

## **GENERAL NOTIONS OF ACCOUNTING BALANCE AND RECOVERY**

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### **Abstract:**

*The phenomenon of modern accounting presents characteristics focused on the need for a balanced accountancy, also composing general objectives of this discipline, objectives that can be achieved only through its action to recovery.*

*These characteristics of the accountancy process on a world wide level shall not be regarded and performed in a separate or singular way but as a unitary whole that links mutual coordination and interconditioning bonds.*

**Keywords:** recovery, balancing, accounting phenomenon.

### **General notions of accounting balance and recovery**

In the actual economic and social context, touched by powerful contradictions generated by the world economic crisis which affected all activity domains, this paper aims to offer a dual approach – from a fiscal and accounting point of view – of the result of this practice, as an effect of the conciliation between fiscality and accountancy. Known is the fact that the dimension of the accounting result is strongly influenced by the accounting politics adopted within the decisional process of the management, as well as the manner that these methods are understood and applied by the accountant, generally an employer of the entity. In this respect, without analyzing the motivations that led to a certain practice instead of another, this paper tries, based on the research results to realize through the effect of the aspects that a certain influence on the accounting result can also be influenced by the manner the fiscal result is determined.

This is also justified by the relationship between the accounting result adjusted with the fiscal charge and the fiscal result that determines exactly the amount of the fiscal charge. Therefore, based on these results it can be said that, in the presentations of the fiscal information of the entities that become part of the application of tax regulation, both accounting and fiscal result can contain impairments generated by the objectives pursued by

the management of the entities, often carried up to a level of irregularities, not complying the regulations, with serious and multiple consequences.

### **1. The notion of accounting balance and recovery**

The main phenomena that govern the process of the accountancy reform on a global level are:

- recovery;
- balance;

These two actions act both individually as well as into an interconditioning relationship.

**The accountancy recovery** is the process that harmonizes the presentation of the accountancy terminology, methods and financial situations.

**The accountancy balance** is the process which improves the accountancy norms and regulations prior to be compared.

The accounting recovery implies creating the accountancy norms and regulations, rules that are improved to offer a common denominator regarding the way of action and appliance in order to achieve the compatibility and interpretation of the content of the accounting information.

After having these conditions accomplished they need to be applied on a global scale through the internationalization of these rules and accountancy norms.

The main reason for these phenomena is represented by the amplification of the globalization process and the financialization of the international stock market and national economies, which tend to form into the future a unique mechanism regarding the development of global economy. Some specialists, A. Razin and E. Sadka, said that the last two decades have witnessed a tendency of economic growth.

Misleading barriers of independent economic systems – local, national and others similar – had tremendous implications over the economic politics of each of these economic systems.

The companies, funds and workforce can now move freely along regions, states and countries, being able to exploit the differences between the existent opportunities, (the employment, economies, investments, etc.) in technological and economical environment, as well as the fiscal and monetary patterns.

For example, funds can move towards areas where a higher profit can be obtained at low labor force costs.

This statement has a certain relativity degree, because the economic efficiency is not only limited by quantitative factors but very important are the quality factors. The process of accounting normalization is structured in two main branches:

- The national accounting recovery;
- The international accounting recovery;

Through the notion of international accounting recovery we must realize the difference between the accounting recovery accomplished by international accounting organisms, which do not belong through culture and influences to a certain nation and the regional accounting recovery which from a cultural and influential point of view it integrates a mix of such elements.

Bringing to a common denominator the elements presented by the three accounting recovery categories is achieved through the process of accountancy harmonization, notion that unlike accounting recovery can not be divided through the perspective of the national – regional – international connection.

The fundamental purpose of the accounting standardization is to create an accounting reference frame that targets three aspects:

1. obtaining unitary information about the activity of the government companies by the state authorities;
2. presenting useful information to the financial statement users, especially in terms of comparison in time and space both between enterprises as well as into the relationship with former or future exercises;
3. efficient administration of the financial resources at the level of a country.

