly depreciation} &= \frac{\text{book value (revaluated)}}{\text{remaining time of use}} \\ &= \frac{400.000 \text{ lei}}{22 \text{ luni}} = 18.182 \text{ lei} \end{aligned}$$



Depreciation of the year 2017 = 12  
months x 18.182 lei = 218.182 lei

The impact of the two accounting treatment options is presented in Table 3:

Remaining value at 31.12.2017 = 400.000  
- 218.182 lei = 181.818 lei

Table 3 - Comparative analysis of the main indicators of the financial statements according to the policy for the recognition of tangible assets

<b>Profit and loss account at 31.12.2017</b>				
No.	Elements	Value (asset recognition at historical cost)	Valoare (asset recognition at fair value)	Differences
1	Turnover	5.100.400	5.100.400	
2	Operating revenues - total	5.100.400	5.100.400	
3	Expenses related to inventories	3.345.700	3.345.700	
4	Personnel expenses	821.000	821.000	
5	<b>Depreciation</b>	<b>197.743</b>	<b>218.182</b>	-20.439
6	Other operating expenses	618.000	618.000	
7	<b>Gross result (rd 2 - rd 3 - rd 4 - rd 5 - rd 6)</b>	<b>117.957</b>	<b>97.518</b>	20.439
8	<b>Tax on profit (16%)</b>	<b>18.873</b>	<b>15.603</b>	3.270
<b>Balance sheet at 31.12.2017</b>				
No.	Elements	Value (asset recognition at historical cost)	Valoare (asset recognition at fair value)	Differences
9	Non-current assets	164.785	181.818	
10	Current assets	1.593.840	1.593.840	
11	<b>TOTAL ASSETS</b>	<b>1.758.625</b>	<b>1.775.658</b>	-17.033
12	<b>Equity</b>	<b>1.180.000</b>	<b>1.197.033</b>	-17.033

Source: authors projection

Depending on the company's choice through accounting policies, the financial statements at 31st of December 2017 show significant differences:

- the gross result in the fair value approach is significantly lower, with a downward impact on the profit tax burden;
- the policy of recognizing the equipment at a revalued amount leads to a higher level of equity compared to its presentation at the historical cost.

We can conclude that, also in terms of asset revaluation, fiscal accounting implies distortions as to the accuracy and fidelity of the information it presents to users.

### Example 3 - Depreciation of tangible assets

On December 31st, 2016, a company acquires a construction equipment for the cost of 790.968 lei. The duration of use is 4 years. We continue to outline how the use of the three asset depreciation methods is reflected in the entity's financial statements:

Straight-line depreciation:

- depreciation rate = 25%

- annual depreciation amount = 790.968 lei x 25% = 197.742 lei

Degrassive depreciation:

- depreciation rate = 25% (straight-line rate) x 1,5 = 37,50%

- depreciation of the year 2017 = 790.968 lei x 37,50% = 296.613 lei

- depreciation of the year 2018 = 593.226 lei (remaining value) x 37,50% = 185.383 lei

- depreciation of the years 2019 and 2020

$$= \frac{395.484 \text{ lei (remaining value)}}{2 \text{ remained years}} = 154.486 \text{ lei}$$

(starting in 2019 was used the straight-line method)

Accelerated depreciation:

- depreciation rate = 50%

- depreciation of the first year = 790.968 lei x 50% = 395.484 lei

- depreciation of the next three years =

$$\frac{395.484 \text{ lei (remaining value)}}{3 \text{ remained years}} = 131.828 \text{ lei}$$

(starting in 2018 was used the straight-line method)

Table 4 reflects the differences in the elements presented in the financial statements according to the entity's accounting policies regarding depreciation.

