EQUALIZATION OF RESULTS ACCOUNTING POLICIES

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The purpose of this paper is to demonstrate the effect that different accounting policies have on the outcome of an enterprise, this effect being represented either earnings growth or diminishing it. Deprecation policy, the policy related to inventory, policy provisions and related policy borrowing costs are some of the many other possibilities which affect the content of financial statements. Because national and international accounting standards give businesses the flexibility to choose between different policies, managers take advantage of existing loopholes and draw on creative accounting , so that it answers to the needs of the management team.

Key Words: accounting policies, result simulation, creativity.

1. Fiscal and economic national and international context

The economic reality represents, in fact, all the operations within an economy, which according to the normative framework, as well as according to the accounting regulations lead to the preparation and presentation of the financial statements, so they provide a correct image of the users over the economic entities.

The national regulatory framework under which the financial statements are drawn up is represented by accounting regulations compliant with Directive IV of the European Union, approved by the Ministry of public finance Order No. 3055/2009. If a company's financial statements are drawn up in accordance with IAS/IFRS, the regulatory framework will be International Accounting Standards and financial reporting.

Over time, more and more scandals had burst out as a result of the accounting rules violations have resulted in the degradation of the accounting image. Due to the fact that both national and international norms provide managers more possibilities in terms of accounting policies, the chorus tends to increase output so as to attract more investors.

So, the accounting policies shall comply with the existing legislation (including tax legislation), and it shall not limit to the accounting legislation, but as well as to specific legislation that could lead to the existence of different tax and accounting treatments.

Accounting policy is aggregated into a double logic (J,1996 Caste) of optimization of elections and financial business communication with their environment contact environment.[30]

Thus, in the Anglo-Saxon accounting environment in order to attract the investors, the enterprises are tempted to promote their estimates and methods that lead to a strategy to maximize the outcome. In countries that apply to the German accounting model, as for the Romanian model, the accounting choices are heavily influenced by taxation so that a tax minimization strategy is promoted. Therefore, the estimates and methods involving a minimization of the outcome are used.

A more nuanced definition belongs to Christopher Nobes: "accounting policies are detailed methods of assessment, measurement and accreditation (finding) that an organisation has chosen from the generally accepted accounting standards, regulations or practices. These policies must be used on a permanent basis and shall be published. The annual report of an enterprise will include "an appendix concerning the accounting policies which have been applied in the financial statements. For example, a publishng policy might specify if the enterprise has used a linear or digressive method of depreciation, if for the valuation method has been used FIFO or FMC method, or the manner in which the provision for future pension payments has been calculated.".[31]

[30] Jean-François Casta – "Politique comptable des entreprises", Encyclopédie de Gestion, Economics, Paris, 1996;
[31] Christopher Nobes - "Pocket Accounting", The Economist Books, 1999.

2. Accounting policies that influence the financial statements of the entity

The accounting policy is reflected in the choices made by the company's management for the purpose of modelling the result and the content of the financial statements. The enterprise Management, via the policy that is elaborated, secures certain objectives with regard to the size of the result.

The accounting policy chosen by the enterprise management has consequences for determining the size of the result, constituting a real strategic management decision. The enterprises that promotes a strategy of maximizing profits, despite the " tax prejudice" for the distribution of dividends and to attract investors, are trying to find all the possible solutions in order to meet these challenges.

Performance is reflected in the financial statements using the profit and loss account through the profits obtained by the entity, the income and expenditure accounting items directly related to its measurement.

Examples of accounting policies that reflect the performance:

- Policies and coverage options of profit and loss account;
- Policies that reflect the result per share;
- Accounting policies and options of loans cost;
- Accounting policies and options of income on ordinary activities;
- Policies and accounting options on the tax result

In another manner, the accounting policies may be options caused by certain interests subject to certain principles, rules and conventions relating to: registration, recognition and valuation by the accountant, the preparation and presentation of the financial statements.