Nowadays the most important international organism that targets the achievement of this complex process is the IASB (International Accounting Standards Board), an organism mainly specialized to draw up rules for stock market and multinational companies. This organism is considered a promoter of the international accounting normalization, but as well as any other neutral organism, it was not exempt from criticism and allocation of contradictory elements corresponding to the undertaken actions, mainly referring to:

1. accounting balance and recovery actions achieved by E.U.
2. imposing Anglo-Saxon accounting rules in the countries where the accounts have a continental character.

Passing over these critical issues that are influenced especially by geopolitical factors, the international accounting balance realized by this accountancy organism represents a necessity imposed by the demands of the users of financial statements.

The necessity of this process is presented by the following factors:

1. Globalization phenomena, globalization of economies and capital markets, which determines the character of international accounting rules;
2. Creating various regional centers, by extending the EU borders which has as a consequence the rise of international circulation process of capital;
3. Diversifying globally competitive methods;
4. Designing a uniform accounting system and generally able to determine the effective operation of the business;
5. Creating an optimal convergence between internal and external system in terms of financial information.

These phenomena taken particularly and as well as interdependencies that are created between them, lead to the marketing elements of accounting, i.e. accounting information market.

The main side through which is presenting this type of market is the legal one and its objectives are classified according to the preferred granted to certain categories of users, namely investors and third parties, in the sense:

1. Development of financial and accounting information published;
2. Increasing the degree of intelligibility of accounting information;
3. Increasing the comparison power of accounting information in time and space.

Achieving these objectives has its result in the process of creating accounting regulations, able to provide useful financial information to its users in order to help them decide. This process generated over time two trends:

1. the conceptual or deductive trend in which the concepts and accounting principles are determined using a professional argument, these being found in methods and procedures applied in practice;
2. the pragmatic or objective trend in which the development of concepts and principles are based on experiences and traditions.

These trends were the base for creating two big global accounting systems, more precisely:

- the continental accounting system (the conceptual trend) and the Anglo-Saxon accounting system (the pragmatic trend).

## **2. Recovery and balance accounting objectives**

Balance accounting recovery objectives are determined by economic, social and geopolitical problems that are present at national, regional and global levels. The main objectives taken into consideration consist in the settlement of the following aspects:

1. Creating a uniform terminology into the scope of the accountancy;
2. Developing generally accepted accounting principles;
3. Defining the content of the information presented in the financial statements;
4. Accomplishing schemes and patterns of presentation of financial statements;
5. Drawing up the accounts plan and the monograph for main financial economic operations.

The accounting regulations elaborated through this process shall be first acknowledged from a social point of view in order to successfully use them in practice.

An important factor in this meaning is represented by the national cultures, because each state sees differently the character and content of both accounting norms as well as the information provided by those.

The application of these accounting rules, even identical in terms of content and manner of presenting the accountancy information, determined the appraisal of the following accounting recovery:

1. Legal or regulatory recoveries of the products of this process are applied in practice by the national law of each State;
2. Professional recovery which are applied in practice by the accounting professionals, and thereby to other users.

According to C. Perochon "objective accounting normalization can be shown by: the financial statements or the accounting plan".

Making this process through financial statements refer to the following levels:

- the component of financial statements,
- items shown in the financial statements sheets,
- recognition and assessment of elements of the financial statements,
- the content of elements within the financial statements sheets,
- Regulations, accounting standards and procedures related to the preparation and presentation of financial statements.

This type of recovery is appropriate to the Anglo-Saxon countries.

Recovery through general accounting plan is specific to the continental European countries and includes:

- the annual financial statements (form and format),
- general chart of accounts( account system used),
- Organizing the accounting documents and registration procedures, validation and control of financial and economic operations.

Depending on the ratio of public or private contribution in process of developing the regulations, accounting recovery may be:

1. **politically accounting recovery**, where predominant is the state intervention, mainly encountered in France and Germany;
2. **pragmatically accounting recovery**, where predominant is the contribution of the accountancy profession, mainly found in UK;
3. **mixed accounting recovery**, where the regulations are developed by the accounting profession and are imposed through government's intervention, the most relevant example being USA, where the accountancy norms are elaborated by FASB and their implementation is achieved by the SEC.

A particular form of mixed accounting recovery is highlighted by the Dutch accounting system, where the accountancy norms and regulations are imposed by a threefold action, these being the result of a compromise between worker's union, employers' associations and the views of the accountancy profession.

