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Alba Iulia  
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Ph. D. study programmes  
Field of Study: Accounting

**PH. D. THESIS – SUMMARY**

**PERFECTING THE ACCOUNTING PROCEDURES IN  
ORDER TO IMPROVE THE INFORMATION PRESENTED  
IN FINANCIAL REPORTS**

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## 1. Key words:

International Reporting Standards, US-General Accepted Accounting Principles, Financial rates, Comparability, Relevance, Accounting policies and procedures, Econometric models, Freelancers, EU Directives, Legal framework, Faithful image, Equitable value, Precautionary principle

## 2. Introduction and research motivation

One of the main models in accounting reveals the significant roles of this field of study: the operational or administrative role, the decision-making role and performance assessment, and the political role as well<sup>1</sup>. The administrative role is related to the registering of the transactions stricken at real price, and it is connected to the evidence of transactions and other events, while the other two roles make reference to the accounting strategic dimension that should provide the information needed for a fundamental basis used in the decision-making process and performance assessment. The political role is also significant since it characterises the social relations between the existing participants on the economic market, and it is analysed according to the agency theory.

Even at the level of several categories of entities, if we take into account the fact that, in Romania, there are significant differences between an accounting system based on strict rules up to the moment of the IFRS application and a subjective and creative system influenced by professional judgements and chosen policies such as the system rightened by IFRS, we might expect to identify various problems generated by the change of the system. The identification of these issues is significant for the assessment of the qualitative characteristics of the information presented in financial reports.

In Romania, the transition from an old accounting system to a system based on IFRS is a long term process, under development nowadays. The bank societies are obliged to apply the IFRS on January 2006, and, according to the OMF 1121/2006, since January 2007, the societies ranked on regulated markets are obliged to apply the IFRS with a view to drawing up consolidated financial reports.

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<sup>1</sup> Boussard D. (1997), *La modelisation comptable en question(s)*, Economica, Paris

For the rest of the societies of public interest, there is no obligation of applying the international references. It is something optional for them.

Since January 1, 2011, credit institutions are obliged to apply the IFRS for drawing up individual financial reports; nevertheless, since January 1, 2012, this compulsory measure was extended upon all the entities ranked at Bucharest Stock Exchange.

*Taking into account this transition, we considered significant for research the way in which the accounting policies and procedures derived from The Accounting International Standards influence the entity results and performance comparatively with the previous period of time.*

### **3. Research context**

Both at national and international level, the last twenty years have been marked by a significant growth in number of the accounting regulations and by their complexity mainly determined by the entity growth at activity level that generated the risk growth and diversification as well. The initial economic development, the economic and financial market globalisation, and, in the last few years, the consequences of the world economic crisis contributed to the weighting of various accounting systems in use, based on horrent standards difficult to apply by the users. Thus, simplification and harmonisation became necessary at international level. The first attempts to adopt the IFRS belonged to the entities listed on financial markets in the European Union, followed, in short time, by other states. Thus, in 2012, more than 100 states used the accounting system based on the IFRS. On the other hand, the IFRS adopting by a significant number of states contributed to the decrease of the influence exerted by the USA with a view to applying the GAAP and avowing the IRFS as instrument for accounting result comparison at international level.

#### **4. Research aims**

As it is well known, the main aim in accounting is to provide the users with useful information about the entity financial positioning and performance.

Even if a varied range of users employ the information provided by the financial reports, and their general needs are different, a point of convergence exists, and it is represented by the financial rates in making up various decisions in the investment field, liability analysis or in choosing several monitoring or encouragement measures in economy. Yet the fundamental characteristic of the financial installments aiming at efficient functioning in the decision-making process is the comparability; the change of one accounting system with the other might influence its relevance. That is why a significant research problem in the present study was the impact of the IRFS adopting on various economic and financial installments with a view to determining to what extent the entity profitability is influenced by the IFRS adopting.

Having in view the above mentioned assertions, the aim of the present thesis is the analysis of the relevance and benefits of IFRS application comparatively with the previous accounting system, and the identification of the disadvantages and potential problems generated by the system exchange with influence on the accounting policies and procedures.

On the basis of the defined aim, the **thesis objectives** are the following ones:

O<sub>1</sub>: the analysis of the general economic context and the identification of the causes that fundament the need to harmonize the accounting systems, as well as their adjustment to the International Financial Reporting Standards.

O<sub>2</sub>: the analysis of the way in which the concept of image is reflected in the IFRS content and the consequences of the pursuit of this desideratum on the accounting policies and procedures and on the information provided in the financial reports as well.

O<sub>3</sub>: the study of the impact generated by the IFRS application upon the elements presented in financial reports and on the values of the financial and economic installments.

O<sub>4</sub>: the identification of future research directions in Romania's case and potential variables upon which the IFRS application might have significant impact by comparison

with the results registered in countries where the international reporting standards have been previously applied for a longer time.

