

# CURRENT ACCOUNTING REGULATIONS ON ANNUAL FINANCIAL STATEMENTS

Carmen Luiza COSTULEANU<sup>1</sup>, Diana DUMITRESCU<sup>2</sup>, Ana NICOLAESCU<sup>3</sup>

e-mail: ccostuleanu@yahoo.com

---

## Abstract

On the 1<sup>st</sup> of January 2015, Order no. 1802/2014 of the Minister of Public Finances approving the accounting regulations in accordance with Directive 34/2013 on accounting, entered into force. It is a reference document in carrying out accounting activities and in preparing the annual financial statements. The novelties are generated by two approaches: first, a reclassification of the economic undertakings into the categories of micro-undertakings, small undertakings, medium-sized undertakings and large undertakings, and according to this classification, each will prepare abridged financial statements or financial statements having more components. The second approach concerns the transposition into national law of several International Financial Reporting Standards in addition to the existing ones.

**Keywords:** balance sheet, annual accounts, synthetic accounting documents, financial statements

---

Getting an accurate image of financial position and performance is the fundamental objective of accounting. Achieving such a goal does not always mean focusing on details, but their aggregation into an overall picture, which captures actual life and the perspectives of the whole (Horomnea E., *Accounting Fundamentals*, Sedcom Libris Publishing House, Iași, 2003, p. 307). In the accounting doctrine of the last few decades, these "overall pictures" of the whole evolved under the names of: Report, Periodic summary calculations, Financial year closing documents, Financial accounting reporting statements, Synthetic and financial-accounting report documents, Annual accounts and Annual financial statements.

## MATERIAL AND METHOD

Specialty literature uses various terms to reflect enterprise in financial terms. Among these we enumerate: the balance sheet, annual accounts, synthetic accounting documents, financial statements etc.

Fourth Directive of EEC uses the term "annual accounts" which include: the balance sheet, a profit and loss account and the notes to the accounts. These documents constitute a composite whole and annual accounts must provide a fair

view of the assets, the financial statements and the results of the company.

## RESULTS AND DISCUSSIONS

International Financial Reporting Standards use the term financial statements and states that "financial statements are part of the financial reporting process". A complete set of financial statements consists of: the balance sheet, the profit and loss account, a statement of modification of financial position (which may be presented as a statement of cash flows) and other explanatory statements which are an integral part of the financial statements.

Article 10 of Law no. 82/1991 on accounting used the term "balance sheet", stating that "the balance sheet must offer a true, clear and complete image of the assets, the financial statement and of the achieved results."

In Law no. 82/1991 on accounting, amended, the term balance sheet was replaced with the term financial statements, with different structure for certain categories of undertakings.

The American accounting literature uses the term "financial reports" which include "the statement of income, the statement of equity, the balance sheet and the cash flow statement".

---

<sup>1</sup> University of Agricultural Sciences and Veterinary Medicine "Ion Ionescu de la Brad" of Iași

<sup>2</sup> West University of Timișoara

<sup>3</sup> State Agrarian University of Moldova

Regardless of the name under which they are found in accounting, these documents synthesize financial accounting information and represent for users the main support of information and decision.

The term "balance" has its origins in the Italian word "bilancia" which means "scale", "balance". The balance sheet "symbolizes a balance brought into equilibrium, having assets on one of the discs and liabilities on the other" (Rusu D., *The Bases of Accounting*, Didactică și Pedagogică Publishing House, Bucharest, 1980, pp. 253-255).

In Romania, many authors have defined over time the concept of balance sheet (Sp. Iacobescu and Al. Sorescu, Fh. Ștefănescu, C.G. Demetrescu, D. Voina, D. Rusu and others).

Analyzing the first works on accounting, which were published in Romania in the second half of the nineteenth century, it appears that the first Romanian specialist concerned with the emergence and development of a kind of accounting specific to the agricultural domain was Ion Ionescu de la Brad. In 1870 he published the work *A small treatise of accounting*, in which recommended simplified accounting for small and medium homesteads, which had appeared in large numbers after the agrarian reform of 1864. Moreover, Ion Ionescu de la Brad was the first Romanian author concerned with the application of the principles of double entry accounting in this area.

Regarding the overall architecture of the annual accounts, in accordance with the Fourth Directive of EEC, it includes: the balance sheet, the profit and loss account and the notes to the accounts.

Given the international harmonization of accounting, annual financial statements must include: the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement, accounting policies and explanatory notes.

Accounting represents the main source of information for decision-making, both within and outside undertakings.

The number of potential users of the financial statement has greatly increased. To make an appropriate decision, the decision maker (user) must answer the following questions:

- What is the intended goal?
- What are the available means to achieve the goal?

- What alternative offers the best way to achieve the goal?
- What measures need to be taken?
- Was the intended goal achieved?

