

EVOLUTION OF THE CONCEPT OF ACCOUNTING ESTIMATION AND EVALUATION

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Abstract: The term to estimate is difficult given by definition encompassing both general cases and the specific, since its use occurs in many situations and different times. Estimation in general, but also in economic, implies a subjective aspect of making this action, so that can be a mis-judgment. In the contemporary era of knowledge and information, needs is becoming increasingly fierce, and the trend is that the foundation of any information bases to consider the uncertain environments in which any activity.

JEL classification: M41, M40

Key words: accounting estimation; the utility of value; evaluation method; accounting theory; evaluation process

1. INTRODUCTION

The methodological approach in this article was done by appealing to the review of the specialized literature. In this regard, we focused our research on analyzing the bibliographical sources and experts' interpretations of articles from the national and international literature in order to achieve a content analysis of the topic, as well as an analysis of the evolution of accounting estimates and assessments both in terms of the criterion time and in terms of the criterion space.

Research methodology used in this article is based on a qualitative research, our aim being to provide an overview regarding accounting estimations by using an approach from past to present.

The research method most often used in this paper is the comparative method, making a comparative analysis of estimates as a measurement and evaluation method and other valuation bases accredited by accounting theory and practice so to capture their main limitations and qualities.

2. THE SPECIALIZED LITERATURE ABOUT ESTIMATION AND EVALUATION

Sharing the idea that we can not "speak intelligently about evaluation and estimation without first defining the notion of value", which forces us to focus attention on the term *value*, a term with an obvious meaning, but a high level of complexity. It is noteworthy that the evaluation process can be seen as nothing more than finding the answer to the question: "What is value?" (Fishman et al., 2007). However, before finding the answer, a chronological overview of this term's evolution is necessary.

A.R. Turgot (1727-1781) shows that "subjective elements" directly affects the value, the author meaning by this subjective elements' "the ability to satisfy a desire, the ease with which an asset can be obtained, its rarity to ...", (E. Roll, 1964:134).

A. Smith (1721-1790) believes that value is an objective phenomenon, being created from the combination of capital with land and working.

Disciples of Adam Smith have refined this theory of value without challenging its foundations. J.B. Say (1767-1832) did not agree with the relationship between labor and value, but focusing on the utility of value as a key factor and also on the entrepreneur's role as a production factor providing coordination.

J.S. Mill (1806-1873) reconsidered the ideas of Adam Smith in his "Principles of Political Economy" (1848). One of his ideas is the kernel of the evaluation based on profit. Mill defined the relationship between benefit and value in use which he had named "*capital's value*".

After this brief plea for "value", we will continue by focusing on the process of accounting evolution and estimation. We aim to capture the big picture of what accounting evolution and estimation.

Explanatory Dictionary of Romanian language gives for the term *evaluation* a general sense of "to value, to estimate." From an economic perspective, the same source defines the concept as "the action of determining a price, a number's value or a given quantity". In other words, accounting evaluation is "the expression in monetary units of a determined economic value: mean, resource, process (cost, income) or result (Horomnea. E, 2001:278)

Evaluation is a procedure of accounting method, without which its objective would not be possible to achieve. (2002 inviting Deaconu: 9), It is based on a system of prices, costs, tariffs and values that assigns a property element and lead to the formation of accounting value.

IASB General Framework stipulates "*evaluation is the process of determining the values to which financial statements' structures are recognized in the balance sheet and profit and loss account*"

If we can assign to the concept of accounting evaluation a historical presentation dated according to the work "Studies In The History Of Accounting", authors B.S. Yamey & A.C. Littleton, published in 1956, we can say that ever since „ancient Greeks associated to collections other value than the value of money” and Marshall stated that, in determining the value of a property, the following should be considered: direct comparison on the market and replacement cost and income capitalization; we can say in regard to the concept of accounting estimation, given the substitution relationship which resulted in time with the evaluation process, that it has a progressive course which is closely related to the development of accounting evaluation process.

