

RATIO BETWEEN ACCOUNTING PRINCIPLES AND INTERIM FINANCIAL REPORTING

Assistant PhD. Student Claudia-Elena GRIGORAS-ICHIM

"Stefan cel Mare" University of Suceava, Faculty of Economics and Public Administration

claudiag@seap.usv.ro

Abstract:

In economic and financial communication, the common language is represented by accounting rules which consent the process of converting the operations afferent to economic development in figures (the situation of the one which prepares the interim financial reports) and a process to convert figures in economic transactions (the situation of the one using the interim financial reports). Therefore arises necessarily the "accounting standardization process" involving a complex of rules capable to uniform the criteria that are based on the representation and interpretation of values from the interim financial reports. These rules, either general or specific, can be derived from the accounting practice or may be established by legislation.

Key words: interim financial reports, accounting principles, accounting normalisation

JEL Classification: M41

Is already consolidated and known the role of interim financial reports as the main communication tool of economic-financial type, designed to provide to a broad range of stakeholders (investors, financiers, customers, suppliers, etc.) the "minimal knowledge", so that this subjects can meet their information and decision requirements. Any form of communication included, therefore the one of the interim financial reports, is subject to the use of the same language by a subject issuer and the recipient. In economic - financial communication, the common language is represented by accounting rules that consent the converting process of operations afferent to economic development in figures (situation of the one preparing the interim financial reports) and a process to convert figures in economic transactions (situation of the one using the interim financial reports). Therefore is necessary the "accounting standardization process" which involves a complex of rules capable to uniform the criteria that are based on representation and interpretation of values from interim financial reports. These rules, whether general or specific, can be derived from accounting practice or may be established through legislation (1). In the first case speaks about "normalisation of accounting practices" specific to Anglo-Saxon countries: it has no reference normative system, being influenced by operational practice. Accounting rules that define procedures of economic evidence devolves from best practices active and fully recognized by accounting professionals, coming coded by authoritative professional bodies, with respect to the best economic-financial doctrines. An example of generally accepted accounting principles are those which are meet in American reality - coded by FASB (Financial Accounting Standards Boards), issued by entities and professional associations as AICPA (American Institute of Certified Public Accounting). Such principles are applied through an accredited recognition from professional accountants and from a continuous assessment of their validity in relation to the specific problems arising continuously, presenting a high flexibility (2). In the second case it speaks of "accounting / legal regulated normalisation" - characteristic of our country, where the legislator's duty is to accounting rules of general nature in order to define the minimal aspects of economic-financial communication. The drafting of the interim financial reports is presented through a set of rules and refers only to "normalisation" of schemes and structure of interim financial reports or values presented in financial reports. This fact involves a reduced flexibility of such an accounts regulatory system, which is avoiding the possibility to support rapid changes that can devolve from the necessities to solve new accounting problems, putting into question the awarding of the regulating role in matter of accounting to Romanian legislature. We consider that this is about a quit technical matter, pragmatic and extremely complex (preparation and drafting of the interim financial reports). Because the interim financial reports may explain the function of information vector of various categories of stakeholders of the entity's financial-economic activity, they need to be clear and credible, meaning to be able to properly represent the economic, financial and

patrimonial situation of the entity. It is obvious that such a representative capacity of interim financial reports can be harmed by more subjective components and the uncertainty that characterizes the drafting of documents, so it is important the auditors role that have the task to express an opinion regarding their reliability, which is for users of interim financial reports "a guarantee of quality" of information from the interim financial reports (3).