From the point of view of the dualistic conception of organization of the computer-assisted accounting system, users are divided into two categories:

- Internal users - includes managers, owners, auditors, to whom confidential information through unpublished reports is also addressed;
- External users - includes other users to whom public information is addressed.

According to the Framework of the International Accounting Standards Board, the users of financial statements are: current and potential investors, employees, creditors, suppliers, clients, the state and its institutions and the public. These user groups are present in a synthetic manner in Table no. 1.

Accounting principles are conceptual elements that ensure the elaboration of accounting rules and the faithful representation of the development of enterprises through financial statements.

Since 1994, Romania has adopted six principles from French accounting:

- the principle of activity continuity;
- the principle of consistency of methods;
- the principle of prudence;
- the principle of independence of the financial year;
- the principle of intangibility of the opening balance sheet;
- the principle of non-compensation.

In 2001, with the appearance of Order no. 94/2001 of the Minister of Public Finances on the approval of accounting regulation harmonized with the Fourth Directive of EEC and with the International Accounting Standards, Romania adopted another 3 principles:

- The principle of separate evaluation of the elements of assets and liabilities (inspired by the Fourth Directive of EEC) ;
- The principle of the prevalence of economic matters over legal matters (inspired by the International Accounting Standards);
- The principle of the materiality threshold (inspired by the International Accounting Standards).

Table 1

**Financial statements users**

Users	Objectives	Request for accounting information	Adopted decisions
Current and potential investors	- maximizing the invested capital	- the performance of the invested capital (rate of return, liquidity, solvency, the company's capacity to pay dividends - as elements directly related to the level of profits)	Current and potential investors
Employees and trade unions	- maximization of salaries; - assessment of stability.	- the company's stability and profits (the company's capacity to provide salaries, pensions and other professional opportunities, the possibility of increasing salaries)	- the level of salaries; - job security; - social protection.
Creditors	- minimization of crediting risk	- the capacity to repay loans and interest; - companies' profitability; - the level of indebtedness; - the analysis of the companies' value, liquidity, solvency.	- to grant a loan; - to increase the level of credits; - to charge penalty interest.
Suppliers	- minimization of the collection terms of contracts; - minimization of the risk of not collecting.	- the company's capacity to pay its debts to suppliers and other trading partners (productivity, profitability, liquidity, solvency etc.)	- to conclude some economic contracts or to terminate some contracts; - to request payment in advance.
Clients	- minimizing the risk of non-delivery	- the companies' capacity to survive; - the extent of maintenance and repair under warranty.	- to determine the size of taxes and other contributions due; - to grant a subsidy.
The state and its institutions	- collecting taxes	- the company's capacity to pay its debts to the state; - the impact of the company's activity on the economy.	- to determine the size of taxes and other contributions due; - to grant a subsidy.

All these are also found in Order no. 1752/2005 of the Minister of Public Finances on the approval of Accounting Regulation in accordance with the European directives and in Order no. 3055/2009 of the Minister of Public Finances. As a novelty, in Order no. 1802/2014 of the Minister of Public Finances, some important aspects concerning the principles appear: the list and details are slightly altered, particularly in shape, and there is a new explicit principle – that of historical cost, but without it being an absolute novelty.

On the 1<sup>st</sup> of January 2015, Order no. 1802/2014 of the Minister of Public Finances approving the accounting regulations in accordance with Directive 34/2013 on accounting, entered into force. It is a reference document in carrying out accounting activities and in preparing the annual financial statements. The novelties are generated by two approaches: first, a reclassification of the economic undertakings into the categories of micro-undertakings, small undertakings, medium-sized undertakings and large undertakings, and according to this classification, each will prepare abridged financial statements or financial statements having more components. The second approach concerns the transposition into national law of several International Financial Reporting Standards in addition to the existing ones.

2015 Accounting Regulations provide:

- The format and content of annual financial statements;
- The accounting principles and rules of recognition, evaluation, removal from filing and presentation of the elements in the individual annual financial statements;
- The rules for the elaboration, approval, audit/verification, according to law, and publication of annual financial statements;
- The general chart of accounts;
- The content and function of accounts;
- Rules concerning the preparation of annual consolidated financial statements.

The rules are mostly the same as in Order no. 3055/2009 of the Minister of Public Finances, with some important news. In terms of accounting and financial reporting obligations, undertakings are classified, according to Order no. 1802/2014 of the Minister of Public Finances, into:

Micro-undertakings are those undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

- a) balance sheet total: EUR 350 000;
- b) net turnover: EUR 700 000;
- c) average number of employees during the financial year: 10.

Small undertakings are those undertakings which on their balance sheet dates do not fall under the category of micro-undertakings and do not

exceed the limits of at least two of the three following criteria:

- a) balance sheet total: EUR 4 000 000;
- b) net turnover: EUR 8 000 000;
- c) average number of employees during the financial year: 50.

