ASSESSMENT PARADIGM IN ACCOUNTING

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Abstract: *This paper aims to present and perspectives on evaluating accounting theory in accounting. Today, accounting is characterized by / a variety of theories, despite the efforts of the IASB and FASB to create a unique theory to be validated. The evaluation is defined by how to choose the measurement basis and the concept of capital. Research technique is based on literature review, the regulation of accounting normalization. . Documentary research, analytical research and comparative analysis are used to determine impact on enterprise performance measurement bases.*

Key words*: assessment, concept of capital, measurement basis, performance*

INTRODUCTION

Assessment is part of the accounting modelling in the disclosure and reflection of the main elements of a business entity, being subordinated to the objectives of the accounting theory. However, accounting theories, in their diversity, are the perception, various views of the researchers on accounting presented as a multi-paradigmatic science in modelling and understanding the investigated reality. Accounting in the evolution of the process of knowing reality is characterised by three accounting meta-paradigms: the measuring tool paradigm, the information tool paradigm and the social intermediation paradigm.

From the perspective of the first paradigm, accounting is identified with the activity of measuring the transactions and events, the items composing financial statements. This quantification implies choosing the methods for the assessment of the resources of the business entity oscillating between historical cost accounting and the theory of the correct assessment of the result or current value accounting.

Since it is known that no paradigm of the accounting provides the absolute truth, the question is to what extent se the amounts disclosed in the financial statements are consistent with the economic reality. Basically there are several values according to the moment when they are determined: input values, output values, balance values and inventory values. The concept of value is subordinated to the concept of maintaining the financial and physic capital according to the requirements of the users of the accounting information. In other words, in order to reflect pertinent and relevant values comparable for users, one should take into account the objectives of each accounting model. The conclusion is that from the perspective of the capacity of the assessment process to boost the transparency and comparability of the information provided by financial statements, the importance of a value has a different place in the regulated assessment bases, from one period to another according to the requirements of the users of the accounting information.

The current problems of the accounting assessment must be approached from two points of view. On the one hand its evolution must be analysed within the convergence programme initiated by the two international accounting standardization bodies. On the other hand, it is necessary to know the theories on accounting signalling the limitations of the assessment model under the circumstances of the diversification of the users' informational requirements.

RESEARCH METHODOLOGY

The research area of this paper is the accounting assessment for a financial disclosure adequate to the needs of the accounting information users. The main objective of the research is the assessment with the purpose to determine the impact of the normalized measurement (assessment) bases on the financial performance of the company. In the normative theory, the assessment model is selected by associating the concept of capital and capital maintenance with the assessment bases.

The study is based on the comparative analysis of the assessment bases from the perspective of achieving the balance between relevance and credibility and of the concept of capital and capital maintenance.

In the assessment of the disclosure of the financial information of a business entity. From the epistemological point of view the paper addresses the normative-constructive approach. The fundamental research of the theory concerning the accounting assessment model is made with the help of the normative technique. The basic strategy used is the documentary research, the comparative analysis, the analytical analysis, the opinion.
The systematization of the problems of the current accounting assessment practices from the perspective of accounting disclosure as a social science leads to a constructive approach.

THE IMPACT OF THE ASSESSMENT BASES ON THE COMPANY PERFORMANCE UNDER THE CONDITIONS OF THE CONCEPT OF MAINTAINING THE FINANCIAL CAPITAL ASSESSED IN MONETARY UNITS

Two capital maintenance concepts are known: the financial capital maintenance and the physical capital maintenance. The concept of capital is not required by the Accounting concept framework, this concept may be chosen by the business entity management according to the needs of the users of its financial statements. The two capital maintenance concepts are differentiated according to the accounting treatment applied to the effects of the variation of the asset prices and of the liabilities of the economic entity. In order to find a balance between relevance and reliability in the selected account ting model, one or several assessment models mentioned in the General accounting framework are chosen. The implementation of the capital concepts can create assessment difficulties. There are pressures on the change of an assessment basis when the perception is that the assessment policy in question does not quantify a business in a correct and appropriate manner. Many measurable attributes are used in the accounting theory and practice, without reaching a consensus concerning a single basis for the correct measurement of the capital. According to the assessment bases structuring criteria, Edward and Bell(1961) set 6 relevant values that can be allocated to an asset:

a) Input values: historical costs, current costs, replacement costs;
b) Output values: current costs, potential sales value, expected market values.