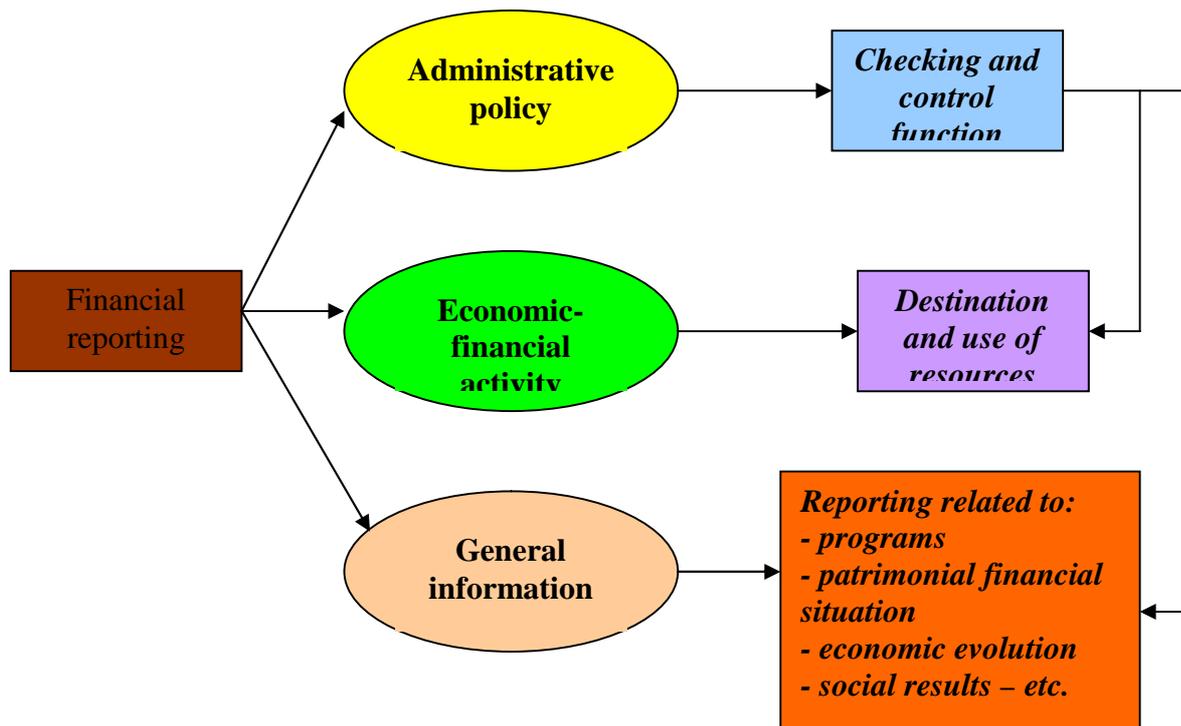


Figure no. 1. Purpose of financial reporting

Source: Impact of IAS/IFRS standards over evolution of financial reports. Case study at Telecom Italia (Grosu V., 2009)

Audit of interim financial reports is mandatory for all companies traded at Stock Market or RADAQ. Auditor, having the duty to express an opinion regarding the degree of approximation of interim financial reporting against economic reality, is interposed between the emitting entity and stakeholders, in order to strengthen the information contained by them.

The existence of a set of accounting principles, rules or practices of recognizing and evaluating the economic transactions and representation of values from interim financial reports, requires the role of "terms of conventional confrontation", from which the auditor may inform to express his opinion (4). In fact, the interim financial reports can be "certified" only if they correspond as form and content to some reference determined standards, from which the views expressed by the auditor would be impregnated by an excessive discretion. Accounting principles explains their usefulness only for auditors, easing their work and limiting their discretion in evaluating the credibility of interim financial reports, and also for those who draw and prepare the interim financial reports and for each category of users of accounting information. For the first ones, these principles facilitate the process of converting economic structures in numbers, their compliance being motivated to obtain some positive opinions from the auditor that uses these principles as standards in order to assign credibility to interim financial reporting; in contrast, for those who prepare interim financial reports, accounting principles facilitate the conversion of figures in economic structures, reducing the interpretive uncertainty and increasing for them the thrust of auditor's opinion, switches to the same principles. In general, each language is especially effective since is broadcasted, more clear and unequivocal in expression of concepts that need to be communicated, and the more effective the more easily learned. Effectiveness and efficiency of

accounting principles, as language of economic - financial communications, are subordinated to the presence of the following requirements.