Table 4 - Comparative analysis of the main financial statement indicators according to the method of depreciation of tangible assets

<b>Profit and loss account at 31.12.2017</b>				
No.	Element	Value (straight-line depreciation)	Value (degressive depreciation)	Value (accelerated depreciation)
1	Turnover	5.100.400	5.100.400	5.100.400
2	Operating revenues - total	5.100.400	5.100.400	5.100.400
3	Expenses related to inventories	3.345.700	3.345.700	3.345.700
4	Personnel expenses	821.000	821.000	821.000
5	<b>Depreciation</b>	<b>197.742</b>	<b>296.613</b>	<b>395.484</b>
6	Other operating expenses	618.000	618.000	618.000
7	<b>Gross result (rd 2 - rd 3 - rd 4 - rd 5 - rd 6)</b>	<b>117.958</b>	<b>19.087</b>	<b>-79.784</b>
8	<b>Taxable profit</b>	<b>117.958</b>	<b>117.958</b>	<b>117.958</b>
9	<b>Tax on profit (16%)</b>	<b>18.873</b>	<b>18.873</b>	<b>18.873</b>
10	<b>Net result (rd 7 - rd 9)</b>	<b>99.085</b>	<b>214</b>	<b>-98.657</b>
<b>Balance sheet at 31.12.2017</b>				
No.	Element	Value (straight-line depreciation)	Value (degressive depreciation)	Value (accelerated depreciation)
11	Non-current assets	593.226	494.355	395.484
12	Current assets	1.593.840	1.593.840	1.593.840
13	<b>TOTAL ASSETS</b>	<b>2.187.066</b>	<b>2.088.195</b>	<b>1.989.324</b>
14	<b>Equity</b>	<b>1.180.000</b>	<b>1.081.130</b>	<b>982.259</b>

Source: authors projection

In the first year of use, the application of the linear depreciation method results in the highest gross result. The tax on profit does not differ, as the depreciation expenses are tax deductible only within the limit of the straight-line depreciation. Using a degressive depreciation method, the company greatly reduces its profit in the first year of use of the equipment and, in the case of accelerated depreciation, it registers loss under an equal profit tax.

An important change is also noted in the balance sheet, both in assets and in equity,

which have lower levels if the depreciation method used by the entity is degressive or accelerated.

In Table 5 the information on the equipment's depreciation over its entire lifetime is pointed out.

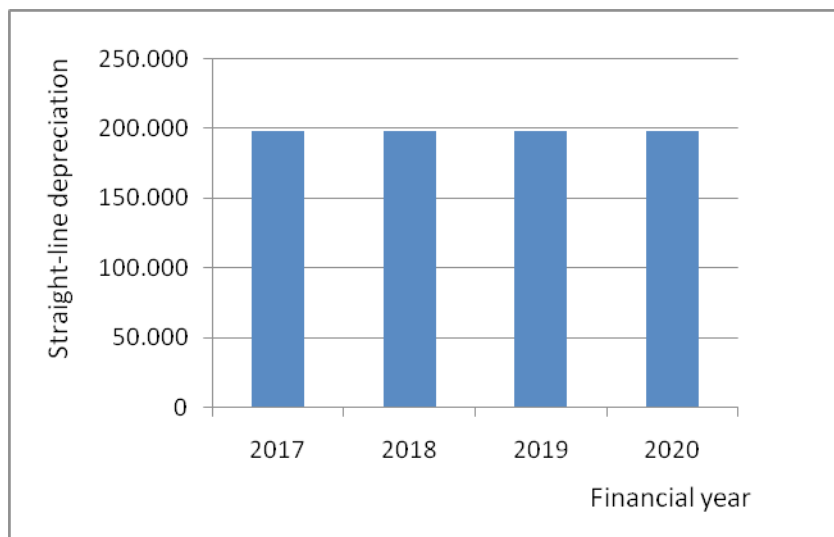
Table 5 - Comparative depreciation panel

Financial year	Amortizable value			Yearly depreciation value			Remaining value		
	straight-line	degressive	accelerated	straight-line	degressive	accelerated	straight-line	degressive	accelerated
2017	790.968	790.968	790.968	197.742	296.613	395.484	593.226	494.355	395.484
2018	790.968	494.355	395.484	197.742	185.383	131.828	395.484	308.972	263.656
2019	790.968	308.972	263.656	197.742	154.486	131.828	197.742	154.486	131.828
2020	790.968	154.486	131.828	197.742	154.486	131.828	0	0	0