Thus, the role of professional judgment is extremely important in the development of the accounting policies when they are selected from alternatives allowed in standards and interpretations. Accounting policy choice or techniques of estimation of the accepted must be carried out so as to obtain the best information for decision-making.[32]

3. The depreciation policy of fixed assets

The depreciation policy adopted by an enterprise influences the evolution of the outcome. The parameters by which this influence is exercised are the depreciation method, the depreciation period and the residual value.

a) The influence of depreciation method on the results of the company

In accordance with IAS 16 "tangible assets", the fixed assets depreciations represents the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation methods set out in IAS 16 revised are: the linear method, the method of diminishing the balance (declining balance) and the production method. IAS 16 requires that the depreciation method used must " reflect how the economic benefits produced by assets are consumed by the enterprises".[33]

According to the Romanian legislation, the legal entities amortize the tangible asset using one of the following amortization regimes:

1) *the straight-line depreciation*, which lies in the uniform distribution of the input value to fixed assets amounted during the whole useful life established.

2) *the digressive depreciation*, involving the straight-line depreciation quota with coefficients of law (1.5, 2, 2.5). The use of this method has to be approved by the Board of Directors of an entity or person responsible for the management of cultural heritage

3) *the accelerated depreciation* consists of calculating, in the financial year in which the tangible asset headings enter within the assets of a legal person, to a depreciation in the limit prescribed by law (50%) of the value of their input. In subsequent financial exercices, the depreciation is calculated according to the linear depreciation.

In choosing the method of depreciation, the managers of the companies will take into account the pace of consumption of the economic advantages generated by holding and using the fixed assets concerned.

To illustrate the influence of the depreciation method on the result of an agent, we assume that the company A has acquired an installation at an acquisition cost of 6.000 lei, terminable at a duration of 4 years. The company can choose between linear, digressive and accelerated method

[32] Liliana Feleagă, Niculae Feleagă – "Politics and accounting options", Economica Publishing House, Bucharest, 2002;
[33] Lucian Cernușca – "Accounting strategies and politics", Economic Publishing House, Bucharest, 2004, pg. 209.

Table 1
Simplified results account-digressive depreciation method

Digressive depreciation method	Year I	Year II	Year III	Year IV
Turnover	*35.000*	*35.000*	*35.000*	*35.000*
Third-party costs	*17.000*	*17.000*	*17.000*	*17.000*
Personnel expenditure	*11.000*	*11.000*	*11.000*	*11.000*
Depreciation expenses	*2.250*	*1.406*	*1.172*	*1.172*
Operating result	***4.750***	***5.594***	***5.828***	***5.828***

Table 2
Simplified results account—Straight line depreciation method

Straight line method	Year I	Year II	Year III	Year IV
Turnover	*35.000*	*35.000*	*35.000*	*35.000*
Third-party costs	*17.000*	*17.000*	*17.000*	*17.000*
Personnel expenditure	*11.000*	*11.000*	*11.000*	*11.000*
Depreciation expenses	*1.500*	*1.500*	*1.500*	*1.500*
Operating result	***5.500***	***5.500***	***5.500***	***5.500***

Table 3
Simplified results account – Accelerated depreciation method

Accelerated method	Year I	Year II	Year III	Year IV
Turnover	*35.000*	*35.000*	*35.000*	*35.000*
Third-party costs	*17.000*	*17.000*	*17.000*	*17.000*
Personnel expenditure	*11.000*	*11.000*	*11.000*	*11.000*
Depreciation expenses	*3.000*	*1.000*	*1.000*	*1.000*
Operating result	***4.000***	***6.000***	***6.000***	***6.000***

If the company chooses the digressive depreciation method, it will create the impression of a company whose performance will increase from one year to another because the digressive depreciation will be greater than the linear one in the first year of duration of use, decreasing the result, and in the subsequent years the declining-balance depreciation expense is lower, thus giving the impression of growth compared with the previous years.

In the case of accelerated depreciation method, for the first year of use of this method provides a weaker result than using other methods, but in subsequent depreciation it will decrease significantly, giving the impression of a significant result.

b) The influence of the year depreciation on the results of the company

The Council decided that the duration of an asset use to cover the entire period in which it can be used without having to take into account the fact that at this time the asset may be in use or decommissioned. The removal periods generally occur after the acquisition of an asset and even before its assignation, when the underlying asset that is held for sale or other form of disposal.[34]

Based on the example above, we have demonstrated how the result of the company can be influenced in which concerns the depreciation duration.

