

# THE DEVELOPMENT AND IMPACT OF THE PROGRESS OF ACCOUNTING STANDARDS ON INTERNATIONAL CO-OPERATION AND EUROPEAN INTEGRATION

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**Abstract:** Both on a national and international level, the last twenty years have been shaped by a significant growth of the accounting regulations' number and their complexity due mainly to the appreciation of the activity level of entities and it also generated an extension and diversification of the risks which are implied. The initial economic development together with the globalisation of economic and financial markets and the consequences of the global economic recession, have contributed to the aggravation of various used accounting systems, based on complex and difficult to apply standards. Therefore, emerged the need of simplifying and harmonizing these standards on an international level.

**JEL classification:** M41, M42

Key words: International Reporting Standards, US-General Accepted Accounting Principles, internationalization, normalization, standardization, globalization, European Economic Regulations.

## 1. INTRODUCTION

The general aspect of contemporary international economic relations consists in the fact that, although the internal factors remain conclusive, the performance of a national economy depends on a large scale on international cooperation. The development of national economies depends on influences of external factors that are becoming more and more complex, different and contradictory.

The impact of international economic relations on the application of accounting standards represents a subject of profound interest regarding the conditions of European integration after the adherence. A major direction in the accounting area of states that have joined the European Union is represented by the internatiolization and convergence of accounting standards with the european and global ones. The extension of the accounting activity on an international and european scale generated radical changes in the area of accounting standards and implied the ex important economies in Central and Eastern Europe; that's why it can be stated that the european intergration is an objective factor for applying the accounting standards.

The development of market economy entails also the development of accounting information so that, in terms of functional conditions of market economy, that are under the pressure of intergration and globalization, the theories, principles, procedures and accounting instruments must be reevaluated and reinterpreted, in order to become useful for the effort of determining more exactly the quality of life and work, the suveran and nonsuveran debts, the economic efficacy and efficiency, the reliability and feasibility of projects and programs that aim to the economic growth and development, to the introduction and generalization of the technological and technical progress, and the economic and social modernization in general.

International accounting standards try to answer to the international demands of developed and emergent economies to have a rigurous and common set of accounting standards meant for all those who act in the business environment, helping companies to establish the annual financial statements that represent the most important mean through which the accounting information is made available to decisional factors.

## 2. METHODOLOGY

Both on a national and international level, the last twenty years have been shaped by a significant growth of the accounting regulations' number and their complexity due mainly to the appreciation of the activity level of entities and it also generated an extension and diversification of the risks which are implied.

The initial economic development together with the globalisation of economic and financial markets and the consequences of the global economic recession, have contributed to the aggravation of various used accounting systems, based on complex and difficult to apply standards. Therefore, emerged the need of simplifying and harmonizing these standards on an international level.

The first attemps of adopting IFRS belonged to entities listed on the financial markets from the EU member states, and were followed in short time by other countries. Hence, in 2012, more than 100 states use the accounting system based on IFRS.

On the other hand, the adoption of IFRS by a significant number of countries contributed to the reduction of the influence exerted by USA concerning the GAAP adoption and the IFRS recognition as an instrument of global comparability regarding the accounting results.

## 3. ANALYSES

Economic changes such as: the liberalization of capital flows, the reinforcement of competition between institutions and the expansion of transactions brought a growth of insecurity on a financial level. This insecurity generated consequences for the development of companies and credit risk, determined researches in the area, and applied to developing strategies in order to survive and prosper.

It would be right to mention that the perspective of national economic systems depends on large scale on the evolution of foreign capital flows adopted in different states, but also depends on the structural configuration of corporation investments from various parts of the world. In this approach, the idea of globalization of national economic systems refers especially to the connections between the regulations in the investment field, and not at least, in the informational area, and also to the regulatory aspects regarding the mechanisms of social liability that are being promoted by multinational corporations and more than that, refers to the instruments used for improving the organisational benefits, considered individually and collectively. [2]

International experiences show that economic performance from different countries become more and more dependent, in the context of an emphasis on the rarity of natural resources and of a large implementation of informational technologies. There is a high degree of property dispersion inside companies, taking into account the fact that in the most developed anglo-saxon countries, the economy market has improved and the blockings appeared in the process of economic growth were removed. International economic relations and especially the consolidation of relations with the European Union, concerning the integration process, have imposed a continuous development of the Romanian Accounting System and a better harmonization with the two accounting referentials, european and international.