We note that estimation is rarely defined, despite the abundance of its uses, and even in books and papers in which it is the central object of study.

According to the Explanatory Dictionary of Romanian language, the notion of *estimation* is of Latin origin "*aestimare*", plus the term "estimare" in Italian, "estimer"¹, in French, and "estimación"² in Spanish. The verb *to estimate*³ means in general that action aiming "*to evaluate (approximately), to determine the size or value etc. based on incomplete data*", and if objects must be assessed than the sense of the action is "*to examine qualitatively and quantitatively, determining the price or value; to appreciate, to evaluate, to cherish.* "

According to the publication The American Heritage Dictionary of the English Language⁴, both the estimation and its results have more significations, such as:

1. *To estimate* = to calculate approximately (amount, extent, position, or something of value).
2. *To estimate* = to give an opinion about...
3. *To estimate* = to evaluate (giving values of size or value to something).
4. *To estimate* = to make estimations, found in certain documents, e.g. a statement of approximate cost (budget) on which an objective, activity or decision (opinion) granted under exposure is going to be run etc.

This publication also explains the meaning of estimation in conjunction with its synonyms (*to assess, evaluate, and test*) that are used in everyday life, precisely in order to differentiate both in nuance and content and what each of them expresses best.

As *scientific affiliation* the concept of estimation comes from the estimation theory, which belongs to mathematics, specifically to the probability theory. The true origins of estimation began with the foundations of modern statistics (inferential or inductive⁵ statistics, about the early twentieth century, with the publication of reference works written by Karl Pearson (1857-1936) and R.A. Fisher (1912-1922).

In Romania, the most known work based on estimations is "Description Moldavie" by Dimitrie Cantemir, dated 1717, a monograph with geographic, political, economic, social and cultural characteristics that imposed its author among the specialists in European descriptive statistics. This book was written at the request of the Berlin Academy and contained all the knowledge gained in this field up to that date.

5. CONCLUSIONS

Estimation, from general and economic perspective, implies a subjective aspect of the person developing this action, so that a misjudgment can easily occur, and the expression "*It is difficult to anticipate (earlier) possible outcomes*" is also used. Instead, the *evaluation* involves a more decisive action than the estimation because in many cases as a result of this action values are set that constitute the basis for taxation,

1. Dicționarul explicativ al limbii române, Academia Română, Institutul de Lingvistică "Iorgu Jordan", Editura Univers Enciclopedic, 1998.

2. Collins Spanish Dictionary & Grammar 4th Edition 2006 HarperCollins Publishers 1997, 2000, 2004, 2006.

3. Collins French Dictionary & Grammar 5th Edition 2007 HarperCollins Publishers 1997, 2000, 2004, 2006, 2007.

4. The American Heritage Dictionary of the English Language, Fourth Edition copyright ©2000 by Houghton Mifflin Company. Updated in 2003. Published by Houghton Mifflin Company.

5 Statistical inference=process of obtaining information in a statistical population (mass phenomenon) based on the study of a subunit of the population (sample), and assignment, at level of the entire study population, of the values extracted from sample.

investment of shareholders, management decisions, etc. However, in terms of defining the accounting estimation, we selected from the specialized literature the definition given to that term by authors Feleagă, N. & Malciu, L. in "Recognition, evaluation and estimation in international accounting" that "*accounting estimation is an assessment of monetary value on the measurement bases for liabilities, equity, income and expenses*".

Finally we can state following the evolution of the term that estimation is a working technique and its outcome requires obtaining an estimative value in the domain investigated which is desired and expected by those involved.

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4. Mariana D. & Alexandrina B. *Estimările contabile piatra de încercare pentru contabilitate și audit, Revista Audit Financiar nr. 6/2008 25-26. (2008)*
5. * * * *OMFP nr.3055/2009 Pentru aprobarea Reglementarilor contabile conforme cu directivele europene (OMFP 3055/2009).*