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The Recent Romanian Accounting Reforms: Another Case of Cultural Intrusion?

by

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ABSTRACT

This paper explores the recent Ministerial Order (403/1999) on accounting regulation in Romania. This Order has been issued following advice from a team from the Institute of Chartered Accountants of Scotland, financed by the British Know How Fund. The paper sets the Order in the context of existing French-inspired accounting legislation and suggests that the attempt to introduce the more Anglo-Saxon oriented approach of the IASC into that legislative framework poses considerable problems for the development of Romania's accounting system.

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1. INTRODUCTION

The fall of communism in Romania was marked by a bloody uprising against the Ceau escu regime at the end of 1989. The new governmental authorities embarked rapidly upon a series of legislative reforms designed to develop a more market-based economy. By the end of 1991 the central accounting reform - in the shape of Accounting Law 82/1991 - was in place, although implementation of this Law took rather longer: the Government Decision (HG) 704/1993 required Romanian enterprises to operate under the Law from 1st April 1994. In common with other countries in Central and Eastern Europe, these reforms transformed the nature of accounting and financial reporting from one whose principal aim was "of providing financial statistics by enterprises for use in higher level budgets" (Garrod and McLeay (1995:1)) to one with a more complex set of objectives involving the provision of financial information to the various stakeholders in enterprises and to government for the purposes of tax assessment and the formulation of economic policy.

Again in common with other countries in transition, Romania had to make a deliberate choice from the various 'models' of accounting and financial reporting which exist in Western Europe and, more generally, across the world.

It is a commonplace that, despite the attempts at harmonisation and standardisation undertaken by the EU and the IASC, there is still a diversity of accounting regulation and practice between different countries in the world, a diversity which has spawned over the last 30 years a variety of classifications of accounting.

These classifications have been of various types (Roberts, 1995) and have employed various kinds of language to refer to difference e.g. 'accounting development patterns' (Mueller, 1967), 'systems' and 'classes' (Nobes, 1984), 'traditions' (Krzywda, Bailey and Schroeder, 1995). But perhaps the most enduring outcome of this research has been the recognition that, in the developed world, countries can be divided into two main groups for the purposes of individual company accounting and financial reporting: a group comprising the Anglo-Saxon countries and the Netherlands and a group which contains most continental European countries together with Japan and Korea. The countries in each group exhibit what Nobes (1998) calls Class A and Class B accounting respectively or what Richard (1996) terms dynamic and static accounting. Within each group there are, of course, differences between countries [and, indeed, differences within countries notably because of the adoption of IAS or US GAAP for consolidated accounts of listed companies in countries such as France, Belgium, Germany and Italy] but the groupings do seem to be relatively robust despite international pressures for change.

The issue facing Romania at the turn of the 1990s was which model of accounting it should follow. Should it adopt an 'Anglo Saxon or continental type of accounting system' (Feleag and Iona cu (1993))? If the latter, which continental country would offer the most useful features for a country like Romania with its particular cultural and political traditions and its need for economic modernisation?

The answers to these questions were clearly set out in the detail of the 1991 Accounting Law, and the Government Decision which, among other things, promulgated *Planul Contabil General* (PCG - the General Accounting Plan). Romania would adopt a continental type of accounting with specific inspiration drawn from the French example.

Romania was not the only country to take this route to accounting reform: the Czech Republic also was inspired by the example of the French PCG (Sucher and Zelenka (1995))..

More recently, however, doubts have grown in Romania as to whether this was a wise choice - particularly given the growing importance of IAS on the world scene and the recognition that capital markets were increasingly dominated by companies who prepare their financial statements according to an Anglo-Saxon model of accounting. These doubts culminated in the arrival of a team from the Institute of Chartered Accountants of Scotland (ICAS), financed by the British Know How Fund, to advise the Romanian government on further accounting reform. This advice, in turn, led to the issue of an Order from the Romanian Ministry of Finance in April 1999 (403/1999) which makes substantial changes to accounting regulation and sets out a timetable for further changes to the Romanian accounting system.

This paper is divided into five further sections. The first considers the background to the initial selection of the French model and relies upon previous commentary by Richard (1995, 1998), Du ia (1995) and arguments advanced by Feleag and Iona cu (1993). The second section reviews the nature, structure and content of Order 403/1999. This is followed by a review of the influences, both international and national, on the Order. Conclusions follow. The paper suggests that, in many respects, the Order represents an uncomfortable compromise between the Anglo-Saxon and the continental models of accounting and exhibits a degree of cultural intrusion (Standish, 1990) upon an existing accounting system which is, at the least, unnecessary.

2. THE FRENCH BACKGROUND

The idea that Romania should base its accounting reforms upon the French example was one which fitted well with the close cultural, political and economic ties between the two countries. Romanian independence from the Ottoman empire was forged by political exiles in Paris; the civic, political and educational institutions of the Romanian state of the late 19th century and early 20th century were modelled on those of France; close linguistic ties were maintained between the two countries (Romanian is a Latin language) with the political and intellectual élite in Romania being well educated in French and with the Romanian language importing large numbers of French words. Even in the communist period, the foreign policy attitudes of the Ceau escu regime which struck a pose of independence from the Soviet bloc echoed the independence of Gaullist defence policy from that of NATO. Not least in these connections were the economic ties, for example, in the licence from Citroën to produce cars (under the 'Oltcit' brand) in the communist era. Richard reports that in 1993 French investments "were ahead of those of all other foreign investments" (Richard, 1995: 319) in the country.

