

HOW TRUE AND FAIR IS THE TRUE AND FAIR VIEW IN ACCOUNTANCY?

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Abstract: Although it is considered that the respect of accountant principles would be an indispensable condition for the insurance of the true and fair view, more and more authors are against this idea, sustaining that such a situation leads to a significant distance taken by the information provided by the accountancy towards the existent reality in an enterprise. The influence exercised by the normative principles, and not only by these, on the information provided by the accountancy, brings into discussion on the one hand, even the idea of true and fair view, and on the other hand, the objectivity of these information in comparison with their beneficiaries. In our opinion, the influence exercised on the concept of true and fair view by the normative accountant principles, but also by the other principles that act implicitly, manifests itself in two ways: indirectly, through the conflicting states existing between the accountant principles; through the direct action of these conceptual elements. If at the global level the accountant principles constitute themselves, at least theoretically, in the form of a coherent system of general statements, analysed individually, some of these can be situated on a conflicting position in comparison with other principles, which compose the ensemble.

The true and fair view as fundamental objective in European accountancy is a concept of British origin, which was put into words for the first time in the English Commercial Societies Law in 1974, and was afterwards also taken by the Forth Directive of the European Economical Community.

Unlike the international referentiary based on IFRS, the European normalization is one of regulatory type, all directives functioning on the basis of a legislative frame that doesn't suppose the existence of a conceptual accountant background. Even if they are obligatory for all the member states, they foresee certain options, fact that determines the appearance of some differences between the financial situations of the member states, these being also maintained by the fact that they don't have at their basis a unitary accountant doctrine, but two very strong accountant currents: the anglo-saxon approach and the continental one.

The anglo-saxon approach is found in the countries in which prevails the customary law and is characterized by a minimum of legal regulation and more by an autoregulation realized by the accountant profession. The accountant norms have a high degree of flexibility, the law enunciates only few prescriptions, the applicative problems being solved only by practitioners, and the professional judgment detains an important role in the accountancy. Within this type of current, the governmental implication is extremely reduced, the accountant regulations being the expression of a partnership state-accountant profession.

The continental approach puts on the first place the informational needs of the creditors and of the state. Fiscality exercises an important influence on accountancy and

the aspect referring to evaluation, the state being one of the main beneficiaries of the accountant information. The continental system is specific to the countries with a juridical system based on codes of laws, in which coexist accountant and fiscal common regulations.

Consequently, the European directives, in accountancy, represent a mix or rather a compromise between the two accountant currents, a mixture of accountant traditions which intercondition reciprocally.

The British perception of the principle at the level of producers and users of the accountancy products has into consideration the respect of the accountant and lawful standards. Theoretically, the true and fair view is defined through the angle of the terms of truthful image and correct image or real image and honest image, not being also excluded the interpretation as an objective to which tend the financial situations.

In an accountancy based on normative regulations, the true and fair view, as objective of the financial accountancy, is defined through the angle of the terms of regularity and sincerity.

In Romanian accountancy, the concept of “true and fair view” was imported at the same time with the implementation of the new accountant system adopted at the 1st of January 1994, when, in view of the reflection of “a sincere, clear and complete image of the patrimony, of the financial situation and of the obtained results” were assimilated six accountant principles with an explicit title: the continuity of the activity, the permanence of methods, prudence, the independence of the exercise, the intangibility of the opening balance and the uncompensation. Afterwards, through the appearance of the accountant regulations harmonized with the European directives and the international norms, were adopted three more principles which refer to the separate evaluation of the passive and active elements, the prevalence of the economical over the juridical and the threshold of significance, which also remain in the portfolio of the actual accountant regulations according to the European directives [OMFP 1752/2005].

The question if the information provided by accountancy succeed to answer to the diversity of the users’ expectations, often contradictory, only through the simple application of these principles, was and remains actual. No doubt that the producing of the information in the purpose of the satisfaction of the users’ needs constitutes a fundamental objective of the accountancy, but the problem is in what measure it succeeds in keeping an equal distance to their divergent interests. At the same time, it doesn’t have to be omitted the fact that the appreciation of the way in which it is rendered by accountancy the true and fair view constitutes a subjective process, influenced by the position on which is placed every category of users. Thus, the stockholders, for example, can have a certain vision on the concept of true and fair view, while for the state and the creditors, the same information can have another value or significance.