The process of issuing an european accounting regulation starts with the preparation of a project by the Commission of the European Communities, which, in the case of the Fourth Directive, lies on a proposal made by a group of accounting experts. The project is committed to the notification of the Ministers Council which communicates it to the European Parliament and The Economic and Social Committee, for remarks to be made. Then it follows a long series of negotiations that end up with a reviewing of the project and the drafting of a new directive that will have to be applied by all member states, by its embedment in their national legislations. [5]

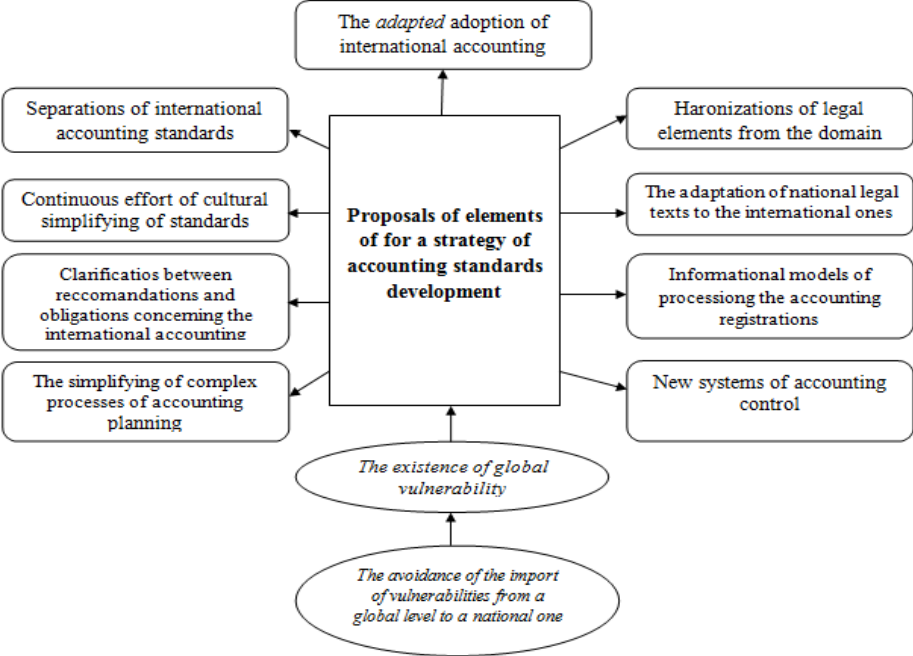
Nevertheless, in most member states, the adoption of the Fourth Directive didn't bring a profound reviewing of the national accounting regulation. These countries limited themselves to adding new elements to the existing national regulations, the options being proved to be very useful in this way. The Fourth Directive requires that the annual accounts should render an exact image of the enterprise's position, while the French accounting regulations, for example, require these accounts to be all right and sincere.

The implementation of the Fourth Directive in the french accounting became real through a simple adding of the expression „faithfull image” in the French accounting regulations, highlighting the fact that financial statements should be clear, sincere and they shoulg offer a faithfull image of the enterprise. National accounting norms continue having different backgrounds and depending on various aspects of society and economy. [4]

The main elements that involve the development of the accounting system refer to the full assimilation of the provisions of The Economic European Community Directives and the general framework of elaboration and presentation of financial statements issued by The International Accounting Standards Committee, through [3]:

1. the assimilation of new accounting principles;
2. the adoption and interpretation of the professional accounting terminology required by The Fourth Directive, The Seventh and The Eighth Directive of CEE and the general framework of IAS;
3. the ascertainment of a program of assimilation of international accounting standards and of drafting of national accounting standards only when there is no international accounting standard.

