

PARTICULAR ASPECTS OF THE PROCESS OF FINANCIAL COMMUNICATION FROM THE PERSPECTIVE OF EXIGENCIES REGARDING THE QUALITY ASSURANCE OF ACCOUNTING PRODUCTS

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Abstract:

The social role of accounting has increased significantly in the recent decades and this due to the information they provide more and more influence the user behavior in the process of founding the decisions. The Romanian accounting has known significant mutations in recent years. Although there are more to be done, should be emphasized the accounting development in our country as a tool for informing and assisting the economic decisions. Therefore the concept of quality of accounting products followed the same trend, but currently, given the status that Romania is an European Union Member, there may be done more than ever a separation of issues related to this concept starting from the specific peculiarities of national accounting rules and the international referential in the field. Analyzing the different conceptual frameworks and accounting text normalization, we see a pluralism of procedures that see the definition of quality notion of the accounting information; differences were noticed in particular as regards the selection and hierarchy of the qualitative characteristics. We support this finding by presenting a succinct way in which is defined the reviewed concept analyzed in the accounting normalization, setting as benchmarks the conceptual Anglo-Saxon frameworks, the French accounting and as well the national accounting system.

Keywords: accounting information, quality characteristics, quality of the accounting information, accounting system.

JEL Classification: M41

1. INTRODUCTION

The social role of accounting has increased significantly in the recent decades and this due to the information they provide more and more influence the user behavior in the process of founding the decisions. It is clear that each user wants to have information that will reduce the uncertainties and to provide the opportunities to make the best decisions, designating, in fact, the need to produce by the accounting some quality information.

Since the range of user accounts is relatively diverse, and their informational needs are at least as diverse, sometimes even contradictory, the interpretation of quality of information provided by the financial statements is a process characterized by subjectivism. This is also the reason for which the definition of the quality concept of the accounting information starts in the specialty literature, from the definition and the particularities of the communication process itself and aims to establish some quality criteria on which the information must comply.

Analyzing the different conceptual frameworks and accounting text normalization, we see a pluralism of procedures relating to definition of quality of accounting information; differences were noticed in particular as regards the selection and hierarchy of the qualitative characteristics. We will support this finding by a succinct presentation of the way in which the analyzed concept is defined in the accounting normalization, setting benchmarks as conceptual frameworks Anglo-Saxon on the one hand, and French books, on the other. However, we consider it necessary to expand research in relation to issues addressed in the context of significant changes arising by the reform of the national accounting system.

2. DELIMITATIONS AND INTERFERENCES REGARDING THE QUALITY OF THE PROCESS OF FINANCIAL COMMUNICATION IN THE NATIONAL AND INTERNATIONAL CONTEXT

The accounting systems, which rely on the existence of some conceptual frameworks, make the quality of accounting information to define a fundamental element, its characteristics being presented explicitly by means of documents that are officially as follows:

- The American normalization organism, known under the name Financial Accounting Standards Board, published in 1980 through the norm SFAC 2 (1) entitled Qualitative Characteristics of Accounting Information, relevant elements regarding this issue;
- The International Accounting Standards Board (IASB) (2) included in 1989, in its conceptual framework, the qualitative characteristics of the financial statements and restrictions which must be met to obtain a qualitative information;
- ASB (3) published in 1991, the qualities of the financial information through the document Statement of Principles; The Qualitative Characteristics of Financial Information.

Regarding the definition of the quality concept and of the characteristics that regard the accounting information, given by the American Forum normalization, we note the following main ideas:

- Are identified four qualitative characteristics and namely: intelligibility, relevance, reliability and comparability, which are subject to two major restrictions:
 - reasonableness, respectively the superiority of the obtained benefits of using the information regarding the costs incurred by its obtaining;
 - the threshold of significance or relative importance.
- The criteria according to which are judged the relevance and reliability, considered as being the primary characteristics, are expressed by:
 - predictive value, retrospective value and opportunity - for relevance;
 - possibility of checking, neutrality and fidelity - for reliability.

