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The Implications of the Accounting Harmonization Process on EU Countries: A Case Study of Greece and Romania

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Abstract:
The progressive globalization of the financial and capital markets, the elimination of the national frontiers, the intensification and increase of the international transactions' number, the spreading of the global companies, the increase of the global economy's integration degree and the awareness of the fact that the values recorded in the financial statements are influenced by the accounting language adopted for expressing them are, altogether, the main factors that have determined the EU to choose the accounting harmonization way in making the financial statements of the communitarian companies.
The main objective of this paper is to analyze the analogies and differences existent between the national accounting legislation and the international accounting practices, insisting on the implementing difficulties of these standards, varying with the economic culture of certain states, among which Greece and Romania. In the idea of the accounting unification Greece was also interested, in the same measure as the other member countries, but the authors will insist on the repercussions these accounting standards' adoption had on the stakeholders categories, which were interested in the financial reports.

Key Words:
IAS/IFRS standards, accounting harmonization, financial statements

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1. The International Accounting Systems: The purpose of the Accounting Systems' Classification

Classifying the international accounting systems is necessary for the next reasons:

- in order to understand to what extent the accounting systems of various countries are similar;
- in order to study the way of the accounting systems' evolution and future development;
- in order to understand the reasons for which some nations exert a dominant influence for the accounting area and others do not.

The cultural influences over the accounting systems were studied by various researchers in the domain according to which culture or better said the values shared by a society are also reflected in the accounting systems. The main variables by which these phenomena can be explained are:

a) the professional control versus the legal one;
b) uniformity versus flexibility;
c) prudence versus optimism;
d) confidentiality versus transparency;

a) Professional control and legal control

This variable represents the preference for a professional opinion and auto-regulation of the profession more than to adhere to prescriptive legislative norms and legal controls.

On a world level, the accountants do their jobs in various ways, for example in the UK the concept of "true and fair view" depends highly on the accountant's opinion as an independent professional. In countries like France, Germany and Italy, the main role of the accountant is to apply detailed and prescriptive legislative norms.

The dimension, valence and authority of the accounting profession are, in general, directly proportional to the prevalence, in a certain accounting system, of the professional control.

b) Uniformity versus flexibility

This social value reflects the preference for uniformly applying the accounting procedure, for its consistency in time, than for flexibility in applying the norms, varying with the specific circumstances of each society.

For example, in France and Spain there is a unified accounts' plan on a national level, and the influence of the fiscal norms over the balance sheets is significant. In the UK and USA, in exchange, the conviction that flexibility is needed in applying the rules is more spread, translated as a greater attention for their inter-temporal comparison.

For example: the balance sheet format s regulated by law in many of the European countries and cannot be modified. But, in the UK and USA, there is no application standard form, but only a minimum respected content.

c) Prudence versus optimism

This variable reflects the preference for a prudent variable of the patrimonial elements' evaluation, which consists in confronting the future risks, instead of a more optimist and less adverse approach of the risks. It's about one of the most important characteristics of an accounting systems, because prudence is one of the most rooted and omnipresent fundamental principles.

The prudence principle varies a lot from country to country, passing from the prudential- connoted accounting systems (Japan, France, Germany, Switzerland) to the less prudent ones, such as USA, UK, and from certain points of view the northern countries.

Prudence seems to be tied to the capital markets' developments, the influence of the fiscal norms over the balance sheets and the various pressures exerted by the financial information users.

d) Confidentiality versus transparency

This variable reflects the preference for confidentiality and spreading the financial information only to the ones involved in the entity's management, instead of a more transparent approach of the accounting information spreading. The influence of the management over the quality and quantity of the supplied financial information is relevant. Confidentiality seems to be strongly connected to prudence, even if the last one seeks the patrimonial elements' evaluation and not of the supplied information. In certain countries, there is a minor financial disclosure compared to others; in Japan, France, Germany and Italy, confidentiality is better preferred than in the UK or USA.

Transparency is often tied to the spread capital and the development of the capital market, because the companies are put under significant external pressure concerning financial information spreading.

2. Difficulties in classifying the Accounting Systems

Various accounting systems are often associated to various countries; nevertheless, a country can have more than one accounting system, for example one for the listed companies and another for the not listed ones (Thalassinos and Liapis, 2011; 2013).

Sometimes, the bigger companies can adopt accounting rules that differ from the ones that represent the "legislation" or the accounting norms of a country (e.g. the Japanese companies that use the USGAAP or the European ones using the IFRS).

Therefore, it would be more correct to refer to the "dominant accounting system" of a country (Nobes, 1998), which is the one used by the majority of the existent economical entities of that country. Another difficulty is that the accounting systems can radically change in time, such as it happened in China, Russia and the majority of the East Europe countries.

The financing system of the entities is most likely the most important reason why there are differences between the international accounting systems, revealing in fact that there are various purposes why the balance sheets are published.