These features may all help to explain a predisposition on the part of the post 1989 Romanian authorities towards a French model of accounting but they do not seem to be either necessary or sufficient as explanations for adoption of that model. As mentioned earlier, the Czech Republic, with far fewer connections to France, also was heavily influenced in its initial accounting reforms by France. In that country Sucher and Zelenka (1995) suggest that a personal view of the then Czech Minister of Finance was important in the adoption of a General Accounting Plan modelled on the French PCG.

What is notable about the Romanian case, however, is the almost complete use of the French model in the 1991 Law and 1993 implementation decree. Richard (1998: 321) concludes that "the whole of (Romania's) legislation is based on French financial accounting (with all its characteristics of static accounting with fiscal and macroeconomic objectives)"… This wholesale borrowing can be seen in a number of dimensions within the Romanian legislation. Examples are the formalities for enterprise accounting organisation set out in Articles 6 - 26 of the Romanian law; the strong tax/accounting links demonstrated by the use of *provizioanele reglementate*[1] (regulatory provisions) which are defined in exactly the same terms as the French *provisions réglementées*; the organisation of the charts of accounts within the PCG Romanian PCG which Richard suggests is "virtually a replica of France's 1982 chart" (1995; 317); and the formats of the balance sheet and profit and loss account which duplicate French formats even down to the specification of 'intermediate management balances' (*solduri intermediare de gestiune*; French: *soldes intermédiares de gestion*).

How was it that Romania adopted the French model in such a wholesale fashion? Feleag and Iona cu (1993) adduce a number of arguments, arguments which have attracted criticism from Richard (1995). For Du ia (1995) the choice appears to be unproblematic: it arose, in part, from the specialised advice to the Romanian government from a variety of French (and Belgian) accounting and financial institutions who "made a very important contribution to … accounting reform in Romania" (1995: 747). It is as well to point up the crucial role of advisers in shaping accounting reform in countries in transition: Feleag and Iona cu (1993: 8 and 26) also cite the critical role played by the French authors, Delesalle and Gélard, of the *Enterprise Accounting System (Système*

[1] These provisions have, however, never been used in practice.

Comptable d'Entreprise (SCE)) in influencing accounting thinking in Romania at the turn of the 1990s. Indeed, the SCE was conceived as a tool for inspiring accounting change in countries in transition (Delesalle and Gélard, 1991). The role of the ICAS team in recent years in advising on the future direction of Romanian accounting has also been of similar importance: as will be discussed later, parts of Order 403/1999 are straight translations of paragraphs from Schedule 4 of the UK Companies Act 1985.

But even if the role of advisers was critical in developing the substance of the initial accounting reforms in Romania, it does not explain fully the selection of France as the 'culturally dominant' model (Nobes, 1998). It does seem clear that the Romanian authorities made the strategic decision that accounting reform should be made with the aim of creating a system which complied with the company law harmonisation Directives of the EU. The long term political aim of joining the EU was consciously established in Romania, as indeed in other European countries in transition, in the early 1990s. Adopting wholesale a French model would, of course, ensure compliance. (Hungary, to a large extent, took a similar route in its inspiration from the German model; Kazakhstan, with no aspirations to join the EU, decided on wholesale adoption of another country's model: the basis of accounting there is essentially that of US GAAP.) Within the EU the Anglo-Saxon model of accounting has been in the minority, essentially in the UK, Ireland, the Netherlands and Denmark. It would therefore make sense to look to a continental model for inspiration and, given the close historical ties with France, it is not surprising that the specific French model of accounting would present attractions to Romania.

Feleag and Iona cu go further than this. They present a number of arguments relevant to the Romanian choice - arguments which read more like *ex post* justifications, it should be said. They suggest, *inter alia*, that the Romanian situation at the turn of the 1990s was one which required an accounting system where financial data for macroeconomic purposes was as important as for stakeholder reporting; where the Romanian economy was characterised by a large number of small and medium-sized enterprises and the absence of developed financial markets so that bank and government financing of companies was critical; and where a strong tax/accounting link was not disadvantageous (it should be added with hindsight that, given the difficulties in revenue-raising in Romania, such a link might present positive advantages). All of these features could be said to be found in France, at least historically at the time when the foundations of that country's accounting system were established.

Richard criticises these 'technical' arguments of Feleag and Iona cu although his dismissal of most of them is in terms of a discussion of the Romanian accounting chart (PCG) rather than of the Romanian accounting system as a whole. He suggests that the explanation for Romania's choice lies in the conjunction of power interests. On the one hand, the interest of France, its industry and accounting profession, gave rise to a desire to promote and develop that country's economic base in Romania by 'pushing through French accounting ideology' (1995: 318). On the other hand, pressure existed in Romania from a pro-French camp of accounting specialists and academics (amongst whom Feleag and Iona cu could be counted) who are said to have wished to strengthen their power with respect to the other parts of the Romanian accounting élite (1995: 316) and particularly those who supported the prior Soviet model of accounting.