Source: authors projection

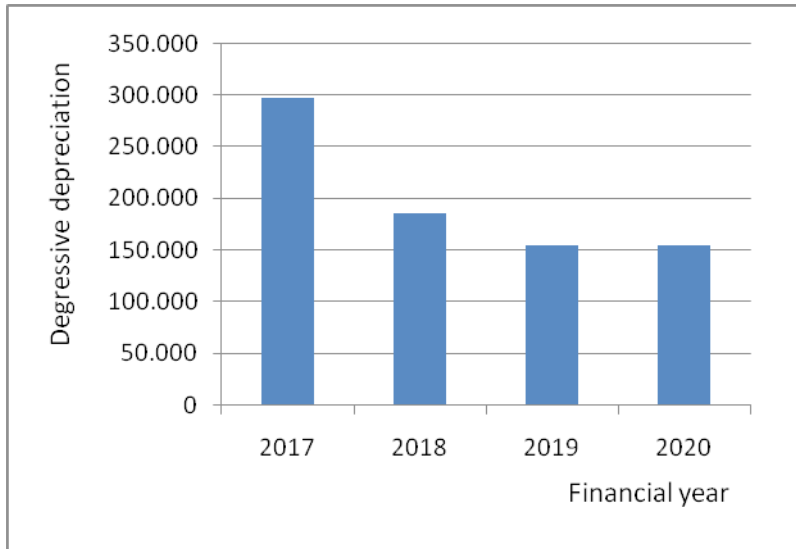
To visualize the evolution of depreciation in time in each of the three methods for which the entity can opt for through its accounting policies, we reproduce in the figures below the eloquent graphical representations:

Fig.1. Annual expenditures over the life of the equipment on straight-line depreciation



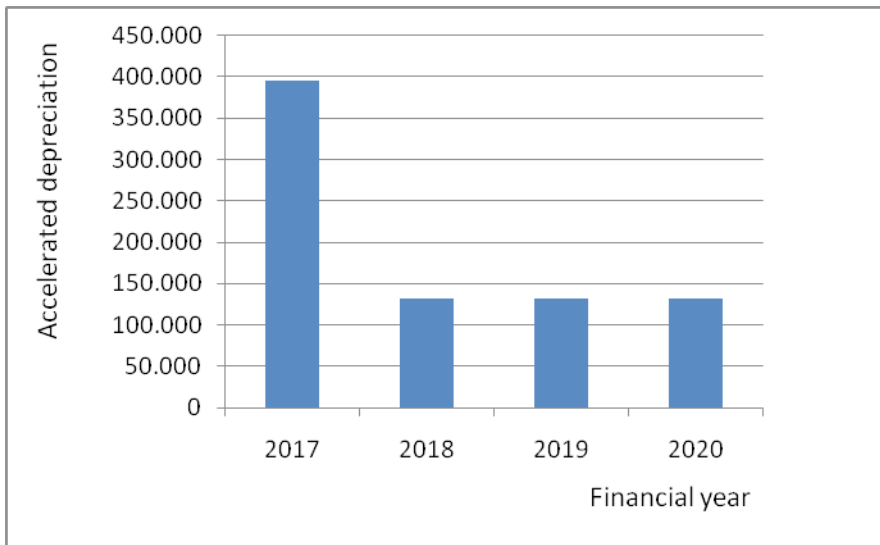
Source: authors projection

Fig.2. Annual expenditures over the life of the equipment on degressive depreciation



Source: authors projection

Fig.3. Annual expenditures over the life of the equipment on accelerated depreciation



Source: authors projection

It is noted that after the first year of use, degressive and acceleration depreciation costs would be significantly lower than in the case of straight-line depreciation and the value of the equipment disclosed in the financial statements would be lower as well, as a significant portion would be consumed in the first year.

