DIVERGENCE IN THE RECOGNITION AND MEASUREMENT OF INCOME AND EXPENSES

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Abstract: General research area of this article is the recognition and measurement issues revenues and expenditures and can be placed at the intersection of national and international accounting referential.
World book is a clear and comprehensive on revenue and expenditure. In accounting practice, the criteria for recognition of revenues and expenses are different, depending on their nature.
Concerns, over time, the revenues and expenditures, on the one hand, took the International Accounting Standards Board, reviewing, so in 1993, the International Accounting Standard 18 "Revenue" and on the Furthermore, in 2014, the Minister of Finance no. 1802/2014.

JEL classification: M21, M41

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1. INTRODUCTION

Accounting for income and expenses is organized given the dualistic view. The financial accounting is to assess and income and expenses according to their nature and management accounting, according to the destination expenses.

The Anglo-Saxon accounting, expenses are in connection with revenues already recognized, a process known as "matching".

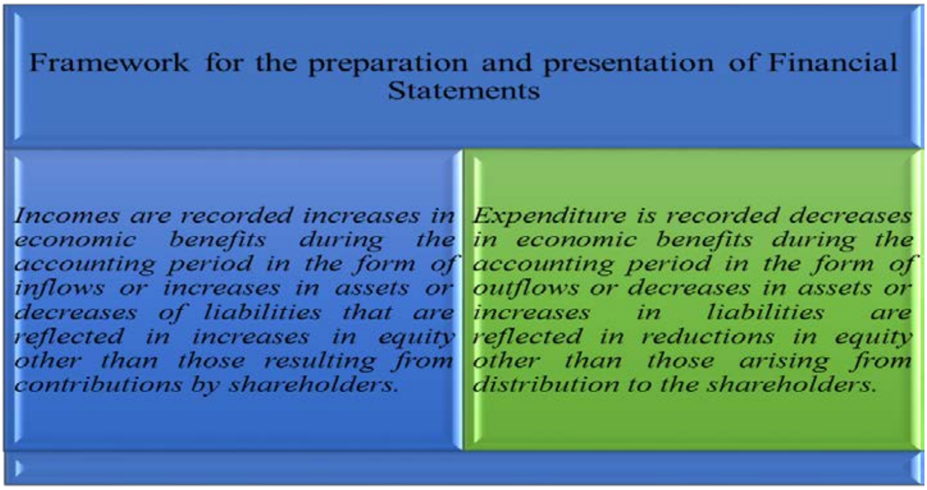
The conceptual framework of the IASB established the criteria for the recognition elements that describe the company's performance, showing the two concepts as follows:

Recognition of income and expenses in the financial statements of the economic entity is subject to the following criteria: [61]

- *increase the future economic benefits through increases of assets or reductions of debts;*

[61] Avram, M., Cristea, H., Domnişoru, S., Mureşan, A., Avram, V., Mateş, D. – *INTEGRATION OF ROMANIA IN THE EUROPEAN ECONOMIC AND MONETARY UNION*, Universitaria Publishing House, Craiova, 2008, Pag. 281

- *decrease in future economic benefits by reducing assets or increase debt;*
- *credible evaluation.*



2. RECOGNITION AND MEASUREMENT OF INCOME

For the purpose of accounting, **recognition** is the incorporation of an item in the financial statements, provided that the two criteria cumulative: probability *any benefit associated to enter or leave the economic entity and have a cost that can be measured reliably.*

There may be occasions when an item, although it meets the recognition criteria, relevant for users interested in measuring company performance and financial position. In such situations, it is recommended that item presentation in the notes.

Table no. 1. Examples of recognition of revenue

Recognition of income	
Assets ↑	*Debt* ↓
Examples:	Examples:
• entry of cash or cash equivalents due to the collection of rents, interest, dividends, compensation, etc; • when sold production or services incomes is recorded with a counterpart can get cash or claims; • entry of stocks or assets obtained from own production (production recorded revenue of stocks / assets); • assets received as operating grants, donations, compensation; • increased receivables in foreign currency.	• cancellation or limitation of liability; • cancellation / reduction provisions; • debt decreased due to changes in foreign currency exchange rates.

Source: author's projection

Legal regulations[62] state that income category includes both sums or amounts received or receivable in its own name in current activities and gains from any other source. Revenue can find them under different names, such as sales, services, fees, royalties, rents, grants, interest, dividends.

Income encompasses both incomes from ordinary activities and earnings from other sources.

Although incomes and earnings are components of profit or loss, we must make a distinction between income and gains.

According to **Adriana Duţescu**[63] earnings "*implies a positive net result of a transaction as a result of offsetting effects (amounts received) with the corresponding efforts (cost of goods)*".

Incomes from ordinary activities of the company, or itself, we find under the name sales, fees, rents, royalties, dividends, interest. Gains are increases in economic benefits that may arise or during the current activity of the company. For example, gains include proceeds from the sale of assets over the medium term include unrealized gains and incomes, such as income from revaluation of short-term financial investments and from increasing the carrying amount of long-term assets.