Whatever the nature of the explanation for Romania's choice of the French model and the justifications for that choice, three important issues stand out. The first is that there was a mix of predisposition and strategic interest on the part of the Romanian authorities in making that choice. Equally, the role of specialist advisers played a major role in the establishment of the French model. Finally, there were solid grounds, in terms of the Romanian economic situation, for choosing a continental model of accounting. At the time, it was never suggested by Romanians that the French model was inappropriate for their country. For these reasons it is doubtful whether one could characterise the adoption of that model as 'culturally intrusive'.

3. ORDER 403/1999 OF THE ROMANIAN MINISTER OF FINANCE

It is difficult to pin down how and why doubts arose as to the wisdom of Romania's choice of accounting model. A number of factors may have been at work. Perhaps most obvious was the growing recognition that the French model was not well adapted to the delivery of financial information to financial markets. The Romanian government had over the 1990s been keen to develop the country's stock exchange both as a symbol of a market-based economy and as some kind of attractor for foreign investment. The recognition, also, of the importance of US investment in the country may have directed attention towards the Anglo-Saxon model of accounting, particularly in the light of actual and planned privatisation of state enterprises. Also important may have been an increased awareness in the Romanian accounting community of other accounting systems. The major international accountancy firms had established offices in the country and courses on international accounting were now established in some of

Romania's leading universities (notably the ASE, Bucharest). Books were written on international accounting matters e.g. Feleag (1995, 1996). Even that author, identified as being 'pro-French' by Richard (1995), suggested, in the context of a discussion about conceptual frameworks, that there is, perhaps, a need for change in Romania (Feleag , 1996: 282). A further factor was, of course, the growing significance of the work of the IASC in the 1990s. This body, with its Anglo-Saxon emphasis on 'due process' and standards, has, in European terms, overtaken the EU Directives as a force for accounting change (exemplified, most obviously in the EU Commission's decision in 1995 to give its support to the work of the IASC) and taken on immense influence as a result of its agreement with IOSCO.

Whatever the exact reasons for a change in attitude towards accounting reform in Romania, the agreement between the Romanian Ministry of Foreign Affairs and the UK Government in 1996 to have a team from the UK, financed by the British Know How Fund, to advise on further reform marked a major change in accounting outlook. After discussions with a number of bodies in the UK, the ICAS was chosen to provide the specialist advice. It is worth noting that it was an agreement with the Romanian Ministry of Foreign Affairs, not the Ministry of Finance - which is the Ministry responsible for accounting matters.

The outcome of the advice and deliberations of the Romanian authorities appeared in April 1999 in the form of an Order from the Ministry of Finance (403/1999); an English translation of this Order was published by the British Know How Fund in June 1999.

The Order itself is entitled "Accounting Regulations harmonised with the 4th Directive of the European Economic Community (EEC) (sic) and with International Accounting Standards, Volume 1". The international orientation is thus clear. The reference to Volume 1 is significant since there are a total of four Volumes planned. Volume 1 sets out the basic accounting principles and rules for individual enterprises (there is no current legal requirement for consolidated accounts in Romania) governing the form and content of general purpose financial statements. Volume 2 is a translation of the IASC's Conceptual Framework; Volume 3 will contain both IAS and National Accounting Standards (the latter will comprise both mandatory and optional standards and be established in cases where no relevant IAS exists). Volume 4 will contain professional guidance notes. The sequence of accounting authority, both now and in the future, of these Volumes is prescribed in the Order (Art. 3.8). Volume 1 must be in conformity with the EU 4th Directive and with extant IAS, to the extent that these do not contradict the Directive. Volume 3 must always respect the provisions of Volumes 1 and 2.

Volume 1 of the Regulations contains two Chapters: the first sets out the principles, rules, formats and contents of individual entity financial statements; Chapter 2 contains definitions of 41 accounting terms and concepts. Chapter 1 itself is divided into ten Sections: Table 1 sets out the subject matter of each Section. The Preamble of Chapter 1 lays out a number of complex transitional arrangements for Romanian enterprises. The main features of these require listed companies to apply the Regulations for the 2000 year end. By 2006 year end the Regulations will be extended to all but 'small' enterprises (defined in terms of the 4th Directive's maximum conditions). Starting

Section	Articles	Subject Matter
1	1.1 - 1.4	Accounting procedures for individual enterprises.
2	-	The accounting year.
3	3.1	The annual financial statements of enterprises.
4	4.1 - 4.30	Form and content of enterprise financial statements.
5		Accounting principles and rules.
	5.1 - 5.11	Accounting principles.
	5.12 - 5.31	Accounting treatments.
	5.32 - 5.45	Alternative accounting treatments.
	5.46 - 5.86	Notes to the accounts.
6	6.1 - 6.3	The approval and signing of enterprise financial statements; the approval of profit distributions.
7	7.1 - 7.2	The administrators' report.
8	8.1. - 8.2	Audit.
9	9.1 - 9.5	The laying and delivering of enterprise financial statements and annual report.
10	10.1 - 10.3	The publication of the enterprise's annual report (and financial statements).

