

ACCOUNTANCY OF THE PRESENT – STANDARDIZED SOCIAL PRACTICE THROUGH FINANCIAL STATEMENTS

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Abstract: *Accountancy is the social science that has evolved and has been perfected in time so as to answer the informational needs of every stage in the evolution of society. Nowadays, the phenomena of globalization of economy impose, more than ever, the necessity of creating a universally accepted accounting language. In order to reach this desideratum, accountancy has initially passed through the processes of standardization and harmonization since the last decades of the past centuries, so that, at present, we experience challenges with respect to accounting convergence and conformity. In this work, we set out to analyze the dynamics of the accounting theory, passed through the filter of the processes of standardization, harmonization, convergence and conformity.*

Key words: *standardization, harmonization, convergence, conformity, accounting postmodernism.*

1. The First Attempts at Standardization and Accounting Harmonization

Worldwide, there are several accounting cultures; however the opinion battle is fought between the two consecrated accounting blocks: the Western-European accounting system, also denominated continental, whose promoters are France and Germany, and the Anglo-Saxon accounting system, represented by the USA and by Great Britain. *The accounting standardization* is the process by means of which standardization is accomplished as regards the presentation of the synthesis documents, the accounting methods and the terminology [1].

The accounting standardization may be realized either through elaborating general accounting plans, or through elaborating conceptual accounting frames. The applicability of the general accounting

plans, meant for several enterprises, proved its utility towards the end of the 19th century, as a consequence of three determinant factors [2]:

- development of the financial markets, which brought about the need for a better entering of the company performance into books, especially under situations of crisis;
- acceleration of the concentration of enterprises in great industrial groups, which generated the necessity for common accounting standards for the entities of the group;
- development of the scientific thinking and research in the subject of accounting standardization.

International *accounting harmonization* is „the process by means of which the national rules or standards, different from one country to another, sometimes

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divergent, are perfected in order to be rendered compatible.”[3] The result is the apparition of the accounting standards accepted at international level, in an attempt to achieve a common accounting language, beyond the particularities of national accounting systems. The harmonization of the accounting rules may lead to an international accounting. This one defines its content on the basis of international accounting standardization. The International Accounting Standards were elaborated under the influence of the neo-classical micro-economic theory, constructed on hypotheses such as: pure and perfect competition, existence of the efficient markets, rationality of the individuals and perfect information (I. Ionaşcu, 2003).

Until 1980, when the first measures of accounting harmonization began to take shape at European level, there had been a great variety in the technique of drawing up financial statements. The uniformization of the practices of financial reporting was accomplished, during the last part of the 20th century, on three different levels: the format of the financial statements, the requirements for presenting the information and in the last resort the accounting principles and the methodology for the evaluation. A first attempt at the uniformization of the accounting practices with respect to financial reporting took place in Germany, where, during the year 1911, J.F. Schaer published the first chart of accounts, which was used during the period of the First World War. Professor E. Schmalenbach had preoccupations on the same line and, in the year 1927, he proposed the development of charts of accounts differentiated on branches of activity. The first version of the General Plan of Accounts was submitted during the year 1947, subsequently reviewed in the year 1957 and partially implemented in the 4th Directive of CEE of the year 1982 [4].

Immediate consequence: the main beneficiary of the accounting information was the State, in its quality of duty and tax collector.

As I have shown, the development of accountancy on the European continent, in the first half of the 20th century, was the result of the efforts of the German school. The German authors were, at their turn, preoccupied with formulating the accounting principles and they made public the result of the first research with respect to accountancy in current value (Schmidt). However, a truly remarkable and original contribution to the progress of accountancy was incontestably offered by professor E. Schmalenbach: he introduced the economic vision upon accountancy and the idea of standardizing the accountancy of the enterprises at national level through an accounting-frame plan.

At the other side of the spectrum, the necessity for developing a conceptual accounting frame started being discussed in USA, ever since the year 1933, after the great economic crisis. As a matter of fact, the first decades of the 20th century were characterized by the American specialists' attempts at formulating, classifying and explaining the accounting principles, in view of enhancing the quality of education and accounting principles. That was a timid attempt at accounting standardization, which materialized during the year 1934 through the elaboration of the generally accepted accounting principles. Moreover, the American accounting profession introduced a formula in the accounting auditor's report, according to which: „financial statements present the faithful image of the financial situation characterizing the company and the results of its operation, in compliance with the generally accepted accounting principles”. [5]

The generally accepted accounting principles have been developed from the

observation of accounting practices, they have a descriptive character and they have become, since the second half of the 20th century, the basis of the theory of accountancy of the normative-inductive type. After the year 1970, the American accounting profession abandoned the normative-inductive accountancy theory, represented by the generally accepted accounting principles, in favour of the normative-deductive accounting theory, under the form of the conceptual accounting frame, fundament for elaborating the accounting norms.