The conformation to IFRS leads not only to capital acquisition through lending institutions and financial markets and the adoption of internationalization strategies – the management of delivery conditions, of partnerships and acquisitions – but also gives the chance for the development and harmonization of systems that were used in the past. A clear and uniform system of professional terminology and indicators will bring up an improved transparency and a lower degree of complexity of the planning and reporting processes concerning costs, time and quality.



Source: Liguori, M. Steccolini, I., *Accounting change: explaining the outcomes, interpreting the process*, Accounting, Auditing & Accountability Journal, vol. 25, no. 1: 27-70, 2012

Figure no. 1 The systematization of essential proposals of elements for a strategy of accounting standards development

By the harmonization of internal and external accountancy and the uniform use of indicators on the basis of IFRS, the control over the company would be much more efficient.

It is easy to understand that the International Accounting Standards are issued by the International Accounting Standards Committee which proposes itself to establish a single set of accounting global standards.

The European Accounting Standards are issued by the European Union, being formalized through The Fourth Directive which implies norms concerning the drafting and presenting of social annual accounts (of companies); The Seventh Directive that controls the consolidated accounts established by the group of companies and The Eighth Directive concerning the accounting profession and the annual accounts' auditing. [7]

The characteristics of European Directives are subscribed to the member states and their adoption is mandatory because it represents a source of accounting legislation. National or local standards are drafted by each country regarding the international standards and European directives.

The direct effects of International Accounting Standards in European countries develop on two directions: some national normalization organisms approved the use of standards in particular circumstances, following the example of France and Italy for the consolidated accounts while some companies have chosen to use partially or totally the standards when issuing the financial statements and here we can point to Switzerland and Germany.

The indirect effects emphasize the general acceptance of many ideas of International Standards, both in Europe and Japan. The adoption of International Accounting Standards offer tho the accounting professional growing powers, being in the same time a supplementary source of responsibility. In the case of international accounting standards adoption, a knowingly professionalis the one who, by means of professional reasoning, obtains useful and credible financial statements both for investors and other categories of users. [6]

Significant researches regarding the compatibility of the Romanian Accounting System with the global one assert that international economic relations have an important role in every country. Regarding the above stated affirmations, the integration process of interstatal economic relations implies the removal of some restrictions, the harmonization of regulations which could favour the development of commercial exchange, the extension of multilateral co-operation, the transfer of technologies, the improvement and accesibility of the international financial system. Considered to be a component of the economic system, accounting had to bear changes and conformations to the new requirements imposed by globalization, harmonization and integration, trying to adapt to the regional changes, generated by the integration of Romania in the communitary area, and by the conformation with the international changes.

The uniformization of the Romanian Accounting System with the global one is determined by the new configuration of international economic relations, facilitating the circulation of goods, persons, services and capital and it implies the

removal of some restrictions, the harmonization of regulations which could favour the development of commercial exchange, the extension of multilateral cooperation, the transfer of technologies, the improvement and accessibility of the international financial system. Accounting had to bear changes and conformations to the new requirements of harmonization and integration, trying to adapt itself to regional changes generated by the adherence of Romania to the European Union and also to international changes. [4]

The differences from the accounting systems have to be harmonized with the contemporary accounting systems imposed by the European Union and by The Accounting International Standards Committee, fact that generates [8]:

1. The gratification of information needs of multinational companies;
2. The improvement of the quality of accounting information on the background of national accounting system;
3. The elaboration of a system of uniform international financial indicators which should be controlled by all countries.

This is why we agree that the final aim of standardization is represented by the improvement of accounting principles that are issued on an European level through IASC, having the following objectives [1]:

The statement and publication, for public interest, of norms that must be obeyed and the promoting and acceptance of these norms on a global level;

The general opening toward amelioration and harmonization of regulations, accounting norms and the procedures needed for the presentation of annual financial statements.

We could consider the main factors of harmonization and normalization of accounting on international level: the developing financialization and globalization of national economies. The Financialisation implies financial concentration through an integration of the conglomerate type and it consists in regrouping companies that develop the same activities or different activities.