The dominant financing system of a country represents one of the main variables capable to explain the purposes of the balance sheet. There can be identified three financing system types:

a) the systems based on capital markets;
b) the systems based on credit capital- government type;
c) the systems based on credit capital- financial institutions type.

The accounting systems, of the countries in which financing by capital markets is prevailing, tend to be different to the systems in which the entities are prevailingly financed by the credit capital.

3. The insider/outsider model

The accounting systems affirm the strong equity countries. In strong equity countries, the biggest part of the financers are outsiders in fact they do not have a privileged relation with the company. This category includes both small shareholders and institutional investors (insurance companies, investment companies etc.). Within the "weak equity" context, the biggest part of the financiers (families, governments, banks and other entities) are, in exchange, insiders, which means they have frequent and opportune access to the reserved financial information, because the most times they have a long- term relation with the financed subject as stated in Thalassinos, Maditinos and Paschalidis (2012) and Thalassinos and Pociovalisteanu (20070.

A "strong equity" accounting system, also called Anglo-Saxon type, has the following characteristics:

- legal system: common law;

- fiscal system: no influence of the financial norms over the balance sheet evaluations;
- balance sheet users: especially the risk investors (outsiders);
- characteristics of the financial information: “devoted framework”, prevalence of the competence principle over the prudence principle;
- additional information: high transparency degree;
- evaluation: optimism, using the current values (fair value), no limit for profit distribution;
- examples: Australia, Canada, Ireland, the Northern Countries, New Zeeland, Singapore, UK and USA.

The “weak equity” type accounting systems (known as European) have the following characteristics:

- the law system: specific legal norms;
- the fiscal system: is known for the influence of the fiscal norms over the balance sheet evaluations;
- the balance sheet users, especially social creditors, fiscal authorities, sometimes risk investors;
- characteristics of the financial information: prevalence of the prudence principle over the competence principle, reduced relevance of the financial information for the stakeholders;
- additional information with a high confidentiality degree;
- the evaluations of the patrimonial elements are characterized by prudence, use of the historical cost, the just value is not admitted; no limit for the profit distribution, in some cases the creation of hidden reserves. Examples: Belgium, France, Germany, Italy, Japan, Portugal, Spain, Switzerland.

4. The Accounting Systems of the Main Member States of EU

Within the economical doctrine that deals with the accounting systems which are put under national regulation, a common thing is the division of the accounting systems’ “family”, which follows the one of the juridical systems and mainly coincides with the distinction between the civil law and common law.

For the common law system, the role of the accounting norms would be glorified on one side because of the slack character of the juridical norms in matter of accounting, and on the other side because of these norms’ own characteristics, in which practice always had an important role. It is no surprise, therefore, which the accounting audit and the “generally accepted” accounting standards concept were created because of these regulations.

In the UK, from an initial situation that lacked the rules and uncertainties concerning the identification of the accounting norms, it reached, in the 80s, to a careful regulation of the accounting domain. The normalization process of the English accounting standards is mainly due to the categories interested in editing the balance sheet (the ASB/Accounting Standards Board), to which was trusted a formal setter standard role, as well as the recognition, by law, of the juridical value of the accounting standards made by this organization.

Once with the application of the European accounting directives, a normalization process of the accounting standards was initiated, which changed the traditional importance given to the professional originating accounting norms.

In present, the system is not far from the one present in the majority of the EU countries, by which he is attributed the judge role as a consequence to review at the last analysis the compliance with the IFRS, made by the IASB.

In the civil law systems, the existence of a well defined juridical frame and the traditional defensive to the non legislative sources that do not belong to the state determined a reduce relevance of the accounting standard in the juridical area.

Of a real interest for the similarity of the juridical traditions are the experiences gathered by France and Germany. It is very well known that in France developed, starting with the '70s, a great debate concerning the balance sheet discipline, focused on the necessity to reach a codification of the accounting right, understood as a specific branch of law, characterized by various principles and sources.

The accounting legislation started to be developed during the '80s, especially because of the impulse derived from the application of the 4th directive. With this occasion, a general law was elaborated as concerns accounting, qualified by the COB as being the "code" of the accounting standards. Using the "code" term is altogether improper; classifying the French accounting norms is actually only partial, because it does not include fiscal accounting standards and as such does not include the accounting of the so- called "civil" companies, which practically make only a fiscal log.

In the harmonization and legalization process of the French accounting system, a huge step was made by the adoption under a juridical form of the ministerial decree, of the so-called "plan compatible general" (CNC) Conseil, being a public consulting and coordination organization for accounting under the authority of the Finances and Economy Ministry. The juridical relevance of the accounting standards included in the "plan" is confirmed by its penal punishments in case of inobservance.

As concerns Germany, it is necessary to highlight the fact that the German accounting system was developed traditionally as a system with a powerful legal base, in part due to the adopting of a “reverse dependency” model between the civil and fiscal balance sheets, and in consequence to base its fiscal determinations on certain sure rules with juridical value.
The fundamental principle of the German accounting system is represented by the notion of “Grundsatze ordunungsmassiger Buchfuhrung” which, most probably, is the matrix of the notion, in Italian, of “fair accounting principles”. The principles of the German accounting are configured as being true and real “commercial uses”.

