

INDIVIDUAL EFFORTS OF IFRS ADOPTION-COMPARISON BETWEEN ROMANIA AND THE UNITED STATES

AURA EMANUELA DOMIL¹, ALIN EMANUEL ARTENE²,
ADRIAN GENCIA¹, SILVIU SAPLACAN¹

¹West University of Timisoara,

²Politehnica University of Timisoara

Abstract: *In recent years, the evolution of accounting normalization at an international level has been marked by increasing efforts on behalf of the IFRS Foundation, met with a wider openness from various domestic accounting regulating bodies. Although the process has entered a stage of rapid success, in comparison with the last decades of the 20th century, the completion of harmonization is still far from reaching an end point. The current paper undertakes a comparison between the United States of America and Romania, as representatives of the Anglo-Saxon and Continental accounting traditions; having the aim of offering a better understanding of the various contextual and inherent difficulties faced by the IFRS conversion process.*

Key words: *sports recreation tourism, new tourists, tourists' profiles, Baile Herculane, consumer behavior*

INTRODUCTION

An observation of the evolution of globalization over the past decades, especially since the end of the Cold War, yields the objective conclusion that transnational commerce has evolved at an alarming pace. From the accounting stand point, researchers and practitioners were forced into reacting to this changing environment by adapting the existing means of financial reporting. The accounting answer to the globalization issue is addressed by the IFRS foundation, through the setting of a set of international standards. While the status of harmonization between various national reporting systems and IFRS finds itself in an advanced stage, the process faces a number of various problems that prevents its successful completion.

The current paper examines the tradition of two contrasting systems of financial reporting, that have roots in both the Anglo Saxon and continental traditions. Looking at the early stages of development of each tradition, we determine a number of independent factors – be that inherent or external, that either facilitate or burdens the process of conversion to the IFRS. The goal of the papers is, not only to broaden the readers' view with regards to the tradition and creating process of each individual reporting system, but also to offer a clearer image of the collective national rationale that determines the country's attitude towards accounting normalization.

MATERIALS AND METHODS

The current paper attempts to reach its goal by mainly employing the historical and diachronic method. We have found this approach to be most suitable in highlighting the evolution of the accounting systems of the two countries used as examples. In formulating our conclusion, we have drawn a brief comparison between the two cited examples so that we could better emphasize the idea of factor variation in IFRS adoption. Since the present paper does not have immediate application on a practical level, but rather broadens the knowledge base of the reader with regards to past events with present consequences, we find the overall approach of the paper to be of a basic research nature.

RESULTS AND DISCUSSIONS

The US: a long tradition inducing a sceptical approach towards IFRS adoption

Due to the historical link between the United States and United Kingdom, the accounting practice in the US is often considered to be the same with the practice in the latter mentioned. While there are, without doubt, a certain number of similarities between the accounting practices in the two countries, the US has embarked in a journey of developing its own distinct and functional accounting system as early as the first part of the nineteenth century. Prof. Martin James links the creation of an early managerial accounting system with the production process in the cotton mills of the early nineteenth century. The same source reveals the existence of a double entry accounting text book, written in New York City in 1818. During this early period of development, neither the local governments, nor the federal government of the US has intervened in regulating the accounting profession; thus leaving this task entirely to private sector. By the time of the American Civil War, the accounting profession has often changed in accord with the needs of private entities. At the same time, due to the heavy industrialization process following the North's victory over the agrarian Confederate States of America, financial accounting has gained an increase in importance. By this time, a number of private practices in the field are being established – e.g. Borrow, Wade & Guthries, New York City, while financial accounting becomes subject to formal classes being taught in institutions such as The Wharton School of Finance and Commerce.

The year 1887, together with the establishment of the early American Institute of Certified Public Accountants, marks the beginning of the accounting's trade regularization by a professional organization. Based on Scottish and British models, and similar to practices in the field of law and medicine, AICPA manages to establish rules of conduct specially catered to the accounting profession [1]. The historical importance of AICPA is closely linked to the development of the US General Accepted Accounting Principles (US GAAP), the organization having ruled on a number of precedence prior to the establishment of the Federal Accounting Standards Board (FASB). Under the context of the 1929 economic depression in the United States, the newly formed Securities and Exchange Commission (SEC), has deemed necessary to set a number of general and unanimously applicable governing practices in the field of financial accounting. Once again, the US government – through the authority of the SEC, has reserved the right of overseeing the accounting practice but refrained from actually formulating its governing principles. This task, in a rather laissez faire tradition, was left to the private sector. Therefore, AICPA – in addition to its present day responsibility of licensing and supporting accounting professionals, was sanctioned to develop the early forms of the US GAAP.

