ACCOUNTING CONVERGENCES AND DIVERGENCES IN THE CONTEXT OF HARMONIZATION AND THE COMPLIANCE OF NATIONAL REGULATIONS WITH DIRECTIVE 2013/34/EU

Prof. univ. dr. **Mateș Dorel**
West University of **Timișoara**
Prof. univ. dr. Hlaciuc Elena
Ștefan cel Mare University of Suceava
Ph. D Ursachi Antonela
Ștefan cel Mare University of Suceava
Ph. D Măciucă Geanina
Ștefan cel Mare University of Suceava

Abstract: The accounting field difficulties, generated by the social or cultural climate, often lead to distortions in economic behaviour which involve the loss of economic and financial opportunities or lead to ineffective activities. The increasingly globalisation of economies, the financial requirements statement users and the globalization of capital markets have introduced new forms of financial reporting; thus the contemporary evolution of accounting is marked by the following phenomena: standardization, harmonization, compliance and convergence. Based on the need for modernization and improvement of the European Directives, Directive 2013/34/EU focuses on at least four important aspects: the faithful representation of the information presented in the financial statements, financial reporting cost reduction, fighting against tax evasion and avoiding money laundering. In the present paper, we aim to highlight the elements which will undergo significant change as well as their impact on the entities in our country through the implementation of this directive.

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1. INTRODUCTION-MOTIVATIONAL ASPECTS, OBJECTIVES AND RESEARCH METHODOLOGY

Humanity is in constant motion; the same applies to business. The rush to maximise profits leads to various business strategies: loan financing, through the sale of assets, etc. The commercial universe encompasses a wide variety of business entities which, if they did not respect a series rules and guidelines, would create economic chaos. The balance between rules and guidelines has always been a matter of debate both for professional bodies as well as the heads of states.

With the facilitation of international travel and with the development of the Internet and online communication, companies have developed their businesses in various parts of the world. This brought many opportunities but also created problems for the investors who wanted to expand their business portfolio to new markets. The accounting rules and conventions have been developed, in various countries, when the situation demanded it. This led to the need for worldwide harmonization of accounting standards.

Initially, accounting harmonization focused on listed companies, although it has consequences on all companies, directly or indirectly, through their commercial relations. The company's performance and its assets can be radically changed given the interpretation of indicators according to different norms. Furthermore, suppliers and investors could have financial covenants in their contracts which might not advantage either party. Accounting harmonization mainly aims the improvement of accounting systems so that the information presented in the financial statements is comparable. Through harmonization, one aims, on the one hand, to meet the information needs of multinational companies and, on the other hand, the validity of the accounting information presented in the national accounting systems which generates a system of internationally comparable financial indicators.

Compliance in accountancy takes into account the alignment of accounting national rules to the regionally representative integration devices, with economic and social influences.

The present paper contains three parts and the methodological, theoretical and scientific support is represented by the universal research methods: the dialectic method of gaining knowledge (analysis, synthesis, deduction) as well as rational methods of gaining knowledge (observation, reasoning, selection, comparison). As research tools for the present paper, we used: online research, electronic databases available through the library, books, magazines, legislation.

2. OBJECTIVES

In Europe, the mechanism for creating uniformity was issuing directives which require member states to amend national legislation to ensure compliance. On the 25th of July 1978, under article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC), the European Union adopted Directive IV.

The directive approved in 1978 is based on two other versions: that of 1971 respectively 1974. The first version of the directive was created under the guidance of German specialist Dr. Wielhelm Elmendorff; thus the German influence makes itself felt: evaluation of historical cost and very detailed instructions regarding the structure of financial statements (Glăvan, 2007). In contrast, we have the Dutch perspective. They have a point of view oriented towards a greater freedom in their choice of assessment bases and for a relatively brief description of the financial statements. The two sides have made efforts to meet half way: the Dutch have used a stricter regulation of the structure of financial statements while the Germans have agreed that the directive adopt, as far as evaluation is concerned, both replacement costs and historic costs (Feleagă, 2006). The purpose of the directive is that of obtaining as reliable an imagine as possible on businesses. This was due to the fact that Great Britain had yet to enter the European Community.