From here it can be deduced that this process has been and still is a historical conflict between the two sides that want to achieve the recovery accountancy, so they can obtain the information they need through the issued regulations, these depending on the purpose of each category.

In Romania, the legal accounting appliance is presented through the following elements:

1. The accountancy law no.82/1991 amended and republished by GO no.61 / 2002
2. Methodological norms and state regulatory accounting details;
3. Methodological notes with a status of professional book of reference;
4. Framework for preparation and presentation of financial statements prepared by the IASB and national accounting normalization taken by the institution;
5. The network of International Accounting Standards developed by the IASB;
6. The chart of general accounts;
7. The law of financial audit.

The accounting international standards elaborated by IASB have been applied into the national accounting system through assimilation and for the aspects that this does not cover, the Romanian lawmakers created complementary rules and regulations. The process of assimilation of these international accounting regulations it was mainly done through the following enactments

- OMFP nr. 94/2001
- OMFP nr. 306/2002
- OMFP nr. 1752/2005
- OMFP nr. 3055/2009

### 3. Systems that influence the recovery and accounting balance

The recovery and accounting balancing is influenced by a number of factors, reflected both in the external environment of business activity, internal, and mixed factors, targeting a complex of external and internal action.

In the category of external factors we mention: political and economic factors, legal, cultural and social factors.

In the category of internal factors are present factors that influence the financing of business activity. Mixed factors aim at regulating the relationship between accounting and taxation a ratio that is highlighted by the conflict between these two rules in terms of conceptual fair presentation of the financial statements and in terms of trends of the company to reduce taxable meal and in this way is produced the impaired quality of information presented in the financial statements.

Political and economic factors have determined primarily the creation of two types of economic systems and thus their own accounting systems. These systems are:

1. the liberal system and
2. centralized system or the totalitarian system.

*The liberal system* is specific to the western European countries, North America, Japan and Australia, in where the public power governs from an accounting point of view the activity of companies, but they do not play a decisive role in terms of managing those. Within these systems the financial informations are useful primarily to the investors to help them determine the ability of the company to gain future income.

Accounting is designed to communicate information that shows profitability of businesses.

For these reasons, the financial statements must provide the real image of the financial position and performance of the company.

*The centralized system* mainly covers former communist countries that are found in a late transition process, situation that applies to Romania too. Until 1990 the main user of accounting information was the state, in the case of Romania, the accountancy system was monist.

Request of accounting information did not come from groups of users, which made the accounting information supplied to be on technical nature, the main objective was the complete and correct economic record of financial operations.

The events of the 90s led to significant changes in those political and economic systems and thus into the accounting systems.

These countries have gradually adopted the European directives and international accounting standards.

Legal factors are present in both systems of law dominating worldwide: the German Roman law system and common law system.

The German-Roman system or continental is characterized through the legal rules are written.

In this type of law system, accounting regulations aim at imposing specific accountancy rules and the accounting culture influences the flexibility and adaptability of the national accounting rules.

Such accounting dimensions vary from country to country, even within countries belonging to the same legal system, for example: „in Germany accounting standards depend on the legal form and the enterprise size, while in France the accountancy rules depend only on the legal status of the enterprise”

In Romania accountancy rules are opposable to all types of businesses, but differentiated by their size, for example:

- enterprises that apply the Accounting Regulations compliant with European directives approved by Order nr.3055 / 2009;

The common law is the culture of Anglo-Saxon countries, where the accounting system is characterized by a minimum of accounting regulations and through an act of self achieved by normalizing the of the accountancy profession.

The Accounting Regulations are the resultant of various events that occur at certain times and that needs to be protected by law, such as the appearance of corporate capital in England during 1844 lead to the development of the Trade Companies Law.

In US the accounting regulation is mixed, especially in the early nineteenth century. The company law was first defined in each federal state.

After the accounting system in 1929 acquired a more cautious tone by the enactment of two specific laws in the 1933 and 1934 as well as through creation of the Commission Securities which were aimed supervision of listed companies.

Through a deep analysis of the two systems of law are seen that the continental system presents a lower degree of flexibility from the one presented by countries with common law.

