

PLASE AND ROLE OF ESTIMATION IN THE ACCOUNTING PROCESS

Assoc. Prof. Dalia Simion Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania
Lect. Claudiu Șerban Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania
Lect. Monica Pătruțescu Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: : Activities in uncertain environments, entity relationships both internally and with the environment outside give rise to a range of information needs. Special requests require production of information understandable, comparable, relevant and reliable financial statements included in individual or consolidated. In order to build an efficient information system based on estimation techniques, we need to know first what are the elements of financial statements to be determined to use estimates. Thus, the valuation of property, the burden of any company is to make reasonable estimates credible, ensuring obtain a true and faithful image.

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1. INTRODUCTION

The methodological approach we used in this article was **the review of specialized literature**. We focused our research work on analyzing the bibliographical sources and experts' interpretations of articles published in the national and international literature in order to achieve a content analysis of the topic, as well as an analysis from the point of view of time and in terms of the criterion space.

Research methodology used in this article is based **on a qualitative research**, our goal being to make a scientific approach in which *estimation*, as a method of evaluation, is in the spotlight and represents the main objective of the research, and is aimed at demonstrating that *the evaluation process completed or accomplished by techniques of estimation is a useful instrument in managing the entity and ensuring the credibility and relevance to the information provided, thus presenting a true and fair view of the entity.*

The qualitative approach involves entering the core of real or imaginary structures through interpretation, naturalistic explanation, understanding and comprehension. In the Romanian accounting practice, neither the term *accounting*

estimation nor the judgment suitable for this technique has been used until the harmonization of Romanian accounting legislation with the international accounting standards.

Generalization is therefore possible by switching from individual to general, making use of the induction. Consequently, we tried to highlight the role and place of accounting estimations that, in the case of some financial statements' items which cannot be measured accurately, the evaluation process resorts to the use of estimation techniques in conjunction with the measurement bases and accounting valuation principles in order to determine the monetary values corresponding to the measurement bases selected for the situations discussed.

2. OBJECTIVES

Activities taking place in uncertain environments and entity's relationships with both the internal and external environment give rise to a range of information needs. In order to elaborate an efficient information system based on estimation techniques, we must identify, first, which are the elements of financial statements that must be evaluated making use of the estimates, which shall lead to a current value in the financial statements.

In accounting practice we use estimations, and beyond, for:

- valuation of elements from financial statements in report with other valuation bases than those based on historical cost (fair value, present value, current value);
- impairment of receivables and inventories in order to bring them to the estimated net realizable value;
- impairment of long-term assets;
- estimation of useful lives of tangible and intangible assets;
- determining the residual value of an intangible asset;
- accrued income for long-term contracts;
- deferred taxes;
- provisions for risks and expenses;
- losses from the construction contracts in progress;
- provisions to meet warranty.

According to the opinions of several authors, in our country, the professional judgment used in the accounting estimation process is limited as long as taxation influences are obvious on accounting. Between accounting and taxation works the principle of congruence in the sense that the majority of the entity's operations are treated about the same in both accounting and taxation. According to this legal connection with the practice, we can meet the following reasons:

1. accounting and valuation rules applied in accounting are required from the fiscal perspective;
2. there are still tax rules specific for some elements;
3. tax benefits of depreciation derogatory nature or tax-free reserves are granted provided their registration in accounting.

The use of reasonable and objective estimates is essential in the elaboration of financial statements and should not start from the premise that this method may weaken the credibility (reliability) of information presented. Starting from the premise that "We can not talk of evaluation in accounting without discussing the problems raised by its relation with fundamental accounting principles" (Ristea M., 2000), we can state

"prudence is finding those accounting estimations, associated to the existing conditions of uncertainty, that do not overstate assets and income, and do not undervalue expenses and liabilities". (Mariana D. & Alexandrina B.:23-25).