Medium-sized and large undertakings are those undertakings which on their balance sheet dates exceed the limits of at least two of the three following criteria:

- a) balance sheet total: EUR 4 000 000;
- b) net turnover: EUR 8 000 000;
- c) average number of employees during the financial year: 50.

Small and medium-sized groups are groups consisting of the parent undertaking:

- a) balance sheet total: EUR 24 000 000;
- b) net turnover: EUR 48 000 000;
- c) average number of employees during the financial year: 250.

Large groups are groups consisting of parent and subsidiary undertakings to be included in a consolidation and which exceed the limits of at least two of the three following criteria:

- a) balance sheet total: EUR 24 000 000;
- b) net turnover: EUR 48 000 000;
- c) average number of employees during the financial year: 250.

According to Article 5 of the Law on accounting, each undertaking has to keep double entry accounting and prepare annual financial statements. The new Order no. 1802/2014 published in the Official Journal, Part I, no. 963 of 30.12.2014, entered into force on the 1<sup>st</sup> of January 2015. The document was approved by the Government in December 2014, at the same time with Government Emergency Ordinance no. 79/2014 which amended Law no. 82/1991 on accounting. Through these two regulations, the provisions of Directive 2013/34/EU of the European Parliament and the Council have been transposed into national legislation. Thus, the simplified European Financial Reporting System replaced the simplified accounting system optionally introduced in 2011.

In the new order, namely Order no. 1802/2014 of the Minister of Public Finances, the name change appears in the title, where the phrase financial statements is used, while in previous orders the explicit name of financial statements does not appear. The format of the financial situation is determined according to categories of undertakings, namely based on size criteria.

Thus, the mentioned provisions state that medium-sized and large undertakings as well as public interest entities are to prepare financial statements containing:

- balance sheet;
- profit and loss account;
- statement of changes in equity;
- cash flow statement;
- notes to the annual financial statements.

By contrast, small undertakings prepare annual financial statements containing:

- abridged balance sheet;
- profit and loss account;
- notes to the annual financial statements.

## CONCLUSIONS

The European system of simplified financial reporting applies to micro-undertakings, namely they prepare abridged balance sheets.

The old regulations stated that the simplified accounting system (2011) was optionally applied just to the undertakings which had in the previous financial year a net turnover under EUR 35 000. Through the new regulations, the size criteria have been changed, and the scope of companies being applied the new simplified system was extended.

The balance sheet is considered the document describing the position of an undertaking at a certain time. However the presence of another accounting modeling tool is required in order to explain the manner of constitution of the result and to allow drawing some conclusions related to the activity performance of the undertaking. This tool is the second element of financial statements, namely the profit and loss account.

The values produced and sold on the market to clients are generically called income, while the values used for obtaining some income are called expenses.

Cash flows are inflows and outflows of cash and cash equivalents.

The changes in equity of an undertaking between the beginning and end of the reporting period reflect the increase or decrease of net assets during that period.

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its annual financial statements.

Some examples of accounting policies are as follows: choice of the amortization methods of fixed assets; revaluation of tangible assets or preservation of their historical cost; registration, whilst the tangible assets are entered into conservation, of amortization expenses or appropriate expenses with the adjustment for depreciation; choosing the method of stock valuation; stocks accounting through continuous or intermittent inventory.

The explanatory notes should provide additional information that is not presented in the balance sheet, profit and loss account and, where

applicable, in the statement of changes in equity and/or cash flow statement, but they are relevant for the understanding of any of them.

Table 2

**Synthetic chart of financial statement components mandatory to prepare according to the size of the undertaking**

Financial statements components	Micro-undertakings	Small undertakings	Medium-sized and large undertakings
Balance sheet	-	-	YES
Abridged balance sheet	YES	YES	-
Profit and loss account	-	YES	YES
Abridged profit and loss account	YES	-	-
Cash flows statement	-	Optional	YES
Statement of changes in equity	-	Optional	YES
Explanatory notes	YES	-	YES

The preparation of the balance sheet and of the synthetic documents is a complex process of aggregation of data in order to build the economic and financial indicators on assets and results.

### REFERENCES

**Costuleanu, C. L., 2010** - *The Financial Statements of the Company*, Tipo Moldova Publishing House, Iași.

**Horomnea, E., 2003** - *Accounting Fundamentals*, Sedcom Libris Publishing House, Iași.

**Rusu, D., 1980** - *The Bases of Accounting*, Didactică și Pedagogică Publishing House, Bucharest.

\*\*\* - Order no. 1802/2014 of the Minister of Public Finances

\*\*\* - Order no. 3055/2009 of the Minister of Public Finances

\*\*\* - Order no. 1752/2005 of the Minister of Public Finances