Table 1: Contents of Chapter 1, Volume 1 of Romanian Accounting Regulations (403/1999)

with the 2000 financial year enterprises may be permitted, with Ministry approval, to apply the Regulations in advance of the timetable depending on the progress of a national training programme.

Volume 1 also contains a Foreword whose phrasing provides some interesting insights into the thinking behind the creation of the Order. It is clear that the Ministry of Finance views the Regulations in terms of a continuity of development of accounting since 1990. The Regulations themselves exist within the framework set up by the 1991 Accounting Law and it is made clear this Law does not require modification, at least in the near future (Foreword, s.4). The Foreword also makes explicit the notion that the Order is only part of further accounting developments and provides a list of these. The EU and IASC dimension is paramount but reference is made also to the development of capital markets and the privatisation process. An indication of the Anglo-Saxon orientation is given in the aim of:

> "Instituting the possibility of adopting rules dealing with the alternative treatment of certain events and transactions which use professional judgement to meet the criterion of a 'true and fair view'". (Regulations, p.11)[2]

4. INTERNATIONAL INFLUENCES

It is in the shape, content and linguistic style of the Order itself that we can see the various foreign and international influences upon Romanian accounting at work. These influences can be divided into four main elements. The first two are international and

[2] nstituirea posibilit ii i regulilor privind tratamentul alternativ al unor evenimente i tranzac ii prin prisma judec ii profesionale, astfel încât s fie respectat cerin a de "imagine fidel ".

explicit: the IASC and the EU 4th Directive; the second two are foreign national influences, those of France and the UK.

The EU influence is most obviously seen in the structure of the Order which mainly parallels, in the sequencing of its Sections (Table 1), the 4th Directive. The nature of the annual financial statements (Section 3) is followed by sections on form and content of those statements (s.4), accounting principles and rules (s.5), notes (s.5) and matters concerned with the approval audit and publication of the annual report (s.6 - s.10); this ordering is broadly that of the Directive. The explicit aim of harmonisation with the Directive is, of course, the central influence: the content of the Order is consistent with the Directive, at some points slavishly so. Thus, for example, the balance sheet format (art. 4.10) shows the relevant captions for formation expenses and development costs complete with the parenthesis "(insofar as legislation permits them being shown as an asset)[3]" duplicating the 4th Directive (Art. 9) and this despite the fact that the Order does permit such capitalisation (Arts. 5.20 and 5.21).

Perhaps the most significant amendment to the Directive's contents lies in the nature of the requirement for a true and fair view (*o imagine fidel*) to be given. Article 2 of the Directive specifies the nature of annual accounts, requires those accounts to be prepared in accordance with the Directive's provisions and to give a true and fair view (TFV). If applying the provisions is not sufficient to give a TFV, additional information must be given. Finally, in exceptional cases, a provision of the Directive must be departed from if applying that provision would not result in a TFV. The Romanian Order extends these requirements considerably. Firstly the annual accounts to which the TFV

[3] (când legisla ia permite capitalizarea acestora).

requirement applies include a cash flow statement (*situa ia fluxurilor de trezorerie*) although details and the format of this Statement are not contained in the Order (Article 4.30 makes it clear that the format will be prescribed in Volume 3). The fact that a cash flow statement is required is, perhaps, just one example of IASC influence (IAS 1 (revised), s.7).

The second difference relates to the fact that Romanian enterprises are required not just to prepare their annual accounts in accordance with the 1991 Law and the Order but also in accordance with the Conceptual Framework of Volume 2 and the mandatory Standards of Volume 3 (Art. 4.3). This raises the interesting issue of potential conflicts between, on the one hand, the 1991 Law and the 1999 Regulations (based on the Directive) and, on the other, Volumes 2 and 3. Although the EU Directive is held to be consistent with IAS with the exception of certain valuation issues such as marking to market, it is by no means clear that the IASC Conceptual Framework, particularly in its definitions of the elements of financial statements, is so consistent. Equally, the terminology used by the IASC is not always compatible with that used in the Directive. The mandatory Accounting Standards of Volume 3 are not yet available although it is clear that these must be consistent with the Regulations of the Order (Art. 3.8). These Accounting Standards will therefore not be capable of contradicting the details of law as in the UK.

The Directive's requirement for additional information to be given is provided for in the Order (Art. 3.6) and the "exceptional cases" clause for departure is also included -

but with a wider remit. Art. 3.10 makes it clear that if "special circumstances"[4] prevail in an enterprise, departure is only possible if compliance with all three Volumes (i.e. including the Conceptual Framework, IAS and mandatory National Accounting Standards (NAS)) is inconsistent with the requirement to give a TFV. This would appear to make departures extremely unlikely.