In addition to those outlined above, we consider to be important also the presentation from the point of view of the American norms regarding the hierarchy of the qualitative characteristics of accounting information. This way, is considered that, from the beneficiaries point of view of the accounting information, the usefulness for the decision-making is the first quality being ensured by the relevance and reliability, qualities considered as primary, and sometimes contradictory. Both relevance and reliability are supported by hierarchically inferior quality such as predictive value, retrospective value and desirability, respectively the possibility of checking, neutrality and reliability. Although the importance of comparability and significant secondary qualities are considered secondary qualities in relation to the relevance and reliability, the conceptual American framework believes they can still improve the process of adopting the decisions.

Regarding the conceptual framework proposed by the IASB, we notice the promotion of the same four qualitative characteristics, as well as imposing the same restrictions as in the general case FASB, which refers to the superiority of the benefits obtained from the use of information versus the cost of obtaining it. In general this restriction is attached to three other restrictions to be observed that the financial information is relevant and reliable:

- timeliness;
- balance between the qualitative characteristics;
- true and fair view/fair presentation.

At the same time, we notice also the explicit presentation of the criteria that contribute to achieving the main characteristics, which the IASB proposes:

- significant size (relative importance) for relevance;
- true and fair view, the primacy of the economic content of form, neutrality, prudence and completeness, for reliability;
- continuity of methods for assessment of comparability.

Starting from this group, the literature made a hierarchy of qualitative characteristics of information that attracts attention by several similarities to that undertaken by FASB.

Analyzing the ASB point of view regarding the quality of the qualitative characteristics of the financial-accounting information, we notice some differences towards the opinion FASB and IASB, raised by the following main elements:

- the primary quality that must have the financial information is appreciated to have a relative importance;
- are considered to be the main qualities the relevance (relevance) and reliability, while intelligibility and comparability are included in the secondary qualities;
- regarding the criteria depending on which are rated the four characteristics, ASB considers that:
 - the relevance is achieved when the information has a value of prediction and confirmation, and when there are selected the information that influence the decisions;
 - reliability is obtained if the information does not contain errors or elements which would lead to erroneous interpretations and is appreciated depending on the neutrality, prudence, reliability and integrality;
 - comparability is given by the methods permanency and by the information communicability;
 - intelligibility is based on the possibility of classification and aggregation of information and as well on the knowledge by the users of language and economic accounting;
- the achieving quality is subject, according to the English, by three restrictions: the balance between quality, timeliness, cost-benefit report.

And in what regards the hierarchy of characteristics outlined above there can be found some differences compared to hierarchies proposed by the U.S. and internationally.

Comparing the three ways listed above, we notice, on one hand, the exerted influence by the American conceptual framework upon IASB, which identifies four qualitative characteristics (understandability, relevance, reliability and comparability) and FASB, which in its turn, imposes the intelligibility before any other qualities, as well as the differentiation proposed by ASB, which consists in the amplification of the relative importance as a fundamental feature and also in the clustering of the four characteristics in the main and secondary.

In an opposite vision of the Anglo-Saxon countries, in the French accountability, the quality concept of the accounting information is not explicitly defined by the presentation of some characteristic features, but by interposing principles.

It should be noted the fact that in France, the definition of qualitative characteristics of accounting information was not taken into account by the National Accounting Council, and therefore in the Accountant General Plan are only listed some qualities of the information produced by the accounting.

According to Accountant General Plan *"the accounting information must give to the users an adequate, fair, clear and complete description of the operations, events and situations"* not being proposed any hierarchy or articulation of the quality criteria. Another specific element for the French accounting is that the Accountant General Plan does not designate users of financial information, the accounting information having as an objective the reflection of a true verifiers is obtained whether are observed the two general principles: the regularity and honesty. There are also remembered, the exhaustivity and coherence of information, which should not lead to a condensation or external aggregation of these and to ensure the comparability of data during the successive periods.