The project adopted in 1974 was strongly influenced by the Anglo-Saxon thinking because of Great Britain and Ireland's adherence to the Union. Among the most important changes we mention: the introduction of the concept of true and fair view, a certain flexibility in the presentation of financial statements, the basic principles of accounting (Alexander, Nobes, 2010).

Although in the course of these thirty years Directive IV has not undergone significant change, which resulted in the reduction of the impact of these directives as a result of the evolution of enterprises, especially those listed (Colasse, 2011), changes have occurred in the member states' right of using assessment methods which take inflation into account as well as exempting certain businesses from presenting condensed financial statements and from publishing and auditing them. Seeing that the directives offer some freedom when being applied, recommending a number of solutions and exceptions for the same problem, member states do not have an identical presentation of the annual accounts. The European accounting directives represent a compromise between the two accounting currents, a mixture of accounting traditions which are interrelated.

The Seventh Directive was adopted on the 13th of June 1983 under article 54 (3) (g) of the Treaty on consolidated accounts (83/349/EEC). This directive describes the conditions regarding the form and content of the annual consolidated financial statements as well as the rules of preparation approval, auditing and publication of annual consolidated financial statements.

The fourth and the seventh directives have provided a harmonized basis for the account preparation of the individual and group enterprises in the European Union.

3. METHODOLOGY

The present paper contains three parts and the methodological, theoretical and scientific support is represented by the universal research methods: the dialectic method of gaining knowledge (analysis, synthesis, deduction) as well as rational methods of gaining knowledge (observation, reasoning, selection, comparison). As research tools for the present paper, we used: online research, electronic databases available through the library, books, magazines, legislation.

4. ANALYSES

Born out of the need for the modernization and improvement of the Fourth Directive of EEC, 78/660/EEC (1978) on the annual accounts of certain types of companies and the Seventh Directive of EEC 83/349/EEC (1983) on consolidated accounts, Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings was published on the 29th of June 2013 and repeals the two already mentioned. According to Jose Manuel Barroso’s statement, the President of the European Commission, Directive 2013/34/EU took shape out of the normalizing body’s desire to confer an a leaner, simpler and less expensive “smart regulation”. He believes that the “smart regulation” is necessary both for the credibility of the European Union as well as to stimulate economic growth and to create new jobs in Europe.

The reasons which led to the modernization of the directives (Bizon, 2013) were both the development of regulations of the highest quality, meant to ensure, at the same time, that the administrative tasks determined by their application are proportionate to the benefits they bring, as well as the reduction of the administrative task and the improvement of the business environment, especially for small and medium enterprises, one of the concepts that lie at the basis of this Directive being “think small first”.

Another important reason for the need to modernise the directives was that of facilitating cross-border investments, improving the comparability of financial statements at EU level and strengthening the public confidence in these documents by presenting specific information of an improved quality and with a coherent content.

The novelties introduced by Directive 2013/34/EU refer to issues such as the size criteria in the classification of enterprises and their reclassification, evaluation rules, financial instruments, the format of the annual financial statements, information disclosure requirements through the notes to the financial statements or reporting on payments made to the government.

In accordance with article 53 “Transposition” of Directive 2013/34/EU, the member states must ensure the bringing into force of its provisions by July 20th 2015 and inform the European Commission about the laws and administrative provisions issued to comply with the Directive. By compliance we understand “the adaptation (alignment) of accounting national regulations to other similar ones containing a greater degree of generality, representativeness and acceptability” (Mateș, 2010). The transposition of national regulations will be made by sending correlation tables between the provisions of the Directive and the national acts adopted in order to ensure compliance with the new Community provisions.

4.1 Critical. ACCOUNTING CONVERGENCES AND DIVERGENCES IN THE CONTEXT OF HARMONIZATION AND THE COMPLIANCE OF NATIONAL REGULATIONS WITH THE EUROPEAN DIRECTIVES

In order to present the divergent and convergent elements in the context of national regulations compliance, we will present, as a table, a comparative study between the Fourth Directive, Directive 34, Order 3055/2009 and the amendment draft for Oder 3055/2009, in terms of the presentation of financial statements.