The IASC influence is also self evident in the Order; it is, of course, an explicit aim of the Order to harmonise Romanian accounting with IAS, insofar as this does not contradict the 4th Directive (Foreword, s.2; Art. 3.8). Volumes 2 and 3 emphasise that influence. The influence can also be seen in some of the detail of the Order. For example, Article 5.21 deals with valuation rules for development costs. This suggests that such costs will be included in the balance sheet only in the named situations described in Volume 3.[5] This is a reference to the old IAS 9, withdrawn in 1998. A similar influence can be seen at work in the maximum period for the amortisation of (non-)consolidation goodwill (*fondul comercial*) of 20 years (Art. 5.22(b)) which was, of course, the maximum period specified under IAS 22 (revised 1993). IAS 22 of 1998 removed this maximum.

Perhaps more significantly, the Order prescribes the use of some accounting principles (*principiile contabile*) in the preparation of financial statements which clearly owe their origin to IAS 1 rather than the Directive. Articles 5.2 - 5.9 of the Order prescribe nine principles, six of which duplicate those set out in Art. 31 of the Directive with three being drawn from IAS. Article 5.8 lays down the offsetting principle

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[4] *împrejur ri speciale* - the use of this term perhaps betrays a UK influence since "special circumstances" is the phrase used in the UK Companies Act 1985 whilst "exceptional cases" is the phrase of the English language version of the 4th Directive.

[5] "Cheltuielile de dezvoltare vor fi înscrise în bilan numai în anumite situa ii descrise în Volumul 3".

(*principul necompensarii*) which forbids the offsetting of assets against liabilities and income against expenses - a notion expounded in IAS 1 (revised 1997) paras. 31 - 37. Article 5.10 sets out the principle of materiality (*principul pragului de semnifica ie*), a new idea for Romania where, because of the strong tax/accounting link, the annual accounts of enterprises have been used for tax assessment, requiring detailed figures to be provided. This principle relates to paras. 29 - 32 of IAS 1. Finally, the Order incorporates the critical notion of 'Substance over Form' (SOF) in Article 5.9 (*principul prevalen ei economicului asupra juridicului*). In the 1997 revisions to IAS 1 SOF was made into a key notion in establishing the reliability of financial statements where no specific IAS exists (IAS 1, para. 20(b)). The identification of SOF as a separate accounting principle in the Romanian Order appears to be more in the spirit of the original IAS 1 in putting it alongside other principles. As will be suggested below, the incorporation of this principle in Romanian accounting regulations introduces a potential contradiction with other components of those regulations.

5. FOREIGN NATIONAL INFLUENCES UPON ORDER 403/1999

A. France

It is probably not surprising that, given the history of post 1990 Romanian accounting reforms, there should still be a strong French influence upon the Order. The Order, of course, operates within the framework of the French-inspired 1991 Accounting Law and until that Law is amended, the Order had to be consistent with it.

These French influences are pervasive and powerful and can be illustrated in a number of dimensions. Perhaps the most obvious lies in the existence of Volume 2 of the

Order: the definitions of accounting terms. The 1982 French PCG contains a list of key accounting terminology with brief descriptions of each term; such an approach has no real parallel in the Anglo-Saxon world although the various conceptual frameworks do provide definitions of the elements of financial statements. The definition of accounting concepts is also of current concern in Romania in the deliberations of a national working party about the translation of key terms of IAS into Romanian. A second dimension of influence lies in Section 1 of the Order: accounting procedures for individual enterprises. Two points are worthy of note here. The first is the simple point that the Order, as the 1991 Law, is, throughout, applicable to all individual enterprises (*întreprinderii*), not just limited liability companies of the form outlined in Article 1 of the EU 4th Directive or of the UK Companies Act. In this, Romania is following the French example: in implementing the Directive, France decided to amend its *Code de Commerce* (which governs virtually all enterprises) in line with the Directive. With some exceptions (notably on the publication of annual accounts) the Directive applies to all enterprises governed by the *Code*. Romania appears to have followed the same path (this is, of course, consistent with IAS 1 in the sense that this Standard does not specify particular legal forms of enterprise).

The second dimension resides in the detail of Section 1 which essentially deals with the formalities of accounting records in enterprises and is based upon Articles 6 - 25 of the 1991 Law. This concern for the legal form of accounting records is part of a French accounting tradition going back to the Colbertian *Édict* of 1673 and Section 1 simply replicates, for the most part, French regulations. Of particular interest is the reference to "evidential documents" (*documentele justificative*; French: *pièces*

justificatives). Such documents play a key role in French law as a means of proof (Esnault and Hoarau, 1994) for the regulation of business both by the State (including the tax authorities) and for the resolution of business disputes. In the concern for the legal form of accounting records Romania has taken on a cultural tradition which, if not inconsistent with the notion of SOF for the presentation of financial statements, points up a set of attitudes towards accounting and financial reporting far removed from the pragmatism and informality of most Anglo-Saxon accounting systems. These attitudes towards accounting records find their fullest expression in the form of an accounting plan, including the use of an accounting chart.