Following the objectives assigned to the French accounting and the accounting principles which are associated, we can say that the accounting information is a compromise that should allow the presentation of a true image of the financial position, of some proper accounts and outspoken, and at the same time, to comply with a series of principles, including the evaluation (monetary nominalism and prudence) have a determined influence on the concept of true and fair view.

Comparison, for example, of the conceptual framework of FASB and of the accounting principles accepted by France, as a result of adopting the European Directives 4 and 7, it highlights major differences, from where we retain as being related to the approached theme the fact that on one hand FASB defines a user reference, while the French accounting makes no statement on the users and their needs, and on the other hand, in France the accounting objectives do not make a reference only to its intrinsic qualities (honesty, fairness, accurate picture), while the FASB explicitly reported the quality of information to the users' needs and expectations.

However, we think that cannot be ignored the process of modernization of the European accounting directives, resulted on the one hand, in the adopting of the European Commission Regulation no. 1606/2002, and on the other hand, the Directive 2003/51/EEC of 18 June 2003 of the European Parliament and Council of the European Union on the modernization and updating of accounting rules, which supplement the European Commission regulation.

The regulation no 1606/2002 aimed, mainly, to achieve two important goals:

1. adoption and application of IFRS in the European Community to ensure the harmonization of the process of communicating information through the consolidated accounts, submitted by the listed companies, beginning with 1 January 2005, to guarantee a high level of transparency and comparability of this process and an efficient functioning of the communitarian capital market;
2. the option offered to the Member States to extend this process of harmonization and to the consolidated accounts of unlisted companies and also to the individual accounts;

Why it was necessary to modernize the European directives? First, because under the aspect of this framework they have not been updated by their adoption, while the accounting concepts and accepted practices have evolved considerably, and on the other hand, was found in some areas, a certain incompatibility of foresights of IFRS directives. Basically by this update was followed on the listed companies, the elimination of the existent discordances between the Directive and IFRS, and in the unlisted companies, for which the application of these rules is optional, the possibility to have access to the accounting options offered by IFRS accounting in maintaining the directives as a basic accounting legislation.

Specifically, the amendments made by the Directive 2003/51/EEC refers in particular to: (4)

- adapting the format for the balance presentation and of the profit accounting and loss to the IFRS foresights;
- possibility of revaluation of all property, including the intangible assets;
- possibility of valuing assets at the fair value and not only of the financial instruments;
- adapting of IFRS rules to the constitution rules of provisions for liabilities and charges;
- the opportunity to submit to additional financial statements;
- the obligation to strengthen the branches that have very different activities;
- to eliminate the requirement to hold an equity capital of a company to enhance it, in its quality of subsidiary, etc.

Even if this process of reconsidering the European Accounting Directives does not explicitly make news on the definition of the concept and characteristics of qualitative information relating to accounting, we believe that the new guidance to IFRS will bring some changes with regard to this issue. We believe that in these conditions, the influences specific to the IFRS concepts will feel to some extent, directly or indirectly, also to the continental type systems, such as the French.

For example, adapting the format of presentation of the balance and the profit and loss account to the IFRS foresights is a first step in this direction. In the attempt to address the problem of accounting information quality in our country we will do a distinction between the phases of accounting reform in Romania.

In the first stage, which corresponds to the period 1991 -1999, one can say that the problem of defining the quality of accounting information and delimitation of quality characteristics has been the subject of intense concern from the normalizers because:

- accounting was conceived as an instrument of control;

- the state plays a dual role, the normalized system of accounting and information privileged user accounts, leading to asymmetry in demand and supply information to the specialist in relation to other users;
- reliability was imposed as the main characteristic of information, precisely due to the instrumentalist character of accounting;
- the true and fair view was obtained in terms of compliance "*with good faith of rules on the patrimony evaluation and other rules and accounting principles*".

Continuing the accounting was passed, since 1999, to the next stage marked in adopting the Order of the Minister of Public Finance Order no 403/1999, which subsequently was replaced by OMFP no 94/2001 approving the accounting Regulations harmonized with the Directive IV of the European Economic Community and the International Accounting Standards.