In this sense, we consider that the reality existent in Romania can be a suggestive example for what was previously stated and here we refer to the fact that, starting from the demands of the Regulation (CE) no.1606/2002 and of the national regulations [OMFP 1121/2006], are obliged to apply the IFRS, starting from the 1st of January 2007, the entities the movables values of which, at the date of the balance, are admitted at the transaction on a regulated market, in the purpose of the making of consolidated financial situations. On the other hand, though, it must be had into consideration the fact that in the relation of the commercial societies with the state institutions, the basis of report will be represented by the accountant regulations in accordance with the

European directives, inclusively for the gathering of the information which stand at the basis of taxes and duties, from which it results that the financial situations obtained through the application of IFRS are destined to the information users, others than the state institutions (especially investors). In this context, we believe that the idea of true and fair view must be correlated to the direct interests of the accountant information users, because we can associate to the national regulations the striking orientation to the continental approach, while the international norms bear a strong mark of the characteristics of the anglo-saxon system. On the other hand, it might be also considered justified the question “which image is more sincere from the ones provided by the mentioned approaches?”

IASB, through its conceptual frame, imposes neutrality as a quality characteristic of the financial situations. Even if the international organism solicits the respect of this criterion, it can not be valid unless we report to a certain accountant system, because the existence and the defining of some fundamental concepts, differently, determines us to consider the accountant information as being subjective and that the system producing it can not be neutral. As a matter of fact, we believe that the implicit or explicit recognition of an accountant information privileged user can not be but an argument in favour of the previous statements. Admitting the existence of various categories of users and of some divergent information needs, in the conditions in which it is elaborated a single set of financial information, we consider that neutrality can be put into question.

On the other hand, it mustn't also be omitted the fact that the intervention of the human factor in the organization of accountancy, in the preparation, the elaboration and the presentation of the financial situations entails inevitably a certain degree of subjectivity. In another order of ideas, we can not also neglect the subjectivity of the synthesis documents users, which put their mark on the perceived image, because, the information provided by accountancy present under the form of a codified language, their understanding needing certain specialty knowledge.

The accountancy, as any science, has at the basis of its theoretical frame a series of enunciations, which, considering their degree of generalization, are grouped in postulates, accountant principles and norms, the first two of them being considered the basis enunciations of the accountancy theory.

This delimitation in postulates and principles is not unanimously accepted in the specialty literature. In this sense we have in mind the fact that it is detached a category of users that make distinction between postulates and principles and another category which considers that these theoretical enunciations are principles (also named basis hypotheses or accountant conventions).

In our opinion, it must be taken into consideration an essential fact, which consists in the fact that the theoretical enunciations of accountancy are different from the ones of other sciences, in the sense that they don't derive from laws of nature and are not fundamental truths. The theoretical enunciations specific to accountancy are not our point of view, we consider that the difference made between the notions of postulate and, respectively, of principle is one correct and necessary, because the accountant postulates are theoretical enunciations which have a result from the direct knowledge, based on observation, and, starting from these, through the restriction of the degree of generality, were issued the accountant principles.

Considered in their ensemble, the postulates and the accountant principles appear as a coherent system of enunciations, but being analysed individually, some of them can be situated on a conflicting position to other postulates or accountant principles. More

than that, in specialty literature can be noticed even a certain ‘indecision’ or, better said, an opinions divergence in what concerns the inclusion of some enunciations in the category of postulates or of accountant principles.

In the relation to the accountant norms, it is retained the fact that they are elaborated starting from postulates and principles, being considered as precise evaluation rules, as rules of registering, classifying and presenting the accountant information, which, in comparison to postulates and principles, of which we can say that they refer to very general elements, they find their application in particular cases.

The accountant principles are assigned two main roles, on the one hand, the one of contributing to the amelioration of the accountant practice, through the solving of the complex cases which need interpretation, options and through the indication of the result that must be obtained, and, on the other hand, the one of allowing the accountancy normalization, assuring thus the transparency of the accountant information in a competitionnal economical environment. It results that the practice in the accountancy field can not be conceived without using some basis principles, because “*there can be met accountant operations for which don't exist established rules or solving procedures, and their solving can be made only appealing to one or more accountant principles*” [Mihai Magdalena, 2000].

The approach by accountancy of a certain economical-social environment, different from one country to another, led to numerous classifications of the accountant principles, the specialty literature providing multiple examples in this sense.

The lack of consensus concerning the accountant principles and therefore their relativity determines us to state that their choice, recognition and applicability is influenced by the objectives assumed by accountancy, and also by the economical, political environment and by the ways of government of the enterprise.

In which concerns us, we think that the accountant principles can be grouped in three categories and namely:

- Principles of the accountancy method;
- Normative principles of accountancy;
- Scientific principles of accountancy.