Table no. 1 Presentation of Financial Statements

	FOURTH DIRECTIVE	ORDER 3055/2009	EXPOSURE DRAFT CF DIRECTIVE 34
Categories of reporting units	Does not mention	-entities which, at the balance sheet date, meet certain size criteria	Entities: - micro-entities; - small entities; - medium and large entities. Groups: -small and medium; -large.
Qualitative characteristics	Does not mention	-intelligibility; -relevance; -credibility; -comparability.	-fundamental qualitative characteristics; -amplifying qualitative characteristics.
General principles of financial reporting	-It is considered that the company continues its activity. -The methods of evaluation must be applied consistently from one financial year to another. -The evaluation must be made while respecting the principle of prudence. -The income and	-going concern principle; -consistency principle; -prudence principle; -matching principle; -inviolability principle; -offsetting principle; -substance over form principle;	- going concern principle; - consistency principle; - prudence principle; - accrual accounting principle; - inviolability principle; - principle of separate evaluation of components of asset and liability items; - offsetting principle;

	expenditure must be taken into account for the fiscal year to which the accounts are related, regardless of the date of collection or payment of the concerned income and expenditure. -The opening balance sheet for the financial year must correspond to the closing balance sheet of the previous financial year. -The components of asset and liability items must be evaluated separately.	-materiality principle.	- the accounting and presentation of the items in the balance sheet and in the profit and loss account taking into account the substance of the transaction; -principle of evaluation at acquisition cost or production cost; - materiality principle.
Content of financial statements	FOURTH DIRECTIVE	ORDER 3055/2009	EXPOSURE DRAFT CF DIRECTIVE 34
Balance sheet	Provides two types of balance sheets: the horizontal structure of the balance sheet and its vertical structure.	- is prepared by all reporting entities; - is standardized; - adopted from the directive the vertical structure of the balance sheet;	- is prepared by all reporting entities; - is standardized; - adopted from the directive the vertical structure of the balance sheet; -assets are grouped according to their nature and liquidity and liabilities by their nature and maturity date;
Profit and loss account	The old directive provided two models of profit and loss account (the model with operating expense allocation according to their nature and the model with their allocation according to their function) each of them in two formats (horizontal and vertical).	- is prepared by all reporting entities; - is standardized; - the Romanian legislation has adopted the structure of the profit and loss account- according to the nature of expense provided by the directive	- is prepared by all reporting entities; - is standardized; - the Romanian legislation has adopted the structure of the profit and loss account- according to the nature of expense provided by the directive - the extraordinary income and expenses are eliminated
Equity records	-no standard format is mentioned	- is prepared by the entities that meet the size criteria; - the order provides a sample form	- is prepared by the entities that meet the size criteria; - does not provide a sample form but takes the recommendations from IFRS;
Cash flow statement	- no standard format is mentioned	- is prepared by the entities that meet the size criteria; - the order adopts the direct method in which the cash flows are presented as operating, investment and financing activities	- is prepared by the entities that meet the size criteria; - presents the cash flows during the period, classified as operating, investment and financing activities
Notes to the financial statements	- are prepared by all reporting entities; - must present information on: the evaluation methods applied to the items in the annual accounts, the name and the registered office of all the undertakings were	- is prepared by the entities that meet the size criteria; - must present information on the accounting policies which were the basis for the preparation of the annual financial statements and on the accounting policies	- are prepared by all reporting entities; - must present information on: accounting policies adopted, the revaluation of tangible assets, fair value measurement of financial instruments, the total value of any financial commitments, the total amount of advances and credits granted to members of the administrative bodies, the total amount and

	the company holds at least one percent of the capital, the number and the nominal value or the accounting equivalent of the shares subscribed during the financial year, the number and the nominal value or the accounting equivalent of the shares in each category, the existence of any contribution certificates, convertible bonds and titles or similar rights, the amounts owed by the company whose residual duration exceeds five years, the total amount of any financial commitments which are not included in the balance sheet, the breakdown of the turnover's net amount, the average number of employees, the degree to which the calculation of the financial year's result was affected by the assessment of the elements, the quantum of the remuneration and advances allocated to the members of the administrative bodies for the financial year in question, the total amount of the fees charged by the auditor.	used, to provide additional information which is not presented in the balance sheet is not presented in the balance sheet or in the profit and loss account but are relevant for the understanding of either of them.	the nature of the individual income or expenditure items which have an exceptional size or incidence; the amounts owed by the company which become payable after more than five years, the average number of employees.
Management report	- the fourth directive provides a management report which contains at fair presentation of the evolution of the activities, results and the company's situation as well as a description of the main risks and uncertainties.	- contains a fair presentation of the development and performance of the entity's activities and its position as well as a description of the main risks and uncertainties it faces.	- contains a fair presentation of the development and performance of the entity's activities and its position as well as a description of the main risks and uncertainties it faces.