2. New Dimensions of Accountancy in the Context of the Globalization of Economies

It has become a reality that, at present, the worldwide economy experiences the passage from a model built on interdependent national economies, to a model represented by a network of multinational societies, which unfold their activity on a global level. Concentration is a concept frequently encountered in the strategy of enterprises and refers to „the process of grouping the production means and the capital in the same sphere of control, with the purpose of enhancing the advantages that may be obtained on the market (acquisition of a competitor firm, participation in the commercial partners' social capital, increase in profitableness through the access to production factors across cheaper markets etc.)”. [6]

At the end of the '90-ies, the general tendency as regards accountancy was towards reaching the objective of standardization and harmonization of the national accounting systems; however, the process of harmonizing accountancy did not display the expected results and, recently, at international level, there have been attempts at reverting towards accounting convergence. As a matter of fact, IASB and FASB signed a

Memorandum in the year 2002 by means of which they agreed upon finalizing a project called „International Convergence on the Short Term”, with the main objective of eliminating, until the beginning of the year 2005, a series of differences between the referential IAS and US GAAP. After this date, the second stage was set, materialized in the common project called „Project of Common Verification of the International Convergence”. [7] Contrary to the efforts of the two organisms of standardization, the convergence US GAAP/IAS is not a simple process, in the first place because, there is a disagreement between the two accounting referential systems as regards the sphere of influence. If US GAAP are required by enterprises which want financing from the American capital markets, the referential IAS/IFRS is recommended to the companies which aim at being quoted on international capital markets. Consequently, IAS/IFRS are meant to cover a much wider area and they refer to enterprises with different structures. Given these reconsiderations and reorientations, doubled by the loss of the public's trust, as to the information produced and disseminated by accountancy, and moreover, undergoing auditing (the famous financial scandals: Enron, Parmalat etc. do not really belong to the distant past), the chartered accountant has nowadays the difficult mission of involving himself actively into and of correcting the inadvertences of an accounting system, not few times, of geopolitical and financial influences: there is a fight for supremacy between US GAAP and IAS, respectively IFRS. Irrespective of the nature of the standardization act – public, private or mixed, „accounting standardization will always necessarily be a political activity, in which the standpoint of the most powerful will have the greatest chances to

win”.[8] As a matter of fact, M. Capron, analyzing the processes of accounting standardization, accounting harmonization and convergence, in the paper *Contabilitatea în perspectivă [Accountancy in Perspective]* (1994), appreciated that „they will unfold in a ratio of forces among the international political organizations, the great multinational companies and the States of the highly industrialized nations. In this game on a planetary scale, neither the role, nor the influence can be neglected of the great international auditing cabinets, of Anglo-American origin, which make their model circulate and often succeed in imposing it in what we might call in the true sense of the term, an international competition”.[9] At the level of the European Union, the process of implementing the referential IAS/IFRS began on the 1st of January 2004, when two periods were delimited:[10]

- 1st of January 2004 – 31st of December 2004 stood for the period of transition or for the period of re-deal with financial statements, respectively the comparative period;
- 1st of January 2005 – 31st of December 2005 stood for the period of effective application or for the period of drawing up the first financial statements according to IFRS.

Practically, at European level, according to the *Regulation 1606/2002 with respect to the application of the International Accounting Standards*, also denominated *IAS Regulation* ever since the 1st of January 2005, all companies quoted on the capital markets throughout the European Union, including crediting and insurance companies, have been obliged to publish consolidated financial statements according to IFRS. This approach triggered the development of two accounting systems in the countries of the European Union, which are simultaneously

applicable: an accounting system articulated on IFRS and another one substantiated on national GAAP. The member States are in a position to opt for the conformity with IFRS, both for the individual financial statements of the quoted companies and for the financial statements – consolidated or individual – of the non-quoted companies. Within the framework of the European Union, the discrepancies signalled between the European Accounting Directives and the referential IFRS made it necessary the adoption of the Modernization Directive 51/2003 during the year 2003, which offers the enterprises which relate their accountancy to the European Directives the possibility of resorting to the accounting options IAS/IFRS. The Modernization Directive amended the European Directives as regards: content of the annual accounts, presentation of the balance sheet and of the profit and loss account, evaluation rules, issue of the commissions, structure of the audit report, content of the management report, etc.

