

## ACCOUNTING BASES USED IN DRAWING UP FINANCIAL STATEMENTS BY ECONOMIC ENTITIES LISTED ON THE BUCHAREST STOCK EXCHANGE, BVB SECTION

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**Abstract:** *The IASB conceptual accounting framework has several measurement bases that may be used in drawing up financial statements: historical cost, current cost, realizable value, present value. In this article, we shall present a quantitative and empirical research, using the following research methods: the method of documentation, obVBBrvation analysis and data interpretation. Through this article we want to highlight the measurement bases used by economic entities listed on the Bucharest Stock Exchange, BVB section in 2014, in order to record the tangible assets in the financial statements. We will also pursue the amortization regime used by these financial statements to calculate the depreciation of tangible fixed assets.*

**Key words:** *measurement bases, historical cost, fair value, financial statements, accounting depreciation*

### INTRODUCTION

Over recent decades, the debate on the different valuation bases primarily focused on the objective nature of these bases, ignoring their impact on operational and investment decisions of a company and its strategic interaction with competitors.

Highlighting the complexity of the measurement bases associated with their implementation in a balanced framework is in step with the speech of Demskidin American Accounting Association Presidential Lecture 2004, according to which the FASB debate on the fair value assessment requires " an aggressive identification of sources of information and a balanced and explicit debate " [1].

In the process of determining the entry value in the accounting records of assets, liabilities and equity, one of the most delicate and difficult problems is raised by the choice of the correct measurement base.

Given the complexity of the economic world, the development and globalization of financial markets and the increasing influence of theory on the value from the shareholders' point of view, the historical cost accounting has become somewhat outdated [2]. To keep pace with these developments of the reality, the accounting regulatory bodies have replaced gradually the historical cost principle with the fair value principle.

### MATERIALS AND METHODS

This study is a quantitative, empirical research. The research methods used are: documentation method, data collection, analysis and interpretation of their results.

Through this study we want to highlight the measurement bases used by economic entities listed on the Bucharest Stock Exchange, BVB section in 2014, in order to record tangible assets in the financial statements. We also looked at the depreciation regime used

by them for tangible assets. We chose an analysis of listed entities because they provide annual reports publicly available, which is not the case with unlisted entities. Of the 98 entities listed on BVB, we have removed the suspended entities (17 entities) and the international entities (2 entities), reaching 79 surveyed economic entities. To obtain the necessary information for the study, we analyzed their financial reports, the 2014 Annual Report respectively [3].

We believe that the listed entities constitute a representative sample in order to reflect the assessment modality of tangible assets by the listed economic entities, as they are mostly exposed to the public. We removed from our study the entities listed on RASDAQ and ATS sections.

In the conducted study, the codifications **1, 2, 3** were used to highlight the measurement bases used by entities during 2014. Therefore, **1** is the situation in which the economic entities have registered all tangible fixed assets at historical cost, **2** for the entities which use the fair value to record the tangible assets in the financial reports for 2014 and **3** for entities using both historical cost and fair value to reflect tangible assets in the financial statements in 2014.

## RESEARCH RESULTS

Following initial processing of the obtained data, in 2014 the situation of the tangible assets measurement within the economic entities listed on the Bucharest Stock Exchange, the BVB section, is presented using the **table 1**:

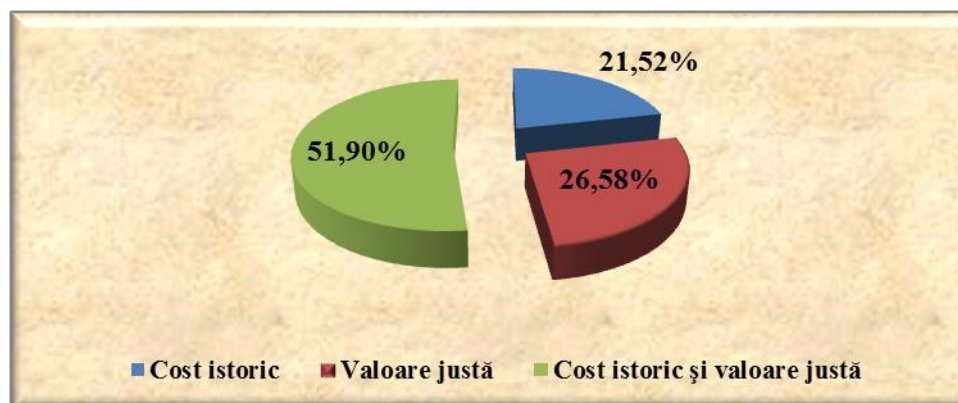
**Table 1**

**The group entities according to the listing category and the measurement method used**

| Category                | Historical cost |    | Fair value |    | Historical cost and fair value |    |
|-------------------------|-----------------|----|------------|----|--------------------------------|----|
|                         | I               | II | I          | II | I                              | II |
| No.of economic entities | 6               | 11 | 10         | 10 | 5                              | 36 |
| Total                   | 17              |    | 21         |    | 41                             |    |
| Total                   | 79              |    |            |    |                                |    |

Source: the author's projection

From the table above it can be seen that 41 economic entities (that is 51.9%) of the 79 have used both historical cost and fair value to record tangible assets in financial reporting for the year 2014. 12.2% of these are listed in the first category and 87.8% in the second category. A share of 21.52% of all surveyed economic entities used only the historical cost as a measurement basis of tangible assets in 2014, while 26.58% chose the fair value, as a valuation method of tangible assets (**figure 1**).



Source: the author's projection

**Figure 1. Measurement basis used for tangible assets by entities listed on BVB in the financial statements of 2014**

Most companies listed on the Bucharest Stock Exchange generally use the fair value for the measurement of lands and buildings and the historical cost for other categories of properties.

**Table 2**

**Depreciation regime used by economic entities listed on the Bucharest Stock Exchange, BVB section**

| <i>Depreciation regime</i> | <i>No. of economic entities</i> |
|----------------------------|---------------------------------|
| <i>LINEAR</i>              | <i>76</i>                       |
| <i>ACCELERATED</i>         | <i>1</i>                        |
| <i>DEGRESSIVE</i>          | <i>2</i>                        |

Source: the author's projection

Regarding the depreciation regime of tangible assets used, it can be seen easily from table no.2 that the linear regime was mostly used, 96.2% of economic entities which were subject to the inquiry have used this depreciation regime in the financial year 2014. Two economic entities chose a mixed depreciation regime (linear and degressive), while one unit has used an accelerated depreciation regime.

Following the study undertaken, we find that most economic entities listed on BVB adopt a mixed model to reflect tangible assets in the financial statements. Also, even if the fair value has been heavily criticized in the financial crisis, it continues to be preferred to the detriment of the historical cost for the measurement of these assets.

## CONCLUSIONS

Financial statements are an important source of information for users. Because of this, the information contained by them should be relevant and represent exactly the economical - financial operations, qualities which are not met to the assessment based on historical cost.

By using the fair value, the information is more accurate and ensures greater objectivity of information in the financial statements.

The fair value is more relevant, but not necessarily reliable. Selling the same good at different auctions will generate a wide range of offers to earn the same good and even professional evaluators will appreciate a good to a range of prices instead of one fixed amount.

The choice of one or more of the measurement bases presented by the IASB conceptual accounting framework must be correlated with the concept of capital maintenance, depending on which the performance of the economic entity is quantified.

#### REFERENCES

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