In 1973, The United States was at the forefront of the effort for implementing international standards of financial reporting, its delegation signing the status of the newly formed International Accounting Standards Board (IASB), and committing to its future efforts. This implication, however, was short lived; as FASB – also established in 1973, took a non supportive position motivated by the fact that IASB lacked authority at a national level, being solely supported by the SEC and not by the US constituency of accountants. None the less, fueled by the constantly growing demand of the US corporate sector for international standards, the SEC continued its silent support of IASB, from the position of board member in the International Organization of Securities Commission, enforcing therefore the adoption of International Accounting Standards (IAS) by companies listed on the stock exchange [10,11]. This action forced reconciliation between the FASB and IASB, both parties admitting their relationship of mutual dependency; i.e. FASB had no choice but to react to the outside pressure of the SEC, while IASB recognized that it could not complete its mission statement without the council of the

institutions overseeing the world's largest stock exchange [11]. After the 1988 open commitment of the SEC to IOSCO's support for the IASs, the collaboration between FASB and IASC has yielded a number of compromises, among which we mention the following most important:

- The formation of the G4+1 consultancy group, composed of delegations from four countries of Anglo Saxon tradition (among which we count the US) that form an agenda with various issues that, in their opinion, need to be addressed in the IASs.
- The adoption of the IAS 39 in accordance with US GAAP
- The board of the International Accounting Standards Board (IASB), since its establishment and takeover from IASC in 2001, consists of five members from the United States. This number of representatives is higher than the number of delegates from any other country (e.g. France: one member, Germany: one member, etc.)

Beginning with the year 2000, and together with the landmark court cases of Enron Inc. and Worldcom Inc., the private sector questions the adequacy of the US GAAP with regards to the current demand for accounting information. In response to this crisis the SEC concludes that a system based on principles would be more suitable in the given context, stressing once again the need for convergence between the US GAAP and IFRS [4]. Furthermore, in 2007 – following the Norwalk Agreement, where FASB officially endorses the convergence to IFRS, the SEC has made an unprecedented decision of allowing foreign corporations listed on the NYSE to submit IFRS based annual reports, without a translation to US GAAP [9]. According to the latest IASC press release on the matter, the final stages of US GAAP-IFRS harmonization process should be reached no later than 2015. On the other hand, due to recent economic hardships encountered by the United States, Mary Schapiro – the SEC sitting chairman, states in 2009 that the institution is not compelled to fulfilling the 2015 deadline.

Romania: the dynamics of constant change in tradition facilitating IFRS adoption

The evolution of the Romanian accounting tradition is defined by the unfavourable geo-political circumstances to which the country has been exposed over its recent history. Prior to the creation of a centralized state, the economy and culture of the nineteenth century Romanian principalities are heavily influenced by the neighbouring master empires. By 1831 historical documents prove the existence of a certain Organic Rule of Commerce in Walachia and Moldavia, inspired by the French Civil Code. The French model is kept in use until 1887, when under the rule of king Carol the 1st the Romanian Commercial Code of Law is inspired from Italian legislation [6]. After the ascension to the throne of king Carol, Romania enters a period of prosperity, the accounting profession gaining increasing attention from the leading academia. By the early twentieth century, accounting is viewed as a distinct discipline, being taught at high ranking universities, such as the University of Cluj and Bucharest. The early Romanian accounting tradition is divided between two schools of thought: a French oriented one led by prof. Spiridon Iacobescu and a German oriented led by prof. Ion Evian. Also, the year 1921 marks the establishment of the Certified Expert Accountants' Body. Unlike its American counterpart, though, the institution's authority is limited; accounting standard setting being decided by specially designed acts of law.

The circumstances surrounding Romania after the end of the Second World War bring about a major setback to all efforts of shaping a national accounting tradition. The communist regime eventually decommissions the Certified Expert Accountants' Body, while all its former duties being assumed by the Ministry of Finance. For the next forty five years, the accounting profession's sole aim becomes assisting the centralized economy, forfeiting completely the judicial and patrimonial tradition practiced in Romania prior to 1945. With the fall of the Iron Curtain, Romania finds itself once more in the undesired position of having to create a new system of financial reporting. In the absence

of a centrally planned economy, the former accounting system became entirely obsolete, thus reform was in order. The Romanian accounting reform took place in three stages, beginning with the year 1990, as follows:

Stage 1 (1990 – 1998): in the aftermath of the anticommunist revolution, the newly established legislature adopted the accounting cod of law no. 82 of 1990. This was followed shortly by decision no. 704 of 1993, which detailed the application method of the previously mentioned act. The first stage of the reform represents an attempt of returning to the French accounting model, under the guidance of delegates from the French Academy of Economic Studies. During this period the main goal was establishing a system that could function under the economic conditions of the time, such as business financing from private sources (mainly banks), positive correlation between accounting and taxation, conservative general attitude and account plan designed in consequence (Lepadatu, 2013:26). The two major aspects that have labelled the newly formed reporting system as inadequate was its preferential treatment towards the government as the main accounting information user, and its incapacity to adapt to the domestic situation of hyperinflation of the 1990s. On the other hand, a limited benefit came out of the French model adoption attempt, as the system was familiarized with the recent European Union directives of the time [6].