In the case of civil law countries the legislation is richer, and in the case customary law countries the law does not enounce only some prescriptions, the accounting profession is called to solve applicative aspects.

Cultural aspects influence the manner in which the rules are adjusted and flexible.

These differences are present both into the accounting systems of countries from various cultures but also to those belonging to the same accountancy system from a traditional point of view.



A significant example is the differences between the British accounting system and the American system, which although they have the same culture the accounting the conception, implementation and content of accounting rules is different.

Differentiation is present both in terms of content accounting rules, as well as their manner of presentation in the financial statements. Social factors influence the accounting recovery in terms of their validation, so that the differences are obvious from state to state.

This differentiation is influenced by the fact that international organizations of accounting recovery do not have coercive power in the application of their national accounting systems.

Financing business activity influences both the activities of businesses and the way in which the information in the financial statements is presented.

Main financing mechanisms are in close conjunction with the two accounting systems dominating in the world:

1. Funding through bank loans (debt);
2. *Funding via its own capital* (self-financing).

Financing activities influences the production and presentation of financial information:

3. in the case of self financing is aimed the achievement of obtaining the necessary information for investment decision, while in the case of debts, the financial information useful to the external users are more or less complex.

The funding requires a more succinct financial information, unlike self financing in which the stock market companies require complete financial information meant to reflect the real situation of the company.

On its turn the financing of the company's activity is influenced by the law systems as it follows:

The countries of written law have a higher tendency towards bank funding while into the countries where the law is based on tradition and previous experience the funding tendency is inclined towards the stock market.

Through this tendency the companies focused on stock market funding have a more evolved accounting system, characterized through objectivity and transparency, the financial information having a higher degree of credibility.

The financial statements of these accounting systems are usually as a public report that is presented to the public.

Fiscalization represents a mean governed by the public power which determines and collects taxed from individuals and companies, leading to budgetary income accomplishing meant to finance the budgetary expenses.

The degree of increase taxation in an economy is influenced by the level of financing of budgetary expenditure.

The higher the public expenses are the fiscality shall present higher values. Starting from this point on, the fiscality is usually higher into the countries where the inflationary phenomenon is considerable.

This happens because in each economy the transactions develop based on the principle of the monetary nominalism, according to which settlement of transactions will be done at the value from the document. So if the values of inflation are growing from a financial year to another then the value of budgetary expenditure will also grow and this requires collecting higher budgetary income necessary to cover the public resources.

Raising this necessary also determines an increment of the tax collected from individuals and companies. Based on these considerations companies will permanently look to deliberately reduce taxable table operations in order to pay a smaller tax fee.

The information presented into the financial statement sheets is directly affected. According to Bernard Colasse „, the French accountant is preoccupied to protect himself from a legal point of view rather than to offer a real image of the companies through the financial statement sheets he develops. But doctrine is evolving and it may be that in future we are moving towards an interpretation more economical and less judicial of this new concept”

In this respect on a global level have been made numerous efforts which attempted the disconnection of tax accountancy burden, lately these efforts have had favorable results in most accounting systems, especially those that joined the international accounting standards.

#### **Conclusions on the recovery and balance accounting in Romania**

A significant development in national accounting period was dominated by the concept of standardization of accounting which meant the process of drafting norms, instructions and clarification of accounting organization, based on some base rules and accounting plans regarding developments, emphasizing and cost accounting developed by the Ministry of Finance for the main sectors of national economy.

Lately the accounting reform imposed a series of new critical coordinates of the national accountancy systems operated into the market economies developed such as:

1. The primacy of application in practice of the accounting concepts, especially in terms of objectives and generally accepted accounting principles in relation to accounting rules and regulations which primarily refers to the rules, the basic methods and procedures of detailed accounting;
2. dualism primacy in relation to monism accounting hose essence is that in market economy conditions, at least some of the accounting

information, particularly those related to: the situation patrimonial, economic and financial results, relationships with third parties entity must made be public through the financial statements;

3. the primacy of the financial statements of current accounts across the system, in which optical data processing accounting system had to be changed fundamentally.

Within the monist accounting systems have been operated and still is operated with flow accounting focused on exhaustive record into the economic business cycle accounts: output – distribution – movement – intake, focused on the primacy coverage of the production process, considered the value source.