Source: Author processing

Analysing the above, we can conclude the following:

The standardisation of the size criteria according to which entities and groups are classified as small, medium and large is one of the new elements introduced by the Directive. Unlike the national regulations or the old directives, a new category of economic entity is acknowledged, the micro-undertakings. This category includes the undertakings which at the balance sheet date do not exceed the limits imposed by at least two of the following three criteria: a) total assets of 350000 euro; b) net turnover of 700000 euro; c) average number of employees during the financial year 10. For this category exemptions are provided (Chapter 9 Provisions concerning exemptions and restrictions on exemptions) regarding the presentation of elements "Prepayments and accrued income" and "Accruals and deferred income", the drawing up of notes to the annual financial statements, the preparation of the management report or the publishing of the annual financial statements. Depending on the specific conditions and needs, the member states may or may not apply these exemptions.

The qualitative characteristics of the financial statements are attributes which determine the information's usefulness. Although the Directive does not mention these qualitative characteristics, because it lacks a conceptual framework because of the multiple options available to the member states, the national regulations have adopted them from the IFRS conceptual framework.

The accounting principles, currently applicable according to the national regulations, are those prescribed by the new directive. However, certain accounting policies contained in the Order must be reconsidered to ensure the application of this set of principles in a manner consistent with the provisions of the Directive. The high importance attributed to the principle of prudence is noticeable through the recognition of predictable liabilities and potential losses. The principle of inviolability of the opening balance sheet is subjected to change as well in that the adjustment of the financial statements can be made for the purpose of comparability, this aspect requiring to be mentioned in the notes to the financial statements. The substance over form principle is currently applicable to all categories of economic entities provided by MPFO 3055/2009; however the Directive comes with the note that presenting the values contained in the balance sheet items and in the profit and loss account is done by taking into account the economic fund of the transaction or of the reporting operation and not only their legal form. It is not necessary for the requirements of this directive, as far as recognition, measurement, presentation, publication and consolidation are concerned, to be respected when their effects are insignificant.

The content of the financial statements. The new Directive provides two formats for the balance sheet and for the profit and loss account, the member states having the freedom to require one or both structures for each of the two situations or to simplify their format for small and medium enterprises. For balance sheet presentation, the horizontal or vertical formats are provided, the member states being allowed to choose between the two as well as for the classification of active and current and non-current liabilities items provided that all the required elements are included in the formats prescribed by the Directive. One of the two formats can be used for the presentation of the profit and loss account as well, the difference being that a separate presentation of the extraordinary items is not required, being presented in notes. The member states may require or permit the structural adjustment of the balance sheet and of the profit and loss account in order to include profit allocation or loss coverage. The current format of financial statement presentation is based on a format provided by the Directive and, therefore, will not incur significant changes but, depending on the size of the entities, the level of detail or a aggregation of the items may differ, taking into account the flexibility offered by the Directive.

Notes to the financial statements. MPFO 3055/2009 contains ten mandatory models of notes to the financial statements with the role of presenting information about the accounting regulations and accounting policies used, of detailing the information presented in the financial reporting documents and of providing additional information which is not included in the balance sheet, in the profit and loss account, in the equity records or in the cash flow statements. Directive 2013/34/EU provides their gradual, distinct preparation, the common requirements applicable to all enterprises regardless of their size being provided first and then the additional requirements applicable to the four categories of enterprises. As far as the notes to the financial statements are concerned, the member states may not request, through national regulations, more information than that required or permitted by the Directive.

The reports on payments made to the government shall take into account all aspects required for their transparency. Thus, large companies and public interest entities active in the extractive industry or in the timber industry must present the significant payments made to governments of the countries where they operate in an annual, separate report. The initiative regarding the extractive industry transparency complemented the EU's action plan regarding the enforcement of legislation, governance and commercial trade in the field of forestry (Regulation no. 995/2010 of the EU). The report must provide the following information:

a)the total amount of payments made to each government;

b)the total amount per type of payment, made by each government;

c)if the payments were attributed to a specific project, the total amount per type of payment made for each such project and the total amount of payments for each such project.