Another dimension of French influence in the Order is in the retention of the concept of "patrimony" (*patrimoniul*; French: *le patrimoine*) to which frequent reference is made, including reference to "patrimonial operations" (*opera iile patrimoniale*). The concept of patrimony is well established in a number of continental accounting systems (including Spain and Italy) although its significance is not always appreciated in Anglo-Saxon countries. This significance is, perhaps, most obviously underlined in the phrasing of Article 2 (3) of the EU 4th Directive. The English language version of this reads:

> "The annual accounts shall give a true and fair view of the company's *assets, liabilities*, financial position and profit and loss".

In the French language version the italicised words are substituted for by the single word *patrimoine*.

"Patrimony" in a number of continental countries is a legal concept which refers to the net assets which *belong* to a business. The implication is that it refers to the *legal*

rights and obligations of that business at a point of time (Roberts, 1993). The balance sheet, then, would contain only items which are legally owned or owed by the business. The emphasis is on legal form rather than economic substance. The concern for recording patrimonial operations, for constructing a patrimonial balance sheet in the Romanian order thus sits uncomfortably with the SOF principle enunciated in Art. 5.9. It seems clear that there is a philosophical contradiction here. On the one hand, Volume 1 uses the patrimonial concept, on the other, Volumes 2 and 3 would reject it. The acid test for this concept is the accounting treatment of finance leases. In countries like France and Italy such leases cannot be capitalised in individual enterprise accounts because[6] the fixed asset which is the subject of the lease does not form part of the enterprise's patrimony (Spain has found a way around this by requiring finance leases to be capitalised as an *intangible* fixed asset: the right to use the fixed asset is a legal right). In Romania's case finance leases are now required to be capitalised (Order 686, June 1999). The Ministerial Order 403/1999 implicitly recognises this treatment by requiring disclosure in the Notes (Art. 5.68) of operating lease (*leasing operational*) charges to the profit and loss account.

Another French legacy to the Order lies in the procedures for the annual inventory (*inventarierea patrimoniului*) which, as the Romanian term indicates, is linked to the notion of patrimony. Following French rules (*Code de Commerce*, Art. 12), the Order prescribes that items entering the patrimony of the enterprise shall be recorded at their "entry value" in the accounting records, this being for assets, in most cases, the purchase price or production cost (Art. 5.12). At the end of the accounting year, following the annual inventory of all assets and liabilities, an "inventory value" (*valoarea de inventar*)

[6] The practical objection to capitalisation is, however, a tax matter.

for all these items shall be taken and this value compared to the entry value or, in the case of fixed assets, the carrying value (*valoarea contabila*). The nature of the inventory value depends on the type of asset or liability. Art. 5.12 sets out a series of actions to take depending on the nature of the item and whether the inventory value is higher or lower than the book value (entry or carrying, as the case may be). Crucially, if the inventory value of fixed assets is lower than the carrying value either extra depreciation must be provided for if the difference is considered permanent or a provision for diminution in value must be created if the difference is considered to be temporary (Art. 5.12 (c)).

All of this is taken from French law (D83 - 1020, Art. 7) and represents a very particular way of dealing with asset valuation. The procedures for annual inventory, the concept of patrimony, the establishment of inventory value, and the construction of provisions for diminution of value, although linked to the recent IAS 36 on the Impairment of Fixed Assets, are not at all the same. It is not clear how the requirements of Art. 5.12 will mesh with this IAS which, of course, forms an element of Volume 3. This problem is underlined by a consideration of the general nature of provisions for liabilities and charges in the Romanian legislation. Although these provisions are not defined in the accounting terminology of Chapter 2, Volume 1, their nature is described in Art. 4.24. This specification appears to have been taken from the EU 4th Directive, Art. 20:

> "Provisions for risks and charges are constituted with the aim of covering losses or debts which are clearly defined as to their nature but which, at the closing balance sheet date,

> are probable or certain to be incurred but undetermined as to value or date of when they will occur".[7]

It is perhaps unfortunate that this definition does not fit well with the recent IAS 37 on provisions which has a more restrictive view of their constitution, based on the notion that provisions are a liability.

There are many other French influences upon the Order, for example, in the conception of the accruals principle (Art. 5.5) (*principiul independen ei exerci iului*) which is based on the French *principle d'indépendance des exercises*. But perhaps the most surprising retention of French influence in the Order is in the format for the profit and loss account (*contul de profit i pierdere*). The 1982 French PCG prescribed only one of the four formats for this financial statement permitted under the EU 4th Directive - the horizontal, by nature format.[8] Article 4.27 of the Order provides for a vertical, by nature format.

This form of presentation is, of course, consistent with the EU 4th Directive and IAS 1 - but it is, nonetheless, a surprising choice. If one central purpose of the Order is to encourage foreign investment, capital market development and a general orientation towards international accounting practice, then one would have expected to see a vertical, by function (revealing cost of sales and gross profit figures) format being, at least, permitted. The fact that such a presentation is not allowed may have something to do with the construction of the Romanian PCG and the demand by the State for financial

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[7] "Provizioanele pentru riscuri i cheltuieli se constituie în scopul acoperirii pierderilor sau datoriilor clar precizate în ceea ce prive te natura lor, dar care, la data închiderii bilan ului, sunt probabile sau certe, dar nedeterminate ca valoare sau ca data de producere".