The principles of accountancy method are those which put into evidence the particular aspects specific only to this one, which derive from the accountancy essence, being also named in some works fundamental principles, from our point of view, in this category, being included: the principle of double match, the principle of correctness of accountant registerings, the principle of the fact justification (of the verification or of the documentation), the principle of chronological and systematical registering, the principle of analytical and synthetical registering, the principle of the result calculation.

The normative principles of accountancy are those foreseen by the normative documents through which is regulated the activity in accountancy, their demands must be respected for the evaluation of the jobs comprised in the financial situations of an enterprise, in this category being considered:

The principle of continuing the activity, the principle of the methods permanence, the principle of prudence, the principle of the exercise independence, the principle of the separate evaluation of active and debt elements, the principle of intangibility, the principle of uncompensation, the principle of the prevalence of the economical over the juridical and the principle of the significance threshold.

In our opinion, in this category can also be included the principles of monetary quantification, respectively of the historical cost, because the regulations in the field foresee implicitly their application in practice.

The scientific principles are the expression of intelligence, of the doctrinarian currents and of the big schools of accountant thinking preoccupied by the explanation of phenomena and relations that establish between those, not being the result of some norms elaborated by various institutionalised organisms, as is the case of normative principles. In this category can also be included various principles, from which we mention the most significant: the principle of good information, the principle of accordance with the rules, the principle of the entity, the principle of incomes recognition (finding), the principle of connecting the expenses with the incomes.

Although the respect of the accountant principles is considered an indispensable condition for assuring the true and fair view, more and more authors are against this idea, sustaining that such a situation leads to a significant distance of the information provided by the accountancy to the existent reality in an enterprise. Thus, it is considered that *“Every principle/convention has implications on the relevance of the information concerning the patrimony and the accountant result. No principle is excepted from these limits that spread in the quality of the information regarding the result.”*[Ristea Mihai, 1998].

We consider important the ideas enunciated above, because the influence exercised by the normative principles and not only by those, on the information provided by accountancy, brings into discussion, on the one hand, even the idea of true and fair view, and, on the other hand, the objectivity of these information in comparison to their beneficiaries.

In our opinion, the influence exercised on the concept of true and fair view by the normative accountant principles, but also by the other principles which act implicitly, manifests in two directions [Brabete Valeriu, 2007]:

- indirectly through the conflicting states existent between the accountant principles;
- through the direct action of these conceptual element.

If, at global level the accountant principles constitute, at least theoretically, under the form of a coherent system of generalized enunciations, analysed individually, some of these can be situated on a conflicting position in comparison with other principles that compose the ensemble.

For example, the Romanian normalizers demand, in the purpose to be truthfully reflected reality, that the evaluation of jobs in the financial situations to be realized according to the principle of continuing the activity, which supposes that the enterprises continues its functioning normally in a predictable future, without entering in a liquidation state or a significant reduction of the activity. In the practical activity, the managers of a firm, consequently to the made analyses, can conclude either that the state of continuity is obvious, or that the unit will enter a state of discontinuity for various reasons.

If in the first case the accountancy works and the financial situations will be made as in the previous administration periods, to reflect the true and fair view is obligatory the respect of the principle of activity continuity, in the second situation, to attain the same objective, it is imposed the breaking of this principle, because it is considered that its respect would lead to a false presentation of reality. In these conditions it can be

noticed the fact that the analysed principle enters in contradiction to other principles, because:

- the evaluation of the patrimonial elements is no more realised through traditional methods, but through liquidator values, thus being broken the principle of the methods permanence;
- there are no more imposed registerings concerning the liquidation and the making of adjustments for depreciation, because the unit's activity is going to be closed, thus being broken the principle of prudence;
- there are no more justified advance registerings of expenses and incomes, being affected the principle of the exercises interdependence;
- there is no more realised the distinction between immobilizations and circulator actives and neither between debts on short term and those on long term.

From those put into evidence, would result that both the respect of the principle of continuity and its breaking contribute to the assurance of the true and fair view of the financial position, of the performances and of the treasury fluxes, the financial situations expressing the state of fact at that moment. If both the respect of the principle and its breaking assure a true and fair view, according to some concrete conditions imposed by the economical reality, it can not be further stated that only its respect assures the reality reflect. The natural conclusion is that between the respect of the analysed principle and the true and fair view is no determination relation [Toma Constantin, 2003]. It is certain that the problem is put into other terms in the situation in which the continuity or the discontinuity state is falsely appreciated, that is it starts from the premise of the continuity when the unit is actually going to enter a liquidation state or vice versa, because in this case it cannot be about the sincere reflect of reality.