We are presenting below the impact of the assessment basis on the profit account and on the balance sheet in the context of a selected capital concept.
According to the financial capital maintenance concept, the business entity obtains profit if the financial (or monetary) value of the net assets at the end of the accounting period is bigger than the financial (or monetary) value of the net assets at the beginning of the accounting period, after excluding any distributions by the owners and any contributions from them during the analysed period. The accounting concept framework does not require

a certain evaluation basis for the concept of maintaining the financial capital. The financial capital assessment can be made both in nominal monetary units and in units of constant purchasing power.

With the concept of maintaining the financial capital assessed in nominal monetary units, profit is the increase in the nominal capital in the accounting period under consideration; in other words, the increases in the prices of the assets during the period, i.e. the gains from owning assets, represent profit from the conceptual point of view. These gains found are financial capital assessed in nominal monetary units requires as evaluation basis the historical cost. From the aspects presented above, it follows that this concept of capital aims at preserving the balance structures at input values (historical costs) that are subsequently corrected with the potential amortizations and adjustments.

In order to highlight the impact of the assessment bases on the company performance when the concept of maintaining the financial capital assessed in nominal monetary units is used, we are considering the following example:

"The shareholders of the company ALFA that is established at the beginning of financial year N, bring a cash contribution of 1500 m.u. At the beginning of year N, the entity purchases 150 kg of the goods M for 1.5 m.u./kg from which it sells on the date of 1.06.N, 120 kg at the price of 2.1 m.u./kg. On this date one kg the goods M could be bought with 1.6 RON. On 31 12.N, the unit selling price of the goods M is 2.4 m.u., and the unit purchase price is 2.3 m.u."

The impact of the assessment basis on the company performance is determined based on the data given above.

Table 1

The profit and loss account of the Company ALFA on 31.12.N when the historical cost is used while maintaining the financial capital in nominal monetary units

Name of the item in the Profit and Loss Account	***Assessment basis: historical cost***	**Explanations (calculations)**
Incomes	252	120 x 2.1=252 m.u.
Expenses	(180)	120 x 1.5 = 180 m.u.
Current result	72	
Holding gains realized	-	
Holding gains not realized	-	
Net result	**72**	

The calculation of the company performance with the help of the historical cost assessment basis involves the following aspects:

- incomes are recognized when they are realized;
- the principle of linking expenses to incomes is observed;

- the result is determined as the difference between the income obtained in the moment of the sale and the historic cost corresponding to this sale.

We can notice that the use of the historic cost generates errors over time and in the assessment concerning the size of the performance. The errors in time occur because the net result does not take into account the holding gains occurred during the current period that will nevertheless be recognized in the following periods by selling the goods remaining in stock). The assessment errors occur due to the fact that the general price increase is not taken into account.

It is obvious that the result in historical costs is not relevant from the point of view of maintaining the physical capital, under inflation circumstances, because it takes into account the price increase as profit.