[8] Reference is made in the French PCG to a vertical format (*en liste*) but this format is essentially a rearrangement of the horizontal one with no netting off of captions permitted - an illustration of the strong French accounting principle of non-compensation (*non-compensation*). This principle is also reproduced in the Order (Art. 5.8).

information relevant to macroeconomic policy (notably in the extraction of value added data) and tax assessment. On the other hand, a by function analysis of operating expenses is required to be disclosed in the notes (Note 5, set out in the Romanian Official Journal, Nr. 480/4 October 1999).

B. The UK

The above discussion has indicated that French accounting thinking permeates a lot of the content and style of the Order - a fact perhaps not surprising given that this Order is within the framework of French inspired 1991 Accounting Law. It is also clear, not just because of Volumes 2 and 3, that IAS have also brought an Anglo-Saxon flavour to the legislation. But what specific British influences have been incorporated into this accounting reform through ICAS advice? There are a number which are immediately apparent.

Perhaps the most obvious lies in the nature of the financial statements themselves. As mentioned earlier, the annual financial statements comprise four elements: the balance sheet, profit and loss account, cash flow statement and notes. The level of detail in the balance sheet and profit and loss account is far more British than French. French formats rely on a larger number of captions than their British equivalents - the latter reveals only those required by the EU 4th Directive. Another British influence can be seen in the notes. These are described in the Order as *notele la conturile annuale*. (This Romanian phrasing is perhaps significant: in the 1991 Law the notes are referred to by a single word: *anexa*. The analogous word is used in French legislation: *l'annexe*). The French approach has been to conventionalise and schematise this "annexe", to place it on an equal footing (Matt and Michol, 1988) with the balance sheet and profit and loss

account - an approach adopted in the Romanian 1991 Law. The change of terminology in Romanian marks, it could be said, a change in approach: the notes will be just that - a set of miscellaneous pieces of information in an Anglo-Saxon style which detail, expand and comment upon the other elements of the financial statements.

The particular feature of the financial statements which is British in orientation is, however, the format for the balance sheet. Article 4.10 sets out this format which is vertical i.e. captions for net current assets and total assets less current liabilities are shown. The prescription of this format is odd: this presentation of the balance sheet, although permitted by the EU 4th Directive, is definitely minority practice in the EU. However, the positioning of the caption "Accruals and Deferred Income" (*Venituri în avans i cheltuieli angajate*) is such that it is not visually part of "Creditors due in less than one year" and "net current assets" as it is in Schedule 4 of the UK Companies Act. In format terms therefore, the Order has chosen a French style profit and loss account format and a British style balance sheet format. It is hard to see the reasons for, and benefits of, this arrangement.

British influences can also be seen in the use of language in the Romanian text. Despite a prevailing French approach to asset valuation, the shape of the rules governing this area is British. Articles 5.12 - 5.31 group the rules for valuation according to the historical cost accounting rules of Sch. 4 of the 1985 Companies Act. Articles 5.32 - 5.45 provide analogues of the alternative accounting rules (*tratamente contabile alternative*) contained in that UK legislation although there are many points of difference. These stem from the experience of inflation in Romania and the Order makes reference to an NAS on Inflation Accounting in Volume 3 and government revaluations. However the

rules for the treatment of any revaluation reserve (Arts. 5.4 - 5.45) broadly follow similar rules and language in para. 34, Sch. 4 of the UK Companies Act.

There are other UK influences on the language and content of the order but it is often difficult to disentangle what is specifically British and what is inspired directly from IAS. Mention should, however, be made of the implicit relationship between tax and accounting within the Order.

It does seem clear that in the Order there has been a deliberate attempt to alter the strong tax/accounting relationship which exists in the 1991 Accounting Law. This Law was modelled on French regulation and practice in which the tax-deductibility of expenses depended upon them being registered within accounting records and where the annual accounts of enterprises form part of the annual tax return. Specific intrusions of tax existed in the existence of "regulated provisions" and the tax deductibility of provisions for diminutions in value. In the 1999 Order one can see some modifications of this strong linkage. Regulatory provisions (*provizioanele reglementate*) are nowhere mentioned in the Order, nor does a caption appear for them in the balance sheet. Curiously, however, an account code (14) for these provisions is still listed in the chart of accounts published in the Romanian Official Journal (Nr. 480/4 October 1999). Overall, however, very little reference is made to tax matters, as one would expect, although there is an important note required (Art. 5.69 and 5.70). These two articles require disclosures of the difference between tax charged and tax payable in the financial year, provided that this difference is material, and a reconciliation of the accounting profit for the year "and

the taxable profit as shown in the tax return".[9] This is in accordance with the EU 4th Directive, Art. 43, 1 (10) and (11).

These words are significant in the sense that they suggest that deferred tax can arise and that accounting profit cannot be assumed to be the same as taxable profit. Whether, in practice, this separation will be achieved in Romania will depend heavily upon the behaviour of the Romanian tax authorities with respect to accounting records and statements and also the behaviour of enterprises.

One acid test for the influence of tax upon accounting is in the calculation and treatment of depreciation of fixed assets. In the UK accounting depreciation is based on an estimate of the "useful economic life" of fixed assets (para. 18, Sch. 4, 1985 Companies Act); depreciation for tax purposes is based upon a system of 'capital allowances' determined by the UK tax authorities.