1) *General acceptance* (of accounting principles) meets more the effectiveness objective of economic - financial communication. It does not identify with disseminating accounting principles, but rather with broad recognition from the subjects interested in economic - financial communications, of principles to regulate certain specific accounting issues. General acceptance of accounting principles, in this case, is not only a requirement of these principles, but a consequence of the role that accounting principles are called to place. Widespread use of a principle is significant according to the positive view that it receives in practice and because it is reflected "generally accepted". General acceptance of accounting principles can be distinguished in a previous and posterior acceptance, compared with the whole process of principle forming.

"Previous" acceptance refers to the moment when the principle is reformulated. Even if it is drawn by equidistant bodies against the interests of those that prepare the interim financial reports and those requiring information contained in it, during the formation of an accounting principle should be called upon to express all categories of stakeholders of economic-financial information (accountants, lenders, academics and other users) in order to access the consensus, criticisms and suggestions. In this situation, before the principle is used, it has already obtained the acceptance of some variations users, called to contribute (with different titles) to its formation.

"Posterior" acceptance, instead, refers to the successive moment of publication the principle and in particular is reflected in its current usage of those who prepare the interim financial reports and who have to communicate the economic performance of the entity and the auditors that have to review the communication process.

2) *Credibility* concerns to the reliability of information contained in interim financial reports. One principle is more credible as constitutes a better approximation (highlighting) of the secondary economic reality derived due to its application in interim financial reports. For this to occur, it is necessary that accounting principles to comply with the best accounting theory that defines the relevant information in order to meet users requirements for interim financial reports and follows to reduce the elements of uncertainty in drafting such a document.

3) *Objectivity* refers to "unequivocal" accounting principles, clear in their own formulation and in the impossibility of their distorted application, which could confuse users of interim financial reports. Objectivity "must be characterized by two fundamental aspects: a reduction or even absence of accounting treatments that can switch between them, but also clarity of principle's content. The first aspect is needed to provide comparability in time and space of interim financial reports; the second facilitating the application of principle, becomes extremely relevant, especially for the auditor, since the absence of principle ambiguity confirms the role of standard base on which the auditor can form a professional opinion.

4) *Analytical character* refers to the degree of detail that characterizes the accounting principle; it is closely connected with the objectivity character, because as the principle is more detailed, the specifications that are made based of accounting rules will have less ambiguity. Analytical aspect may also refer to "selective application of the principles on productive sector or sector size".

5) *Applicability* - meets in a greater measure the efficiency objective because it follows an easier adoption and verification of accounting principles, representing a saving of resources regarding the drafting of the interim financial reports and for auditors. In fact, one principle may reveal valid when the benefits derived from adoption to exceed the costs.