In this case the role of the financial situations is sidelined because the intervention of managers based on financial accounting analysis is strongly limited by the centralized economic system itself. Dualist accounting systems adapted to the demands of developed economies of competitive market operates with accountancy of results in which into the spotlight shall be the financial statement sheets, in their capacity as tools to inform third parties.

Using current accounts is subordinated to the objectives of accountancy: true and fair image of the patrimony, establishing the results and the real financial economic situation of the company, the control of internal conditions of production.

4. Fundamental reconsideration of the importance of various characteristics of accounting information.

According to these coordinates the monist accounting systems overbids completeness and comparability of accounting information, which created the possibility of centralized control features of activity.

The dualistic accounting systems overbids characteristics relating to efficiency and effectiveness of accounting information production, as it follows:

- Relevance of information (their utility in decision making),
- Fidelity of information (in the extent as they convey the reality),
- Relative importance (producing accounting information at a lower cost to the advantages they procure for their usefulness).

5. Fundamental reconsideration of priorities given to the different functions of accountancy.

In monistic accounting theories are listed and described a number of functions:

- exhaustive recording function of the activity of a company with the purpose to achieve the control of the activity.
- the verification, control and probative force in justice.

In dualist accounting systems, the accountancy functions are structured as it follows:

The general financial functions of accountancy:

1. Recording function of a business transaction in order to determine the periodic financial position, performance and financial position changed;
2. The function of economic and financial information to third parties;
3. The function of verification and test instrument generated by legal and tax reasons;
4. Function of providing information necessary to achieve macroeconomic summaries;
5. The function of meeting the information requirements of multiple users of accounting information.

Accounting management functions:

1. Function of determining the costs on production and sectors;
2. The function of determining the profitability on products, works and services;
3. Function to manufacture and supply the information required to prepare budgets of income and expenses, updating management indicators that form the enterprise dashboard.
4. Fundamental reconsideration of the principles of evaluation of the assets and management in relation to the ratio evolution of the demand-supply.
5. Fundamental reconsideration of accountancy normalization in the sense of openness to international.

Accounting policies and practices were and are influenced by economic policies and practices.

The accounting reform in Romania is focused on the following values:

1. recourse to generally accepted accounting principles and conventions, according to OMFP nr.94/2001, repealed with OMFP nr.1752/2005, repealed on it's turn with OMFP nr.3055/2009: business continuity, consistency, prudence, independent exercises, Separate assessment of the assets and liabilities, the opening balance sheet intangibility, cancelation, economic prevails the juridical form, relative importance.
2. Recourse to accounting categorical dualism between the financial accounting and management;
3. Recourse to the relevant account and relevance information regarding the financial position, performance and changes in financial position of the company in the financial statements.

The accounting reform in Romania started in 1991 with the advent of the Accounting Law no.82 / 1991 that targeted and aimed at improving the Romanian accounting system based on principles and rules laid down by the European Directives and IAS, so that the financial statements produced by firms to meet the requirements of the widest categories of users.

A general periodization of the evolution of the reformatory system is the following:

- 1.Period 1990-1994 characterized by the formation of national bodies empowered to start national accounting reform and through a process of determination of national accounting norms in collaboration with French experts, during which it was drafted Accounting Law no.82 / 1991, with effect from 1 January 1994, at which time started to apply the new national accounting system;
- 2.The period from 1994-1999 characterized through the action of the Accounting Law and the Implementing Regulation of this one. Aside these accounting regulations, the accounting system functioned through assimilation of a specific law material, elaborated by the Ministry of Finance.
- 3.The period 1999-2001 marks the step in which was developed the National Balancing accounting legislation with EU Accounting Directives and IAS fixes may assimilation, approved by Order no.403 / 1999 by the Ministry of Finance,
- 4.The period 2001 – up to now marks another stage into the national accounting reforms, in which new enactments have been elaborated realizing a deepening process of this one, principally through OMFP no.94 / 2001 OMPF 306/2002 OMPF no.1752 / 2005 and OMFP 3055/2009. Also this process is continued today by continuously aligning the Romanian accounting to European and international accounting rules.

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