3. METHODOLOGY

In conformity with OMPF 3055/2009 for approving the Accounting Regulations in accordance with European Directives, the approach related to this principle is preserved and what is additional is actually *a déjà vu* of the provisions existing in the OMPF 94/2001: *assets and income should not be overstated and liabilities and expenses understated. "However, the exercise of prudence does not allow, for example, the creation of excessive provisions, the deliberate understatement of assets or income, or overstatement of liabilities or expenses, because the financial statements would not be neutral and would not have the quality of being credible anymore"*.

OMPF 3055/2009 also brings additions regarding accounting estimates "as a result of the uncertainties inherent in the activities, since some elements of the annual financial statements can not be measured precisely, only estimated. For example, may be required estimation of: bad debts; inventory obsolescence; useful life and the expected pattern of consumption of future economic benefits embodied in depreciable assets etc. The estimation process involves judgments based on the latest available information considered reliable. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or a better experience. A change in the measurement basis applied is a change in the accounting policy and not a change in accounting estimates. If the entity has difficulty distinguishing between a change in accounting policy and a change in estimation, this shall be treated as a change in estimation". One of the most important provisions of OMPF 3055/2009 refers to how the outcome of previous years, current year or future years is affected due to changes in accounting estimates: "The effect of a change in an accounting estimation will be recognized prospectively by including it in the result of:

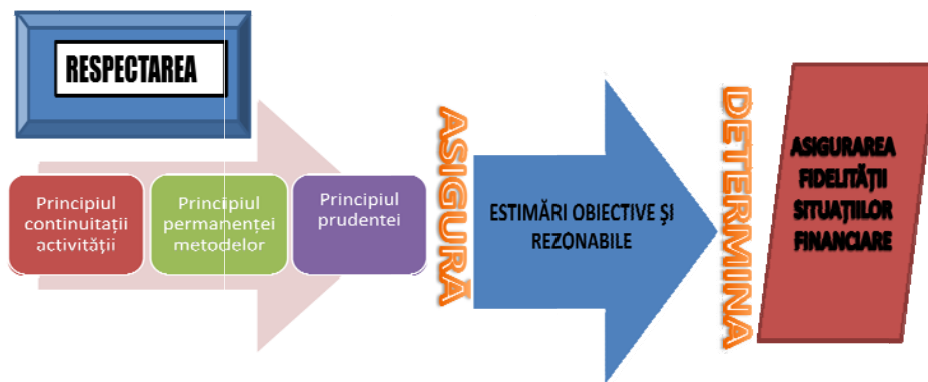
- the period in which the change occurs, if it affects only that period (for example, the adjustment for bad debts), or*
- the period in which the change occurs for future periods, if the change has an effect on them (for example, the useful life of tangible assets)."*

4. ANALYSES

A change in an accounting estimate may affect only the current period or the current period and future periods. It is sometimes difficult to distinguish between a change in accounting estimates and changes in accounting policies. In this case, it is considered that there was a change in the accounting estimation. Financial statements provide information about the value and nature of the change in accounting estimates that have significantly influenced the current year or is likely to have a significant influence in the next period. If it is not possible to quantify its value, this fact must be emphasized. (Elena Iordache 2009:35-39).

Accounting estimate also helps to respecting the accounting principle of financial year's independence because enables the inclusion in the current account of profit or loss account and items whose evolution provides a degree of uncertainty, but produces effects in certain financial year. Thus, the goal of any society is to make reasonable, credible estimates at the valuation of property that ensure the obtaining of a

true and fair value. The problems emerging from the relationship between accounting estimates and fundamental accounting principles *would take the following form:*



Source: *projection of the author*

Figure no. 1 *Fundamental Accounting Principles – Reasonable Estimates Relationship*

5. CONCLUSIONS

In conclusion, we can affirm that estimation should be made reasonably, based on professional judgment and a real, modern information system which is developed continuously by each entity according to the information needs of its users. National and international accounting regulations also allow and require, at the same time, the review of any estimate where there are changes in the initial circumstances on which the valuation relied.

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