Table 4
Simplified results account-depreciation duration- 4 years

Enterpise A	Year I	Year II	Year III	Year IV
Turnover	*35.000*	*35.000*	*35.000*	*35.000*
Third-party costs	*17.000*	*17.000*	*17.000*	*17.000*
Personnel expenditure	*11.000*	*11.000*	*11.000*	*11.000*
Depreciation expenses	*1.500*	*1.500*	*1.500*	*1.500*
Operating result	***5.500***	***5.500***	***5.500***	***5.500***

[34] International financial reporting standards: IFRS: official issued rules on January 1, 2009/Foundation Committee on International Accounting Standards, 4th Edition, revised, CECCAR in Bucharest, 2009, pg. 1215 – 1216;

Table 5
Simplified results account-depreciation duration- 3 years

Enterprise A	Year I	Year II	Year III	Year IV
Turnover	*35.000*	*35.000*	*35.000*	*35.000*
Third-party costs	*17.000*	*17.000*	*17.000*	*17.000*
Personnel expenditure	*11.000*	*11.000*	*11.000*	*11.000*
Depreciation expenses	*2.000*	*2.000*	*2.000*	*0*
Operating result	***5.000***	***5.000***	***5.000***	***7.000***

As the first company will have a constnt profit throughout the duration of the fixed assets depreciation (every year, the depreciation expense has been recorded), company B will record a rising trend in profits due to the fact that in the last year there has been no longer recorded the depreciation expense.

c) The influence of the residual amount on the results of a company

The residual value of tangible assets is estimated at the amount that an entity could obtain at the moment of conceding an asset, after deducting the conceding costs, if the asset would have been already of the age and conditions envisaged for the end of its life.

In practice, most businesses consider insignificant the residual value and therefore ignore the depreciation calculation. However, if an enterprise is expected to yield relatively early within the assets of its useful life, a significant value may be withheld.[35]

We take into consideration two similar companies, who own and use the same fixed assets under the same conditions. The first enterprise disregards the residual value in the depreciation calculation (according to OMFP 3055/2009 accounting the Regulations for approval in accordance with the European directives), and the second estimate the value at a certain level (according to IAS/IFRS).

Although the performances of the two companies are equal, however, the current result of the latter is superior to the result of the first company, due to a reduction in depreciation costs, determined by taking into account the residual value.

Choosing a high residual value will have the opposite effect of choosing a shorter useful life. If other factors remain constant, a high residual value will reduce the depreciation expense and will increase the current result, in comparison with the values that might be obtained if you opt for a lower residual value.

4. Policy for borrowing costs

In which regards the international accounting level, the accounting policies relating to the borrowing costs covered by the international accounting standard IAS 23. The borrowing costs represent the interest and other costs incurred by an entity for borrowing funds.[36]

There are two accounts of the reception refer to borrowing costs, namely:

a) *The resulting method*, whereby the cost of borrowing should be recorded as expenditures for the financial year in which they were engaged, being treated as period costs;

b) *The capitalisation method*, whereby the cost of the loan shall be considered as an element of the acquisition or production cost, as appropriate to the assets in question.[37]

An enterprise has received a bank loan of 10.000 lei for the acquisition of means of transport, repayable over a period of 5 years. The interest rate is equal to 10%. For the first year, the impact on the outcome of the use of the two methods is as follows:

[35] Lucian Cernusca – "Accounting strategies and politics", Economic Publishing House, Bucharest, 2004, pg. 209.
[36] IAS 23
[37] "The management and accounting of the firm", Tribuna Publishing House, nr. 1 of January 2012, pg. 25.

Table 6
The influence of the borrowing costs on the outcome

Resulting method	Capitalisation method
"Interest expenses" = *"Interest rates for long-term bank loans"* 1.000	*"Means of transport"* = *"Interest rates for long-term bank loans"* 1.000
➢ The interest expenses are of $ 1,000, which leads to a decrease in the result on the one hand, but also to a lower tax on the other hand.	➢ The interest expenses are zero, so we will have a greater result greater, but also a higher state tax.