Table 2

The profit and loss account of the Company ALFA on 31.12.N when the current cost is used while maintaining the financial capital in nominal monetary units

Name of the item in the Profit and Loss Account	***Assessment basis: current cost***	**Explanations (calculations)**
Incomes	252	120 x 2.1=252 m.u.
Expenses	(192)	120 x 1.6 = 192 m.u.
Current result	60	
Holding gains realized	132	120 x (1.6 m.u./kg. – 1.5 m.u./kg.) = 132 m.u.
Holding gains not realized	24	30 x (2.3 m.u./kg. – 1.5 m.u./kg.) = 24 m.u.
Net result	**216**	

The assessment of the items in the financial statements with the help of the current costs involves:

- Recognizing the incomes in the moment of the sale;
- Recognizing the expenditures corresponding to the sale at current cost;
- The net result of 216 m.u. is the sum of the current result of 60 m.u. (the difference between the incomes recognized in the moment of the sale and the current cost of the stocks sold), the holding gains realized in the amount of 132 m.u. corresponding to the goods sold and the holding gains not realized in the amount of 24 m.u. corresponding to the goods remaining in stock.

This historical cost assessment basis also generates errors over time because it excludes from the size of the net result the holding gains not realized occurring in the current period, but which will be recognized in the subsequent periods when the stocks will be sold.

[30 x (2.4 m.u./kg. – 2.3 m.u./kg) = 3.m.u.]

The assessment errors occur due to the fact the general price increase is not taken into account.

The conclusion is that the result in current costs is not a pertinent accounting piece of information in the profit and loss account because the expenses corresponding to the goods sold are determined in the moment of the sale, not at the current cost in the moment when the stock in question is purchased.

In our opinion this assessment basis, i.e. the current cost, is relevant for the accounting balance because the assets are assessed at the current cost corresponding to them at the end of the accounting period.

Table 3

The profit and loss account of the Company ALFA on 31.12.N when the realizable value is used while maintaining the financial capital in nominal monetary units

Name of the item in the Profit and Loss Account	***Assessment basis: current cost***	**Explanations (calculations)**
Incomes	324	120 x 2.1 + 30 x 2.4=324 m.u.
Expenses	(261)	120 x 1.6+ 30 x2.3 =261 m.u.
Current result	63	
Holding gains realized	132	120 x (1.6 m.u./kg. – 1.5 m.u./kg.) = 132 m.u.
Holding gains not realized	24	30 x (2.3 m.u./kg. – 1.5 m.u./kg.) = 24 m.u.
Net result	**219**	

In relation to the performance assessment with the help of the realizable value that implies renouncing the income realization principle, we are underlining the fact that this assessment basis no longer generates errors in time because it calculates for the current period all the results and gains corresponding to it. The net result calculated based on the net realizable value is pertinent for the balance sheet because its items are assessed at current values at the end of the accounting period. The assessment errors are generated by the fact that the general price increase is not taken into account. For the profit and loss account, the result evaluated at the net realizable value is not relevant due to the fact that the expenses corresponding to the sale are assessed at the current cost in the moment of the sale, not at the current cost in the moment when the same sold stock is purchased.

CONCLUSIONS

In our opinion, in order to reflect the financial performance of the company in a pertinent manner, we must find methods adequate to the maintenance of the physical capital using the current cost as evaluation basis.

According to the physical capital maintenance concept, profit is only obtained when the physical productive capacity (the operating capacity) of the business entity at the end of the period is higher than at the beginning of the period, after excluding any distribution to the owners and any contribution from them in the analysed period. The price changes corresponding to the assets and liabilities of the company are not recognized as profit, being treated as capital maintenance adjustments, as part of the reserves. This concept requires the current cost as assessment basis.

In the specialty literature the production capacity related to obtaining a volume of goods and services is not clearly de fined and consequently measuring it from the accounting point of view is difficult. In our opinion, the current values: the current cost, the realizable value, the present value and even the fair value are the most recommended in the evaluation of the production capacity.

All the price changes affecting stocks under the conditions of the concept of maintaining the physical capital must be recorded as capital maintenance adjustments, and are not recognised as profit.

In our opinion the accounting model based on the concept of maintaining the financial capital and selecting the current cost as assessment basis is the most pertinent in reflecting the financial performance with the observation that the physical capital maintenance reserves do not have to be recorded in the overall result statement and do not have to be distributed.

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