Depreciation costs are tax deductible subject to the use of the straight-line depreciation method, so that it is preferred by most entities in Romania. However, the straight-line method does not always accurately reflect the way in which an asset is depreciated, but it proportionally includes a fixed amount to the operating expenses, proportionate to the duration of its use. The main disadvantage of the straight-line method from an economic point of view is the fact that it deals with depreciation only in terms of the time factor. This approach is incomplete, since the way in which the future benefits of an asset are consumed is also influenced by other elements regarding the conditions of its use. In other words, there are situations where a degressive method of depreciation is more appropriate, although it does not fully benefit from tax deductibility.

As regards accelerated depreciation, this is very rarely used, since it is unlikely that an asset will depreciate 50% in the first year.

## 6. Final Conclusions

In the fiscal approach, provisions for performance guarantees for construction works were constituted at the level of the retained guarantees, having as a base the Romanian fiscal referentials, which allow the recording of such provisions within the

limits of the quotas stipulated in the contracts concluded with the beneficiaries.

On the other hand, the starting point of the economic approach on the provisions transactions is the Directive 2013/34/EU, which stipulates in paragraph (22): "The recognition and measurement of some items in financial statements are based on estimates, judgements and models rather than exact depictions. As a result of the uncertainties inherent in business activities, certain items in financial statements cannot be measured precisely but can only be estimated. Estimation involves judgements based on the latest available reliable information. The use of estimates is an essential part of the preparation of financial statements. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the balance sheet. Estimates should be based on a prudent judgement of the management of the undertaking and calculated on an objective basis, supplemented by experience of similar transactions and, in some cases, even reports from independent experts. The evidence considered should include any additional evidence provided by events after the balance-sheet date."

The use of a fiscal treatment on provisions for performance guarantees for construction works lies on the one hand in reducing the entity's fiscal cost but on the other hand in the difficulties encountered by professional accountants in making a precise estimate of their value. In this direction, we believe that a thorough research is needed to achieve an econometric model useful in calculating provisions for performance guarantees so that their recognized value represents the best estimate of future expenditure for settlement of the current obligation at the



end of the reporting period.

Regarding the revaluation of equipment, the use of the fiscal rule in accounting does not necessarily lead to a reduction in the tax cost. As can be seen from case study no. 2, the tax burden would be significantly reduced in an economic approach based on fair value. In this situation, fiscal accounting manifests under the difficulties in transposing tax legislation into the treatment of revaluation reserves, especially in the case of successive revaluations. However, in the situation of buildings, things are different: if they are not revalued at a minimum of 3 years, the local tax may significantly increase. Although such tax measures have taken into account real estate market development trends in order to increase the tax burden, they have a positive impact on the way in which accounting information is produced, requiring that the buildings held by entities be presented in the financial statements at revalued amounts, which is actually the closest to economic reality.

In terms of asset depreciation, the entity's management structures should consider, in addition to the times of use, the economic conditions in which they are used. Analyzing the nature of the activity and making appropriate forecasts can compete in determining how assets will depreciate over time. In choosing the depreciation plan all these aspects are of particular importance and result in the disclosure of complete and transparent information to users.

Based on our case studies, we affirm that most often a fiscal accounting approach fundamentally damages the way in which financial statements are presented with significant effects on entrepreneurial decisions and on the possibilities of streamlining the economic activities of entities.

Considering the obtained results, we believe that a change in the Romanian professional accountants' attitude by returning to economic values and principles is necessary. The exercise of the accounting profession requires the assumption of responsibility to act in the public interest and must take into account the important role of accounting in any organization and the contribution of the information provided by the financial statements to the efficiency, development and viability of the entity's activity.

On the other hand, we believe that in the fiscal regulatory process, it is necessary for the competent bodies of the Romanian state to deepen economic reasons and to lean towards the needs of entrepreneurship, by approximating the tax references to the economic substance of processes and transactions. A stable and comprehensive fiscal legislation that transcends the political sphere and meets the needs of the business environment can result in the evolution of the Romanian economy, the stimulation of entrepreneurs and the optimal realization of the budgetary resources.

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