In the accounting doctrine of the end of the 20th century, the scientific discourse is substantiated on three theories of accounting: normative theory, positive theory and constructivist theory.

Normative theory describes how accountancy should be organized and admits as true any enunciation validated by the professional-scientific community. *Positive theory* is focused on the description and prevision of the accounting behaviour so that it should develop a “sociology of accountancy”. Positivists admit the truth of a hypothesis only provided it has been verified through observation and experiment. *Constructivist theory* considers accountancy a social „construction” and is based on language, interpretation and understanding of human actions. A regulation is validated only provided its content is intelligible.

Nowadays, accountancy has evolved towards another step in knowledge, a process caused by the profound changes that took place in the sphere of economics, under the inertia of the phenomenon of globalization and internationalization of economies. Accounting specialists name the recent dynamics of accountancy, accounting postmodernism. [11]

In our country, postmodernism was brought forth by professor I. Ionașcu (2003) and it seems to convey several senses:

- the attempt of accounting theorists at finding an answer to current phenomena (globalization of economies, continuous deregulation of markets, constant development of the consumption society and of the information society) which raise problems in business administration;
- postmodernist society is seen in a continuous transformation, which requires a trans-disciplinary approach of the enterprise management, a mix among economics, sociology, philosophy, law;
- postmodernist accounting research, launched in Great Britain after 1980, also taken over by French experts are, in professor Ionașcu's view, those which declare themselves post-constructivist, those interpretative and the radical critical trend.

The accounting research oriented towards postmodernism pre-eminently aims at the accounting language and at the significance of accounting information as an instrument of social communication. Nowadays, accountancy has turned into a „social game”, because, on the basis of accounting information, economic decisions are made which influence the well-being of the individuals and of the social groups, turned into actors of this game, which has precise rules and, moreover, stakes represented by the

created wealth. It is a rough game in which winners can be only those who have access to relevant, credible and comparable information in time and space. The last years were characterized, as financial analysts show, by a genuine „mania of fusions and acquisitions”. In this context, the classical place of the balance sheet in which one's own sources and debts pre-eminently financed the activity of the enterprise, so that it should subsequently self-develop through the turnover, was taken over by the over-dimensioned balance sheet through self-obligation and external rise, starting from the premise that the bought assets would generate a profitableness superior to the cost of the borrowed capital. In Anglo-Saxon accountancy, pre-eminently oriented towards the satisfaction of the investors' information needs, the information will be realized most of the times through the notes to the financial statements. At the opposite side of the spectrum, in continental-European accountancy, the accent is laid on the balance sheet and on the profit and loss account, to the voucher receiving a lesser importance. In fact, the practice of drawing up the voucher has been relatively recent, since the '80-ies, as a consequence of the influence exercised by the Anglo-Saxon accounting culture, through the inclusion of Great Britain in the process of European integration. The experts in the field of accountancy have repeated, on different occasions, the fact that, at present, the accounting community is driven by the strong desire of standardization and harmonization of the accounting practices at international level with the purpose of enhancing the comparability of the information disseminated through financial statements. In other words, the current preoccupations in the field of accountancy circumscribe the need for realizing a unanimously accepted accounting language, which

should be found in the application of uniform accounting principles and treatments, as fundament in constructing financial statements. This is a complicated approach, with a trajectory sometimes dictated by certain influences and especially with an extraordinary dynamics. The chartered accountant of the present times takes up the difficult mission of keeping pace with the frequent updating and modifications of the accounting regulations decided at international level. Gradually, the general tendency is to eliminate both the economic barriers among the States, and the barriers that pertain to the particularities of national accounting systems. It remains to be seen whether the accounting model thought under the current form will have the expected results.

Conclusions

Here is a surprising dynamics of accountancy, from the apparition of the first accounting notes, to the attempt at achieving the accounting standardization and harmonization internationally and, more recently, at accounting convergence and conformity.

Although the practice of financial reporting began being outlined only in the 19th century, the theory and practice of the balance sheet and of the account of results incited the chartered accountants all through the 20th century and remain the focus of their preoccupations, due to the ever-increasing and diversified information necessities of the users of financial-accounting information.

The evolution of accountancy was the immediate answer to the mutations produced in the economic, political, social and cultural life everywhere.

The same rule also existed in the case of Romania where, because of the historical

context, most times unfavourable, the reconsiderations in the field of accountancy were produced with a certain delay as compared with other States in Western Europe.

At present, the difference is lost, Romania being connected to the changes that take place in the sphere of accountancy internationally.

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