In the same context it can also be underlined the conflict between the principle of prudence and the principle of the exercise interdependence, representative for this example being the case of the activated expenses. In this sense we retain the fact that the principle of prudence solicits that this kind of expenses must be registered at the moment of their production, in the current exercise, while the principle of the exercise independence solicits, to realise the connection between expenses and incomes, the spreading out of these expenses on various exercises.

Major implications on the assurance of a true and fair view also has the contradiction existent between the principle of prudence and the one of historical costs, this conflict taking place especially with the occasion of the evaluation at inventory, when the first imposes as rule of evaluation the smallest value between cost and the market price, while the second foresees the conservation of the acquisition value or of production of stocks, according to either case.

Actually, the principle of prudence is one of the most controversial, in the specialty literature being accepted the idea that it denaturises the real image of the financial position and the result calculation, because:

- it forbids the taking into consideration of the value increases, even if these are certain, while the depreciations, even eventually, must be taken into consideration;
- it doesn't allow the evaluation of the immobilized actives at a measure different from the historical cost, when there appear plusvalues.

From the analysis of the way of action of the principle of prudence, as is stands out from the normative documents and taking into consideration the sincerity demand to which must answer the accountant information, it can be detached two conclusions, which are followingly presented.

a. The depreciations, that have definite character, appeared at the circulatory active are not taken into consideration at the closing of the exercise in the presentation of the way of action of the studied principle. The normalizers aimed only the immobilizations the definite depreciation of which takes the form of liquidations, omitting the fact that this kind of depreciations can also appear at active circulatory elements the solution of which is not assured;

b. The unequal treatment of the plusses and minuses of value, both at actives and at debts, leads to a distance of the information presented through the financial situations from the real situation in an enterprise. In these conditions the published information don't reflect any more the true and fair view of the financial position, of the results and the treasury fluxes.

With all these the abandon of the prudence in favour of obtaining a true and fair view is not an idea approved in the continental accountant systems in which the accountancy establishes an important juridical role and is strongly influenced by fiscality. In the conditions in which between the concept of prudence and the one of true and fair view exists an obvious contradiction, because when prudence is preferred and the sincerity is broken and vice versa, it could be adopted an attitude specific anglo-saxon, in which the primordial role is accorded to the true and fair view, strongly influenced by the principle of the primordiality of reality over the juridical appearance.

This solution seems to have been also adopted by the Romanian normalizers through the inclusion in the list of the normative principles of the one which refers to the prevalence of the economical over the juridical. Although the economical vision on the accountancy is much more close to reality and can assure in a bigger measure the satisfaction of the objective of true and fair view, the introduction of this principle in the Romanian legislation realized tardively, at the same time with the implementation of the accountant harmonized regulations destined to big enterprises [OMFP no.94/2001], and this on the background of a potential contradiction between the concept of "patrimony", maintained by the mentioned regulations, and the one of "financial position" which operates in the General Background of making and presentation of financial situations. Afterwards, the actual accountant regulations [OMFP 1752/2005] consecrated the concept of financial position, specifying that "*the annual financial situations offer a true and fair view of the actives, debts, financial position, profit or loss of the entity*".

As a principle idea, it must be underlined the fact that the result obtained by the enterprise is not only the consequence of using the goods and values which are in its property, but it is also the effect of the conjugated action of all means used by the unit during an administration period. The uninclusion in the financial situations of the information referring to the elements over which the unit has the right to use, on the basis of the closed contracts, deprives the external users of essential information which can affect the decisional process.

With all these we question ourselves, on the one hand, if the accountant language renounces at the concept of patrimony, and on the other hand, in what measure it is compatible such a principle with a juridical system based on commercial Code in which the principle of balance patrimony was, not so long ago, considered a law. In the same context we put into evidence the fact that the application of the principle discussed is closely correlated to the idea of professional judgement, but this concept is put into danger by the "fiscal pollution" which still characterises the Romanian accountant system.

The accountant harmonization process at international level determined the perfecting of the principles system which are part of the normative system of the Romanian accountancy. Within the measure that supposes the analysis of the accountant principles it mustn't be omitted that the informational necessities of those who beneficiate from the accountancy products are various, and the content of the norms and their economical and financial consequences are not always in accordance to their interests. This being the reason for which the process of accountancy normalization must be objective, neutral, so that its results constitute themselves in an equilibrium point of all the expressed tendencies.

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