Internationalization is a strategic objective of the large enterprise, because it gives access to new financing resources, new capital markets, leading to financial benefits and to cost reduction. We consider also that there is a single market and a single currency of the European Union. Accounting harmonization and normalization are necessary because of the diversity of companies influencing the supply and demand of accounting information, and because of the unbalance that might exist between supply and demand. Therefore, the need for international accounting normalization comes from the companies' desire to participate on the capital market and to apply an uniform accounting system, obtained on the basis of international accounting standards.

We consider necessary to affirm that once the adoption of IFRS, companies will adopt a global, credible and comparable language of financial reporting, that would allow them to be perceived correctly, no matter the users' origin. Many of the European countries have already concluded that by the adoption of IFRS they get access to the international capital markets, they can reduce their costs and they can roll on international transactions easier, because it is difficult for a financial

reporting which is not well understood by all users to offer a company new business opportunities or additional capital. This is the reason for which an important number of companies choose voluntarily to adopt IFRS, just like the case of Romanian entities. Communication through a unique language ensures a better trust and might raise the possibilities of access to the stock market. Also, it can allow multinational groups to apply common accounting principles for all branches, fact that could improve internal communication and quality of management reporting.

In Romania, the model and structure of financial statements have suffered changes once the approval of the Accounting Law 82/1991; the inspiring model being the French one; in 1993, the balance had an accounting structure, presented according to the Fourth Directive of EEC; assets were structured and classified by destination and availability and liabilities by origin and growing exigibility, the checking of the balance being insured by the formula „assets = liabilities”. After the issuing of OMFP no. 94/2001 concerning the harmonization of the Romanian accounting with the provisions of the Fourth Directive of EEC and the International Accounting Standards, our country adopted for the balance the list style type (vertical), inspired by the Anglo-Saxon accounting. In 2006, once the emergence of OMFP 1752/2005, all companies complied with its requirements, the OMFP 1752/2005 being recalled. In 2010, a new regulation was issued, OMFP 3055/2009 and it recalls the OMFP 1752/2005 and it was applied starting with 01.01.2010. [3]

For most of exponents of the Romanian accounting field, the transformation was in the first place a new general accounting plan, being reduced to a structured list of accounts and to their functioning, in order to register the economic and financial operations. Like most European accounting systems, Romanian accounting was and it continues to be dominated by characteristics of the written law and it chooses a young liberal profession, trying to impose itself on an instable financial market.

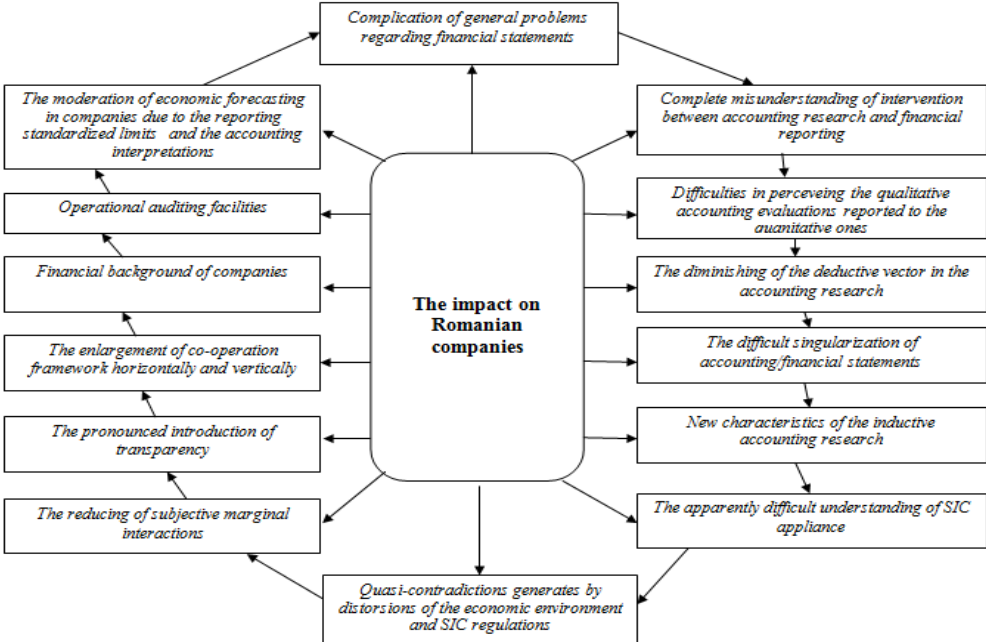
Confronting the transition's difficulties and facing the powerful phenomena of mondialization of economies and globalization of financial markets, our country, through its leaders, chooses a radical transformation in the accounting development, namely its foundation. A big and representative part of the Romanian economy is facing today the application of an accounting system, based on these norms. The consistency of accounting thinking is of Anglo-Saxon origin. In order to answer to its aims, accounting is founded on a coherent set of principles and evaluation techniques. [2]