The relevant article for depreciation in Romania (Art. 5.16) is almost a word for word translation of para. 18 of Sch. 4 - except in one crucial respect. In place of "limited useful economic life" is substituted the phrase "normal life of limited functioning".[10] This phrase, which is difficult to translate elegantly, omits a reference to the word "economic". This may be significant in that it allows depreciation to be established without regard to the circumstances of enterprises and in line with nationally (and tax) set asset lives.

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[9] "… i rezultatul fiscal, a a cum este prezentat in declara ia de impozit".
[10] "… durat normal de func ionare limitat …".

6. CONCLUSIONS

How should this accounting reform be assessed? Perhaps the first approach should be to view it in the context of its stated objectives: to develop Romania's accounting system in continuity from the 1991 Accounting Law in line with the European and IASC frameworks. It is clear that, broadly, this aim has been achieved. The Order is consistent with the EU 4th Directive and Volumes 2 and 3 in particular will enshrine in Romanian legislation both the IASC conceptual framework and the body of IAS. In one of the first comments upon this Order, Damant (1999) has suggested that the adoption of IAS by Romania "could be regarded as a model for all former socialist countries" (p.66).

It is when we look at the detail of the reform that doubts arise. The prevailing accounting philosophy in the Order is French-inspired and the range of actual and potential conflicts and confusions between a system based on legal formalities and tax domination of accounting and the broader IAS spirit is quite wide. How will Romanian enterprises deal, for example, with the construction of provisions, asset impairments, asset recognition etc. given that Volume 1 adopts an approach which is not necessarily consistent with Volumes 2 and 3? Will there really be an accounting for economic substance given the continuing notion of patrimony? Will the Romanian tax authorities continue to exert an undue influence upon the way that enterprise accounting is done?

It is clear also that the Romanian government has been encouraged to look towards a more Anglo-Saxon orientation for its accounting system with the aim of encouraging more foreign investment and making the financial statements of listed companies and privatised state enterprises more transparent to international investors. How far will the reform assist this aim?

Again, a claim could be made that the reform has done this by requiring such enterprises to use IAS in their financial statements. But, the retention of a by nature profit and loss format and the prescription of a British style balance sheet may just indicate a certain confusion about the nature of Romanian rules to the outside world. Equally, the credibility of the financial statements for outside investors is related to the quality of the account preparers, the enforcement of the accounting rules and the quality of audit. It is unclear how easy it will be for Romanian accountants trained firstly in the pre-1990 period and then re-trained in the French inspired accounting framework of the 1991 Accounting Law to adapt to a system of accounting where professional judgement is called for. Much will depend on the development of the National Training Programme. Audit plays a critical role in establishing credibility and one cynical view of the substance of the 1999 reform is that it substitutes an Anglo-Saxon 'accounting ideology' for a French one and, in so doing, provides market opportunities for the 'big 5' accounting firms in terms of audit.

Other questions remain to be answered. How will the Romanian PCG fit into the requirements of the 1999 Order? If Romanian enterprises are required to operate the PCG, how far will the detailed formalities of accounting procedures implicit in the use of such charts militate against the need to show more flexibility? Much will depend on the attitude of the Romanian tax authorities. In this context it is noteworthy that the new accounting regulations apply to individual enterprises. Other continental European countries have allowed the use of IAS for listed companies which produce consolidated accounts. Such financial statements do not, in the main, have fiscal consequences since the group is not a taxable entity; they can, therefore, operate a 'dual track' financial

reporting system and preserve, to a large extent, a close tax/accounting link for accounting in individual enterprises. This is not the case for Romania: there are no consolidation accounting rules. Volumes 2 and 3 of the Order will apply to all 'non-small' individual enterprises and it is unclear whether fiscal imperatives will allow the exercise of professional judgement necessary for the operation of IAS.

This last point raises a more general question about the nature of foreign intervention in the development of accounting systems in countries in transition. The IASC has recognised that it is not self-evident that the body of its standards and its conceptual framework are suitable for such countries (and developing countries) by establishing a Working Party to examine this subject. Equally, China, which has broadly taken an IASC route to its 1992 accounting reforms has moved relatively slowly in taking this path and has preserved the right to impose fiscal (and other) national rules over and above IAS.

Romania, it seems, has taken on a more directed Anglo-Saxon approach in this recent accounting reform and superimposed it upon a largely incompatible French accounting tradition. The problems of reconciling legal form and economic substance, capital market and bank/creditor orientation, tax exigencies and investor information requirements, accounting training based on procedure and training for professional judgement all loom large for the future. In a real sense these problems are ones which apply in all countries in transition; the pity is that in Romania these issues have been complicated by an attempt, aided by a set of foreign advisers, to apply both 'Anglo-Saxon' and 'continental' accounting traditions to the preparation and publication of financial statements for all 'non-small' enterprises in the country. It is perhaps in this

mix of accounting traditions and the additional problems that it will undoubtedly throw up that there is a true cultural intrusion.

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