Although there can be identified many critical issues, should be noted that in defining the concept of quality of accounting information at this stage has been notable progress, which mainly refers to:

- opening accounts to external users;
- recognition of the role of accounting as a tool for information and decision support;
- addressing the economic process for obtaining accounting information and legal weight reduction;
- increase the value degree of accounting information in economic and financial analysis;
- introduction of quality criteria in the development and dissemination of accounting information.

The Romanian normalizers took over the "General framework for preparation and presentation of financial statements", prepared by the IASB, it may be said that assessing the quality of accounting information was based on four qualitative characteristics of financial statements incorporated by the IASB: intelligibility, relevance (relevance), credibility (reliability) and comparability, given explicitly in the OMFP no 94/2001.

At their turn, the relevance, reliability and comparability are interpreted in the light of secondary criteria, which relate to:

- the threshold of significance, predictive value and the retrospective one, for relevance;
- fair representation, the prevalence of legal economy, neutrality and completeness, for credibility;
- continuity and Communicative methods for comparability.

The reform of the Romanian accounting system has continued through a third phase started in 2006 by adopting new regulations in accordance with the European directives. (5) Although in many ways the current regulation is considered a "step back", we notice that the annual financial statements constitute the central objective in these regulations, the main purpose of accounting in accordance with the European directives, being the measurement, evaluation, knowledge management and control of assets, liabilities and equity and ensuring a faithful picture of the financial position, profit or loss each year, through the summary document, to provide information useful to those who take economic decisions.

It also requires the emphasis that the accounting information for the destination extends from the decision makers at all interested in making economic decisions, in which a significant place is taken by the users such as the donors, customers, suppliers, banks, social partners, and others. In the same vein, be retained and that the faithful image that provides annual financial statements refer specifically to the assets, liabilities, financial position and profit or loss, if any, which is a new way of understanding this concept.

Although the new accounting regulations in Romania, to which I referred, do not explicitly address to the issue which is the subject of this study, should not be lost of sight that the fact, the qualitative characteristics of financial statements are the basic attributes that make sense usefulness of accounting information.

Basically, the accounting regulations in accordance with the European directives not only state that *"accounting policies should be developed to ensure the supply through the annual accounts of certain information that must be:*

- a. *relevant to the needs of users in decision making;*
- b. *credible in the sense that: accurately represent the assets, liabilities, financial position and profit or loss of the entity, are neutral, are cautious, are complete in all the material respects. "*

On the other hand, should not be omitted the fact that the Romanian accounting law foresees the application of an accounting regulation in accordance with the European directives, and the International Financial Reporting Standards (IFRS) and the EU Member States have proceeded with the implementation of IFRS in According to the Regulation (EC) no 1606/2002.

Therefore, in Romania, starting with the requirements of the Regulation (EC) no 1606/2002 and the national regulations (6), are required to apply IFRS starting with 1 January 2007, the entities whose immobile securities, at the balance date, are admitted to trade on a regulated market, to prepare the consolidated financial statements.

For a distinct category, represented by the entities of public interest, foreseen with the opportunity in what regards the application of IFRS in preparing the financial individual situations or consolidated for the own informing needs, being placed here, according to the rules in force: (7)

- a. credit institutions;
- b. insurance, reinsurance and insurance -reinsurance societies;
- c. societies of financial investment services, asset management companies and collective investment, authorized / approved by the NSC;
- d. commercial companies whose immobile values are admitted to trading on a regulated market;
- e. companies and national companies;
- f. juridical persons belonging to a group of societies and enter into the consolidation perimeter by a parent society applying IFRS;
- g. juridical persons, other than those mentioned above, which receive loans un granted or with the state guarantee.

In this context is clear the fact that for certain entities in Romania the concept of quality of accounting information will get the specific values of private international accounting standards to which we referred above.

Theoretically, to be useful, information must meet all of the presented characteristics, the difficulties appear to be determined when the proportions in which these should be applied to a given situation, even more when certain criteria are complementary and independent, while others are divergent.