The management's report contains a fair presentation of the development and performance of the company's activities and of its position as well as a description of the main risks and uncertainties it faces. The presentation includes both financial performance indicators as well as non-financial indicators relevant for the specific activities. Due to the interest of the information users regarding the non-financial information, the national regulations will contain provisions on their disclosure. For small and medium enterprises, the management's report can be presented in a simplified form.

The recognition of the financial situation items implies incorporating the items which meet the recognition criteria in the balance sheet or in the profit and loss account. That item's non-recognition cannot be corrected either through the presentation of the accounting policies used or through notes or additional information.

If the old directive did not contain elements relating to the recognition of the items presented in the financial statements, the new directive takes into account their presentation in accordance with the general accounting principles, respectively with the going concern, prudence and accrual accounting principles.

The recognition and presentation of the assets, liabilities, income and expenses in the financial statements is done based on their reliable evaluation, at the same time resorting, as well, to the professional judgment.

The use of fair value assessment, if used so far only for tangible assets, according to national regulations, according to the Directive's provisions, it can be used in the evaluation of other categories of assets, other than the financial instruments, this being left to be made by the member states and can be limited to the consolidated financial statements. Fair value accounting systems provide information which can be more relevant for the financial statement users than the information based on the purchase price or production cost, this being essential for comparability.

Unlike MPFO 3055/2009, which describes how to recognise asset and liabilities items, the future regulations come with new elements regarding how to recognise revenue and expense items. Thus, revenue "is recognised when the increase in the future economic benefits can be reliably measured regarding the increase in value of an asset or the decrease of a liability" and expenditure "is recognised in the profit and loss account when a decrease in the future economic benefits can be measured reliably regarding the a decrease in the value of an asset or the increase in the value of a liability".

From the analysis of the information presented we conclude that the Fourth Directive and Directive 34 do not propose explicit definitions for the structures in the financial statements, except for assets, being considered that they are known from IFRS's international Conceptual Framework (CF). The Romanian accounting regulations, both those in force and the future ones, present definitions of assets, liabilities, equity, income and expenses consistent with the CF.

There are no significant differences noticeable between the definitions presented in MPFO 3055/2009 and MPF's exposure draft, according to Directive 34.

We appreciate the fact that they were maintained because, in the academic environment, business people and accounting professionals are familiar with these concepts which are consistent with the international accounting language.

5. CONCLUSIONS

Harmonisation and compliance in Romanian accounting are concepts already well-established in the language of professional accountants, experts in the field and increasingly in the business world. However, the social stakes of accounting, as the main provider of information for: investors, employees, trade and financial creditors, customers, the government and the citizens, require continuous adaptation and transformation which are influenced by the convergences and divergences as a consequence of national regulations. The convergences create stability while the divergences create difficulties which must be resolved by involving the "actors" and the "directors" involved in the processing, presentation and publication of the information provided by accounting so that it is useful in the decision making process.

From the analyses and evaluations carried out through the research conducted, we drew the conclusion that the presentation of information in the financial statements of the Romanian entities is made according to the general valuation principles provided through the European directives in a language accessible to the users and in a continuous diversification. Since, in general, the principles express fundamental ideas, basic regulations and essential rules in a theoretical and practical manner which involves policies, procedures and specific treatments, we believe that their diversification results in the increase in the quality of the information on: the financial position, financial performance, cash flows and changes in the entities' equity.

As far as the form of the financial statement presentation is concerned, Directive 34 provides two structures, horizontal and vertical, for the balance sheet and two formats for the Profit and loss account: according to the nature and function of the expenses. The Directive does not require the separate recording of the extraordinary items.

For the Cash flow statement and the Equity records, the directive does not provide standard formats.

With respect to the notes to the financial statements, they must be prepared by all entities so as to provide relevant and meaningful information from within the reporting period.

The management report must include a fair presentation of the company's financial development and performance, the main risks and uncertainties as well as a statement on corporate governance. National regulations do not provide this statement yet.

Regarding the recognition of the financial statement items, Directive 34 provides that the elements representing: assets, liabilities, income and expenses are recognized in accordance with the general principles, going concern, prudence and accrual accounting being highlighted.

Finally, we appreciate that the accounting national regulations generally respect the compliance with the European directives, such as Directive 2013/34/EU.

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