## **5. Research hypotheses**

The analysis of the present stage of knowledge identified the hypotheses that fundament our research demarche, i. e.:

- ✓ the fundamentals of the employed assessment have a significant impact upon the entity results;
- ✓ the use of the equitable value determines the result instability;
- ✓ the accounting result is the outcome of the professional reasoning manifested in the accounting policy election;
- ✓ the large amount of information needed to be presented, according to the IFRS implementation rules, should be systemathised in relevant standard reports.

## **6. Research methodology**

Starting from these hypotheses, the theoretical study is mainly based on the result identification that might validate or invalidate the hypotheses.

Both in the theoretical and practical research, reaching the aim is possible if we use a series of research methods: documentation, analysis, synthesis, systematization and generalisation, induction and deduction, analogy, comparative analysis, statistical and econometric modelling, and the case study as well.

The drawing up of the specialty literature synthesis was made with the help of a critical analysis of the opinions provided by various theoreticians in the field of accounting, and it aimed to the synthesis of several theoretical conclusions upon the case study under analysis.

The documentation stage previous to the drawing up of the thesis consisted in the reading of 160 bibliographical sources.

For the present theoretical research, we employed bibliographical cards, translations of various works from the speciality literature, and consulted several databases containing research articles in the field, etc. Another method was the

classification/ranking, i. e. the main regulations in the field of financial accounting have been classified.

For the case study, we employed public data about the financial reports drawn up by the entities ranked at Bucharest Stock Exchange listed on the web page of this institution.

In the present study, the methodology integrates an ensemble of theoretical and empirical research methods.

The use of more methods aimed at perceiving the reality under research according to a comprehensive approach.

The chosen demarche that started with theory in order to get to practice (started from existing theories, concepts, methods, and models afterwards put into practice) transforms the research into an initially deductive type survey that subsequently turns to the inductive type due to the theoretical and conceptual attempt to generalise the identified practical aspects.

## **7. The synthetical presentation of the chapters of the Ph. D. thesis**

### ***Chapter 1 The positioning of the financial reports within the accounting system of modern economic entities***

The accounting information is essential nowadays. Taking into account the fact that its circulation was facilitated by the technological development, and the physical distance is not significant anymore being diminished by new communication techniques, the accounting information is endowed with new valences and its content suffered dramatical changes.

As component part of the economic information, the accounting information evolved, and its circuit has been continuously modernised by global changes. Thus, it had to adapt to the capital markets from the entire world with a view to transforming the science of accounting into "an international language" understood by all users.

In the present chapter, we attempt to present the evolution of the accounting conceptual framework since its emergence up to the adopting of the International Financial Reporting Standards.



We therefore investigated the International Financial Reporting Standards as far as their components, aims, and concepts of recognition and assessment are concerned, as well as their qualitative characteristics.

As synthesis of the above mentioned presentations, we approached the financial reportings from the IFRS perspective as element of the financial accounting synthesis, and the advantages and disadvantages of the IAS/IIFRS implementation

## ***Chapter 2 The faithful image – desideratus of the international harmonisation in the field of accounting***

Both the theoretical and practical studies demonstrated the inadvertences generated by an accounting system where assessment is made with historical costs as far as the reflecting of the reality is concerned at a certain moment, and the fact that accountancy based on equitable value disobeys a fundamental accounting principle, i. e. the precautionary principle.

The concept of the equitable value gave rise - and it will probably continue to give rise - to multiple controvercies, the theorists' and practitioners' opinions being totally different even if all of them enjoyed a good argumentation.

Despite these, the practical work demonstrated that a hierarchy from the point of view of their significance and relevance cannot be done, the assessment models being strongly connected with the aim and object of assessment. Thus, if there is freedom to choose the fundamentals of assesment, the problem is one of the biggest difficulties in the field of accounting.

This chapter approaches the influence of the equitable value and the precautionary principle upon the content of the financial reports, their pros and cons, the effects upon the accounting procedures and policies, the importance of the professional reasoning with a view to creating connection with the case study, and the econometric models for the caution measurement, as well as the results of their application.

### ***Chapter 3 The improvement of the accounting policies and procedures in Romania in accordance with the International Financial Reporting Standards (Ifrs)***

The process of the accounting standardization is under development at regional and national level within a context in which the majority of the states of the world concluded that the IAS/IFRS implementation should be done at a high qualitative level. This approach is therefore needed for the uniformization imposed by IASB standards, and for the convergency of the American standards with the IASB standards as well.

In Romania, the reasons that generated the need to adopt the IASB reference system were numerous but most of them were subordinated to an aim considered to be vital for our country, i.e. for the adherence to the European Union.

Obviously, comparatively with the developed countries, in our country other factors imposed the transition to the IAS/IFRS. We make reference mainly to the subordination of the accounting system to the fiscal one, to the prelevance of the bank financing, the low participation of the national entities on the international capital market, etc.

Europe, the continent which established the fundamentals of the modern accounting, manifested its wish to consolidate its economy at world level, and its power and influence as well, by creating the European Community having direct impact on the accounting regulations. Within this context, the European accounting harmonization externalised itself by means of the EU Directives in the field of accounting. Their implementation got amplified in the course of time, and opened new ways for global harmonization, meant to consolidate the European Union positioning in the matter of the IAS/IFRS application.