Nowadays, the Romanian legislation stipulates for the Romanian companies to provide with two types of financial reporting, one following the Romanian system and another deferring to the international requirements. The type of presenting the information, the currency and language are local. For this reason, it is important for Romanian companies to understand that they must keep their nationality and also the fact that there is compulsory for their business to take place also outside the country and that the adoption of International Accounting

Standards is a requirement that brings benefits. In the first place, companies which manage their accounting in conformity with these standards measure their results after the same demands that are being applied in the European Union. In the second place, managers have a much clearer image of what is happening inside the company, having the possibility to compare information from different periods. [5]

Beginning with 2002, there were adopted the European Directives imposed by OMFP 94/2001 and starting with 2005, the enterprises apply also IFRS according OMFP 1752/2005 and since January 2010 they have applied the requirements and regulations imposed by OMFP 3055/2009. [3]

The International Financial Reporting Standards adoption allowed and will allow the society to compare itself to other similar societies on a global level, and to investors and other interested users to compare the performance of the society with global competitors. Through this research, it turned out that the accelerated buy-out process, the development of functional capital market and capital economy, the economic globalization and the perspective of adherence to the European Union, are just a few of the preconditions that have imposed de continuous development of the Romanian Accounting System and the general course in the accounting area plays out through the efforts for providing a common framework. The improvement of the business environment represents one of Romania’s priorities so as to attain the objectives generated by the European integration and the conformity with the European regulations.



Source: Zelinschi, D., *Legitimacy, expertise and closure in the Romanian accountant’s professional project, 1900-16*, *Accounting History*, vol. 14, no. 4: 381-403, 2009

Figure no. 2 Systematization of the main elements of the application impact concerning Romanian companies (2014)



The International Financial Reporting Standards try to discharge the local arbitrator, on national level, which does not insure a correct process of evaluation of the companies' financial position, from different geographical areas, because the lack of a common factor of determination and presentation of financial accounting information.

#### 4. CONCLUSIONS

The extension of the globalization process, which shapes the entire business environment, led to the more and more accentuated need of understanding and comparing the financial information of various corporations.

The complexity of the international economic and financial relations, inside which the capital and the goods markets develop very quickly, ignoring the national borders, and imposing the accounting systems to provide through financial statements the useful and comparable information between different countries of the world.

It has been concluded that the role of International Financial Reporting Standards is that of improving the financial accounting information, the transparency and the creation of a healthy and credible business environment, both on a national and global level. I think that IFRS try to accomplish the international requirements of developed and emergent economies to have a rigorous and common set of accounting standards addressed to all those who activate in the business environment.

In this study, I have argued that the adoption of Accounting International Standards is not compatible with a general plan of accounts, nationally established. As matter of fact, the standards ignore the accounts and their correspondences, not because they would consider them to be insignificant, but due to what it really matters, the finality/purpose, namely the financial statements and the way of structuring that information, and less the technique by through which the information is being presented.

I suggested that companies should elaborate a plan of accounts specific to the activity involved, with proper correspondences between accounts, giving the opportunity of manifesting the professional reasoning.

The general conclusion is that the accounting harmonization program seeks a harmonization with the provisions of European Directives and also a normalization of Accounting International Standards.

I determined that by the harmonization of internal and external accounting and the uniformly use of indicators on the IFRS basis, the management of the company would be much more efficient.

The global experience has proved that the main factors which influence the economic successes and dissociate countries, activity areas, companies and other institutions are represented especially by management, technologies and capacity of using the informational and human resources in an intelligent way.

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