5. Policy of the assessment of the stocks

The accounting treatments covered by norm IAS 2, on the assessment of the stocks is another way of leveling the accounting resolt and it has provided two ways of determining the cost of inventory:

1. Basic accounting treatment, which consists of:
   - The balanced average cost method (BACM)-can be calculated monthly or after every input operation as the value of the original stock plus the value of the entries, on the one hand, and the existing stock quantity plus the quantity originally entered, on the other hand;[38]
   - The first in-first out (FIFO) method-consists of the outputs of stocks' evaluation, in the order in which they entered, at the cost of the first entries (batch). As the batch is displaced, the management stocks should be valued at the cost of the next batch, in chronological order.
2. Alternative accounting treatment-which is comprised solely of:
   - The method last in-first out (LIFO) – the inventory outputs are valued at the cost of the last entries. As far as the successive batch displacement occurs, the management stocks should be valued at the cost of the batch, in chronological order.

Company A holds at the beginning of the month more than 1,000 kg of freight, at a cost of acquisition of 10 lei. In the course of the month the following occured:

Table 7
Purchases and sales of goods

Entry date	Entry		Entry date	Entry	
	Quantity	Aquisition cost		Quantity	Sale price
10.05.2012	5.000 kg	11 lei	12.05.2012	4.000 kg	19 lei
15.05.2012	10.000 kg	17 lei	20.05.2012	8.000 kg	21 lei

Table 8
Simplified results account- influence of BACM, FIFO, LIFO

Elements	Basic Treatment		Alternative treatment
	BACM	FIFO	LIFO
Income from the sale of goods	244.000 lei	244.000 lei	244.000 lei
Expenditure on goods	174.840 lei	167.000 lei	180.000 lei
Accounting profit	69.160 lei	77.000 lei	64.000 lei

As we can see, in the period of inflation, if the company would use the FIFO method, the outputs evaluation will be achieved at the lowest prices, leading to an increase of the accounting outcome, but also an implicit higher tax on profit. Using the LIFO method, the company would assess the outputs at the highest prices which leads to a decrease in the accounting outcome, but at the same time the corporation tax. Thus, British businesses prefer to use the FIFO method, since it corresponds best to the actual flows of exhaustion (output) of stocks. American companies prefer the LIFO method because it measures the cost flows as close to reality.

[38] The management and accounting of the firm", Tribuna Publishing House, nr.7 of July 2012, pg. 9 – 11.

6. Provisions politics

In accordance with IAS 37, a provision is recorded only when the enterprise must cope with a commitment to transfer the economic benefits as a result of past events, and when the provision can be estimated.

A provision is recognized only when:

- a society has a current obligation which arises from a past event;
- it is probable that an outflow of resources, affecting the benefits, is required to honor that obligation (a reduction of resources is considered likely to be realized when the chances are higher than the probability of unrealization);
- a credible estimation of the amount of the obligation can be achieved.

The policy on the provision offers opportunities for subjectivity and creative accounting. The formation of provisions in those years in which the enterprise obtains profit leads to diminishing the outcome, while resuming the revenue provisions in which the enterprise registers deficit leads to an increase of the output.

If an entity constitutes a risk provision due to an uncertain customer in year N, in the amount of 1.000 lei (we assume that eventually, the company records profits) the accounting records will be:

"Operating expenses concerning provisions for liabilities and charges"	=	*"Provisions for risks and expenditures"*	1.000

In year N + 1, the customer shall pay the entire debt, and the company cancels the provision remained without object so that the result will increase and will reflect the increasing company performance

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"Provisions for risks and expenditures"	=	*"Incomes from provisions for liabilities and charges"*	1.000

7. Conclusions

In Romania, a series of elements come to complete the accounting professional aptitude for creativity: the size of an accountant result is an important starting point in determining the tax on profit. Announcing high profits will sweep increased income tax debt. Connecting the Romanian accounting to taxation determines certain concerns of the accountants on circumventing certain rules.

Considering the influence of the various accounting treatments on the financial position and performance, the company should use the flexibility allowed to obtain a true and fair view of the work carried out and should not aim at selecting the politics that lead to the most favorable image. In selecting accounting policies the companies do not have to consider the strategy and objectives of the short-term funding or long-term funding and should reflect as closely the company's image. The accounting policies and accounting options arising from international and national rules must be used in good faith.

Imagination can "arrange" financial income and expenses to show a profit or a loss. It cannot, however, generate liquidity. In general, a profitable company is considered attractive. If it has a negative cash flow from operating activities, external users should be cautious and consider the viability of projects and the company's ability to pay its debts. There were few cases in which highly profitable companies went bankrupt

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