3. CONCLUSIONS

From the practice point of view, no information can meet all the qualities listed most often it focuses on a feature in the detriment of another, what determines the emergence of some conflicting estates at the accounting information level, such as:

- the relevance and credibility, considering that increasing the credibility is realized, usually at the expense of relevance;
- increasing the speed in what regards the obtaining of financial information is produced in the detriment of accuracy and integrality (exhaustiveness);
- increase consistency affects flexibility, resulting in reduction etc.

Although there were expressed points of view through which is considered that the reduction of possible conflict situation could be achieved by carrying out by the normalization scheme of hierarchy of qualitative characteristics of financial accounting information, we feel that such an approach does not completely eliminate the risk of antinomic situations. In this respect, we believe that the continuous reconsideration of the informational needs of users, as a requirement to

adapt to changes in the economic environment, political, legal and social, can lead to a greater extent, a contribution to balancing the various quality characteristics in terms to obtain information of good quality.

Moreover, the specialty literature (8) brings into discussion the results of some performed studies by the researchers that aim to check how the quality criteria proposed by the conceptual frameworks are well understood in practice and if they guarantee the adoption of good decisions. The formulated conclusions following the completion of such studies, supporting our concept that is not sufficient simply to a hierarchy of qualitative characteristics of financial accounting information to meet the needs of all categories of users, and relate mainly to the following key issues :

- the qualitative characteristics are subjective in spite of the offer that offer the normalizers;
- there is a certain dependency between relevance and understandability, the latter one being ensured by the knowledge own by the users;
- the favorable information regarding on the business are always perceived to be intelligible and influence the decisions.

Although the accounting products beneficiaries consider that the accounting professionals have the responsibility to increase, by the mode of presentation, the degree of understanding of information by certain categories of users, which would imply a simplification of procedures, we believe that this idea is contrary to the current trends where the accounting practices tend to become increasingly sophisticated. This is the reason for which we believe that accounting information must be intelligible to those who have sufficient knowledge of economic activities. Therefore, we think that the responsibility for the communication and use of information must be shared between the accounting professionals on the one hand, to be responsible for the provision of quality, and users on the other hand, need to assume knowledge required how to exploit the received information. In the conditions where is accepted the idea of pluralism to the information users from the accounting domain is difficult for the intelligibility, as a qualitative feature of this type of information, to address to all those who request it, without discrimination.

- (1) *Statement of Financial Accounting Concepts (Enunuri ale conceptelor de contabilitate financiar) constituie un set de texte care prezint conceptele fundamentale pe care se bazeaz normele de întocmire i de prezentare a conturilor.*
- (2) *International Accounting Standards Board este organismul interna ional care are ca obiectiv elaborarea i publicarea normelor contabile interna ionale.*
- (3) *Accounting Standards Board (Consiliul normaliz rii contabile) este organismul britanic de normalizare în domeniu.*
- (4) *L. Malciu, N. Feleag – Reform dup reform : contabilitatea din România în fa a unei noi provoc ri, vol. 1, Editura Economic , Bucure ti, 2005, p. 38.*
- (5) *OMFP nr. 1752/2005 pentru aprobarea reglement rilor contabile conform cu directivele europene , Monitorul Oficial nr. 1080 bis/30.11.2005.*
- (6) *OMFP nr. 1121/2006 privind aplicarea Standardelor Interna ionale de Raportare Financiar , Monitorul Oficial nr. 602 din 12 iulie 2006.*
- (7) *OMFP nr. 907/2005 privind aprobarea categoriilor de persoane juridice care aplic care aplic reglement ri contabile conforme cu IFRS, respectiv reglement ri contabile conforme cu directivele europene, Monitorul Oficial nr. 597/11 iulie 2005 (modificat prin OMFP nr. 1121/2006).*
- (8) *M. Minu – Contabilitatea ca instrument de putere, Editura Economic , Bucure ti, 2002, p. 123.*

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