It is also significant to mention that within the present context of globalisation, European entities manifested their intention to be listed on non EU capital markets but the American capital markets rejected the financial reports carried out in accordance with other reference system than the American one. This situation favoured the IFRS application by European organisms for EU entities since 2005.

#### ***Chapter 4 Study on the impact of the changes in the accounting policy and procedures compliant with the IFRS upon the performance of reporting entities in Romania***

The case study represents our personal contribution to the thesis. The chapter consists in empirical research presentation with regard to the analysis of the impact generated by the application of the International Reporting Standards to the elements presented in financial reports and their value reflected in the value of financial and economic installments. As part of our case study, we also followed to set off potential future research directions in the field of accounting by identifying variables on which the IFRS standards might have significant impact.

#### ***Chapter 5 General conclusions. Research perspectives***

*In the end of the thesis, we present* our final remarks, synthesis, opinions, and scientific contributions. We also display our result dissemination, research limits and orientations towards future.

### **8. Final remarks, contributions, and research perspectives**

The conclusions drawn up from the study about the influence of the IFRS application upon the financial installments make reference to:

- the identification of a higher volatility of installments calculated in the IFRS based system, extreme (maximum and minimal) increased values, insignificant differences at the level of statistical indicator average and median, and significant values in the case of value distribution around the median line of several installments;
- the main causes for the volatility growth of the financial rates are the value adjustments specific to the application of the international reporting standards, the use of the equitable value, the ingeneration of several unaccomplished gains and losses, and the application of several methods based on professional reasoning;
- the size of the impact of the IFRS adopting on financial installments depends on the field of activity, and moment of transition. The results obtained suggest that the

profitability of the companies who have already applied the IFRS for a longer period of time is better than the one of the entities who applied the standards for the first time;

- the non-existence of a direct influence on the cash flow.

### *Personal contributions*

We consider that one of the personal contributions to the development in the field of accounting brought by the present thesis is the fact that it provides an example of research in the field of a newly introduced standardization in the Romanian accounting system able to pave the way for future research that might develop the results obtained by now or to identify new research directions.

The way of approaching both the theoretical and practical research provide to the thesis an innovative characteristic. The novelty is given by the approach of the issue connected with the impact of the International Reporting Standards application upon the entity performance through the comparative study of the values registered by financial and economic installments calculated according to the data provided by the reports in accordance with the IFRS standards and values registered in financial reports compliant with the previous accounting system.

In the first chapters about the theoretical issues of the present research, our contribution was emphasized in the way in which we systematized the theories on the accounting in the equitable value, the positioning, role and significance of the financial situations in the accounting system of economic entities, and the analysis of the factors that determined the cautious character of the financial reports.

### *Suggestions and orientations for future research*

On the basis of the results obtained in the case study, we might synthetise the following recommendations:

- analysts should pay more attention to the interpretation of the values of the financial installments when a comparison between the two periods of time (previous and after the application of standards) is lacking;
- the need for more information for users who employ financial reports in their activity as far as standards are concerned and the way in which the accounting

- policies and procedures might affect the results with a view to separating the effects generated by the standard appliance upon results from the ones generated by the changes in the activity of the entity;
- the use of cashflow in financial analyses due to their stability;
  - the use of at least two installments in the income analysis (for example, ROA and ROE) due to the influence that the registering of the gains and losses exert upon the global results;
  - new rate development able to characterise the global performance and the performance of several elements with the help of a calculation formula that takes into consideration the new concept of global income;
  - verification of the uniformity and content of certain global elements related to the financial reports in profitability analyses.
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#### *Research perspectives*

One of the contributions of the present thesis is represented by the initiation of a new research direction in the field of standardization at national level correlated with inherent concerns for the harmonization manifested at international level, mainly due to the effects of globalisation and determined by the economic crisis.

Due to the fact that the IFRS application was compulsory for a relatively short period of time in Romania and these standards make reference only to certain specific categories of entities (entities listed on organised markets, entities from the field of banking, insurance, etc.), the volume of data and information in this respect is relatively low. Hence, this field of study does not enjoy enough relevance for the general economic level in our country nowadays; nevertheless, it provides a large framework for future research. The analysis of the influence of IFRS application upon the financial rates might continue, and the results in this respect might become relevant in time, if new series of significant data emerge and the above mentioned standards will be applied to all economic entities in Romania.

Another research direction is considered to be the study of the impact of the international reporting standards upon small and medium-sized enterprises that might be

initiated at the moment when this category of specific standards and their application to a relevant number of entities is final.

The study of various exceptions and derogations mainly comprised in the IFRS 1, related to a large number of entities and to longer periods of time might provide an answer to the questions concerning the impact of the IFRS application upon financial and economic results from financial reports that can be studied with the help of the financial rate or with the other statistical tools.

## ***9. Contents of Ph. D. Thesis***

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