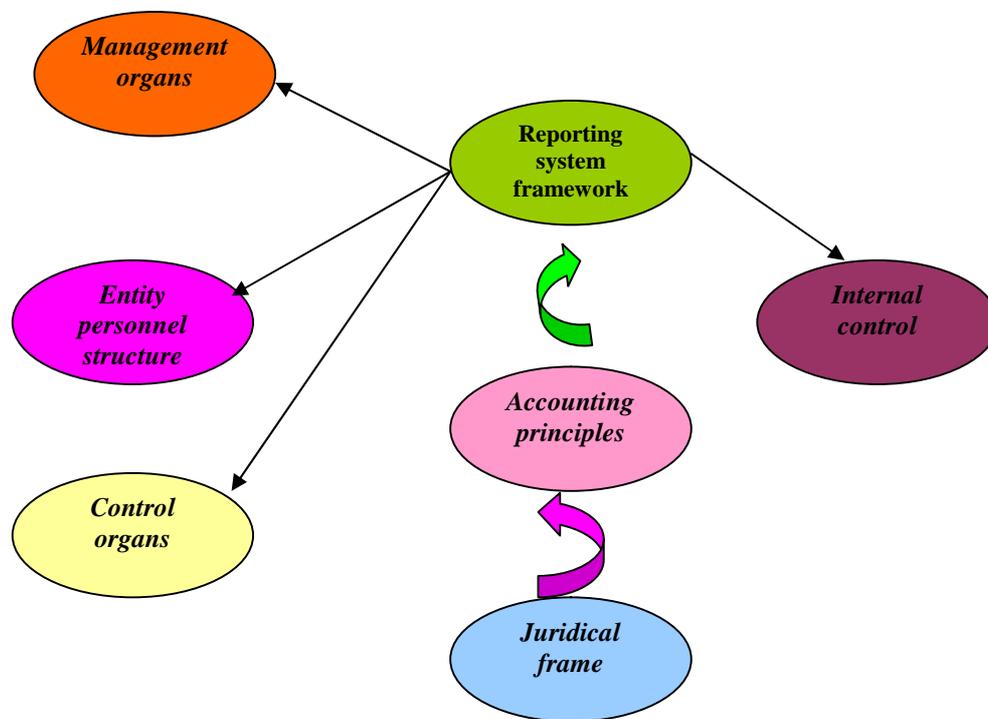


Figure no. 2. Accounting principles and users of interim financial reports

Source: Impact of IAS/IFRS standards over evolution of financial reports. Case study at Telecom Italia (Grosu V., 2009)

So-called features listed above can be often conflicting with each other, so that accounting principles should be the fruit of a valid compromise. Can take place, also, a contrast between objectivity and credibility; if we understand the objectivity as an absence of alternative accounting solutions, this can damage the credibility; more example - if, because of the rigorous appearance of objectivity, would be accepted for coded assessment methods only the assessment based on cost, would greatly harm the natural representation of control methods, which, in turn is obtained by evaluating them through accounting value criterion (5).

Often can appear a contrast between the reliability and applicability, the simple rules, easy to apply, not always can contribute to an emphasis consistent with the reality. An example may be the criteria for determination of depreciation allowance: mathematical calculation of the constant depreciation rate is certainly easy to do, but do not always reflect the actually "consumption rate" of a property during the course of the production process (6).

ENDNOTES

- (1) Dumitrescu Diana, *The Internal Audit*, „Conferinta Internationala Economia Romaniei post-aderare 2 ani in UE, ZEC 2008, Resita 21-22 noiembrie 2008”, Resita, 2008, p. 10.
- (2) Megan O., Hategan C., Ineovan F., *International Accounting standards: the best recipe*, „Economia si managementul transformarii”, Timisoara, 2002, p.6.
- (3) Quaqlui A., *Levoluzione dei principi contabili di direvazione professionale*, Pisa Il Borghetto, 1998, paragraph 2.1.
- (4) Laura D. Richman – *Compliance and Ethics Programs Under the Federal Sentencing Guidelines After the Supreme Court Booker Decision*, Reprinted w permission from March 2005 edition of the Wall Street Lawyer.
- (5) Luciano Marchi – *Revizione aziendali e sisteme di controlla interno*, Giuffre Editura Milano, 2004.
- (6) Marasca S., *Le valutazioni nel bilancio di esercizio*, Torino, Giappichelli, 1999, p. 138; Marchi L., Allegrini M., *Levaluzione dei principi contabile in Italia*, Revizione contabile, nr. 50, 2003, p.59

BIBLIOGRAPHY

1. Dumitrescu Diana, *The Internal Audit*, „Conferinta Internationala Economia Romaniei post-aderare 2 ani in UE, ZEC 2008, Resita 21-22 noiembrie 2008”, Resita, 2008
2. Grosu V., *Impactul standardelor IAS/IFRS Asupra evolutiei raportarilor financiare. Studiu de caz la Telecom Italia*, Timisoara, 2009
3. Laura D. Richman, *Compliance and Ethics Programs Under the Federal Sentencing Guidelines After the Supreme Court Booker Decision*, Reprinted w permission from March 2005 edition of the Wall Street Lawyer
4. Luciano Marchi, *Revisione aziendali e sisteme di controlla interno*, Giuffre Editura Milano, 2004
5. Marasca S., *Le valutazioni nel bilancio di esercizio*, Torino, Giappichelli, 1999
6. Marchi L., Allegrini M., *Levaluzione dei principi contabile in Italia*, Revisione contabile, nr. 50, 2003
7. Megan O., Hategan C., Ineovan F., *International Accounting standards: the best recipe*, „Economia si managementul transformarii”, Timisoara, 2002
8. Quaqlui A., *Levoluzione dei principi contabili di direvazione professionale*, Pisa Il Borghetto, 1998, paragraph 2.1