Stage 2 (1999 – 2006): As the national economy was struggling to find its place in the new order of the European Union, it becomes exposed to a number of outside pressures from the World Bank and from private corporations that have seized investment opportunities in Romania; which in turn created demand for IFRS implementation [5]. In consequence, decision no. 94 of 2001 was adopted, and it contained a number of regulations in accord with the European Unions's IVth directive. Even so, due to the difficulties caused by the continuous link with taxation and due to lack of experience with regards to the application of professional judgement in the case of recognition policies, the yielded results are found to be unsatisfactory [3]

Stage 3 (2007 – present): together with the official accession of Romania into the European Union, the domestic financial reporting system needed to align itself to the mandatory European Union directives. The first national institutions that have migrated towards this final stage of reform are the insurance and banking institutions [3]. Underlying legislation has set the standards in practice aligned to European directions for large corporations and SMEs. In the aftermath of decision no. 3055 of 2009 and 1802 of 2014, publicly traded corporations can submit a singular annual report in accordance with IFRS, without needing to comply to the former national regulations from which the translation to IFRS would occur. Furthermore, in the case of SMEs a number of significant steps have been taken towards validating the concept of just and fair value [7]

The evolution of the Romanian accounting system as a result of the above mentioned reform has created a divide among academic researchers in the field. Based on the conceptual framework pioneered by prof. Iacobescu in the early part of the twentieth century, a number of members of the academia consider the aspect of patrimony to be central to a financial reporting system. According to this point of view, the newly adopted system based more on an Anglo Saxon foundation is not compatible with the continental concept of patrimony, and therefore the new system is not suitable in the Romanian context. A dissident opinion adheres to the idea that IFRS does not contravene with the concept of patrimony, and that its equivalent can be found in the international standards [5]

Ultimately, the Romanian status quo is set by a number of legal acts that have given way to the creation of a sustainable hybrid system, aligned to European standards, that incorporates a large number of elements pertaining to the international framework. Its future development will depend upon ulterior finishing points in the current IFRS form and the consensus of adopting these modifications at the European level.

CONCLUSIONS

Using a historical approach as a starting point, the contrasting IFRS adoption cases of the United States of America and Romania indicate that a larger number of factors, above and beyond the classic dichotomy of financial reporting systems into Anglo-Saxon and continental, determine the process of normalization. On the one hand, the United States – a federation of former British colonies, is indeed a practitioner of Anglo Saxon accounting, but most importantly we note that its current system is the result of more than 150 years of continuous tradition, built on stable government support and extended periods of social and political stability. The slow pace at which the United States has ventured into accepting the changes of the accounting world brought upon by the IFRS project is justifiable. The complex US GAAP is a contributing factor to building a solid economy and, partly, regulating a world leading stock exchange. Viewing this as a success story, one would understand that the reason behind 30 years of FASB-IASC/IASB negotiations is the result of the American professionals' continuous desire to influence the development of IFRSs in line with US GAAP. On the other hand, we have examined the case of Romania, a country whose history is defined by constant social and political unrest. This, in turn, has left a mark on the development of its national system of financial reporting. Given the country's late engagement in the industrialization process, the hardships it endured during the two world wars, followed by a decadent period of communism regime, Romania was forced to look up to foreign accounting traditions and attempt to adopt them in a form that would suit its needs. This explains the reason behind the country's openness towards EU norms and convergence to international standards. In the aftermath of the 1989 revolution, and due to its 2007 joining the European Union, Romania was faced with the opportunity of reforming its accounting system towards a functioning, and sustainable system; at the cost of forfeiting all its pre communist era traditions.

While the typology highlighted by the above examples may not be an applicable matrix to all cases of countries that show a degree of interest in IFRS adoption, the current paper is a clear indicator that behind the rational of normalization sits a large number of inherent concerns and external factors of an economic, social and geo-political nature. Understanding these factors for each individual case may prove useful in determining the way IFRS is interpreted and put in practice at a national level.

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