Although income recognition criteria are different, International Accounting Standard 18 "Revenue" provides that income assessment is carried out "at the fair value of the means of payment received or receivable." Typically, the amount of income generated by a transaction is determined by agreement between the economic entity and the buyer or user of the asset, taking into account trade discounts granted by the company.

Means of payment to be received is usually cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. There may be situations, however, deferment of receipts or cash equivalents that have the effect of diminishing the means of payment compared to the nominal amount of cash received or receivable.

To overcome such situations, IAS 18 "Revenue" recommends determining the fair value of the means of payment by discounting all future receipts using a fixed interest rate. The difference between the fair value and the nominal value of the means of payment is recognized as interest income.

The method presented is done by agreement reached between supplier and customer, and the rate of interest can be:

- prevailing rate for a similar instrument of an issuer with the same credit risk or,
- interest rate that discounts the nominal amount of the instrument to the current cash prices for the sale of goods and services.

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[62] *Minister of Finance Order no. 1802/2014 approving the accounting regulations on the annual individual and consolidated financial statements published in the Official Gazette of Romania, Part I, no. 963 of December 30, 2014,* Art. 431, Alin.1

[63] Duţescu, A - *Guide to understanding and application of International Accounting Standards,* CECCAR Publishing House, Bucharest, 2001*, Pag.55*

3. Recognition and measurement expenditures

The criteria to be followed for the recognition of expenses in profit or loss are:

- discount future economic benefits associated decrease in an asset or
- increasing debt, and
- credible assessment of economic benefit cuts

This means that expenses are recognized simultaneously with recognition of increase or decrease debt assets, such as wages owed to employees or depreciation of property.

Table no. 2. Examples of recognition of expenditures

Recognition of expenses	
Assets	*Debts*
• outgoing cash or cash equivalents due to the payment of services received, fines, penalties, interest, compensation, etc; • consumption of raw materials; • deregistration of goods ceded that came from acquisitions (commodities costs, expenses ceded investments) • use (consumption) assets (depreciation expenses); • impairment of assets (with adjustments for depreciation expenses); • reduction of receivables in foreign currency (foreign exchange differences expenses); • gaps found in the inventory.	• consumption stocked goods and services from third parties; • registration of personal debts; • state registration of debts on taxes; • registration of debt to banks on interest; • increase in foreign currency debt, due to changes in exchange rates; • provisioning;

Source: author's projection

According to accounting regulations harmonized with European Directives economic entity expenses are amounts paid or payable to: [64]

- stocks and consumption of services provided, which benefits the business entity;
- staff costs;
- execution of legal or contractual obligations etc.

Regarding the manner of approach, if we do not find significant differences in expenditures. Costs include current expenses, and losses. Current expenditures are incurred in the current activity of the company, finding them as cost of sales, wages, depreciation. Losses are decreases in economic benefits that may arise or not the normal course of business of the company, such as losses caused by floods, fires, out of

[64] *Minister of Finance Order no. 1802/2014 approving the accounting regulations on the annual individual and consolidated financial statements published in the Official Gazette of Romania, Part I, no. 963 of December 30, 2014,* Art. 449, Alin.1

long term assets. Also, expenses include unrealized losses, such as those generated by discounts to customers or increase exchange rate. Gains and losses are usually highlighted the net of related income to be associated or related expenses. Given their importance in decision-making, both gains and losses once recognized in profit or loss, are presented separately.

According to **Mihai Ristea**[65]**,** regarding evaluation expenditures shall be carried out at *"fair value of the means of payment granted or to be granted in exchange for the consideration received or transferred without equivalent".*

4. CONCLUSIONS

All implications resulting from recognition - derecognition of assets and liabilities can be discussed and the recognition of income and expenses. In our opinion, can not speak to the income and expenditure of a derecognition because the two structures are representing a transaction or event and not their outcome, as is the case of assets and liabilities.

From this perspective, a derecognition of expenditure and revenue translates into a transaction or event cancellation, which is not possible. It could be argued that the cancellation of a transaction recorded wrong would justify derecognition expenditure or income. We disagree with this idea and we support the view that corrections made independently represents an event that should be recognized separately.

From this statement, we hold that any adjustments arising from the work of closing the financial year in order to prepare financial statements which involve changes in the economic benefits of the current period should be recognized in the financial structures only expenditure or revenue increases and not decrease thereof.

We can also conclude that the methods for recognition of revenue and expenditure gives managers the opportunity to assert "mastery" management, opting for the way that presents a more accurate picture of the company. But when the company goes through difficult periods that might affect his image, these methods become truly engineers accounting.

Therefore, we believe that these notions as relativity and performance is evident. On the one hand, because each actor-partner has his vision on the functioning and performance of the company, and on the other hand, because each indicator a picture or other favors to results.

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[65] Ristea, M. - *Basic and alternative business accounting,* Economic Tribune Publishing House, 2003, Pag.89

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