Even in this case, after the application of the accounting directives and legalization of certain balance sheet principles, revealing the determination by induction of the accounting principles by a civil court decreased substantially, even after recognition of the European accounting systems; therefore, applying the accounting directives represented for all the member state a radical change moment, and of development for the accounting traditions.

The elaboration process of the accounting directives needed, on another hand, a substantial effort- in terms of finding a compromise that would have lead to a formal convergence of the two current accounting macro systems, which belong to the common and civil “law” juridical macro systems.

Despite sustained effort, there is a common opinion in the accounting doctrine, according to which, because of the diversity of the juridical frame and, in general, of the “environment” and social- economical factors to initiate the “normalization” of the accounting standards, several models were followed by various member states. In order to make a unique communitarian market, the accounting harmonization process came only with one meaning, an obligatory one.

5. What changes with the new IAS/IFRS Standards in Greece and Romania?

The main phases characteriying the acounting harmonization process within the EU and in Italy especially

- The adoption of Regulation 1606, dated July 2002 by the European Parliament and Council, which stipulated the compulsory application starting with 2005 of the IAS/IFRS standards for the consolidated accounts, by the companies listed on the EU Regulated Markets: this Regulation provides the member states with the possibility to choose or impose the application of the IAS/IFRS norms also in the making of the annual financial statements of the listed companies and in the making of the consolidated accounts of the non-listed companies;

- The adoption, on behalf of the European Committee, of regulation 1725/September 29, 2003, which homologated the International Standards and the interpretation for the existent ones at September 14, 2002; out of this process, the IAS32 and IAS39 standards were excluded, regarding the information and evaluation of the financial instruments and the afferent interpretations (SIC 5, 16, 17);
- The creation, on behalf of the Italian legislator, of law 306/October 31, 2003 (Legge Communitaria, 2003), by which an exert was attempted (art. 25) on the option consented by the Communitarian Regulation (1606/2005), the Italian government being designated to adopt, by a year from the law's applicability start date (by November 31, 2004) one or more legislative decree to stipulate the applicability of the option stipulated by the European Regulation previously mentioned.

On November 26, 2004, the Ministers' Council approved a decree scheme stipulated by art. 25 of Law 306/2003. This document (which received the approval of the Competent Parliament Committees in the second half of February 2005) stipulated that the listed companies were obliged to make annual financial statements according to the IAS/IFRS, starting with 2005 (and the obligations were to be executed starting with 2006). The possibility of applying the IAS/IFRS was given also to the non-listed companies, controlled by the listed ones.

Therefore, the Greek and Romanian companies, listed on an EU Market, aimed to apply the IAS/IFRS norms in making their own financial statements starting with 2006:

a. The recommendation of the Committee of European Securities Regulators (CESR), published on December 30, 2003, contained the guiding lines for the companies listed within the EU regarding the transition modalities to the IAS/IFRS norms;
b. The adoption, on behalf of the European Committee, of Regulation 707/April 6, 2004, homologating IFRS1 "First Adoption of the International Financial Reporting Standards" and Regulation 2086/November 19, 2004, homologating with certain limitations the IAS39, Regulations 2236, 2237 and 2238/ December 29, 2004 homologating IAS32 and other standards reviewed by the IASB in December 2003 and March 2004, the new standards emitted in March 2004 (except the IFRS2 approved by the EC by Regulation 206/February 4, 2005) and the interpretational document IFRIC 1, reaching a now stable accounting system.

The IAS39 version approved by the EU by Regulation 2086 differs from the IASB text, regarding certain aspects connected to the fiscal liabilities' evaluation at their fair value and the hedging degree of the risk rate of the portfolio financial liability.

In 2004, TI aimed to apply the IAS39 in its full version (published by the IASB, that is).

The introduction of the IAS/IFRS leads to profound modifications in the listed companies' results; an analysis of the IASB/IFRS standards' influences on the making of the profit and loss account balance sheet is crucial for an adequate and overall evaluation.
The communitarian norm stipulates that, for every annual financial statement begun at January 1, 2005, or any further date, the European companies listed on a regulated market must make consolidated financial statements according to the International Accounting Standards IAS/IFRS, elaborated by the International Accounting Standards Board (IASB) and economically homologated.

A lot of the companies reported the initiation of internal projects of transiting to the new standards, with the objective to present even since the new periodical reports of 2005 the financial information according to the new norms; some of the companies even offered examples for interpreting the way in which the IAS/IFRS may have influenced the 2004 balance sheet, in case of retroactive application. In general, all of the listed companies face transition problems, a problem that will be presented when comparing the 2004 balance sheet made according to the old accounting norms to the current years.

The theme is interesting also from the evaluation point of view, as long as the balance sheet data (of the whole financial statement structure) are at the base of all of the fundamental analyses; the adoption of the new accounting standards having the possibility to influence the final results. The problem can't be stated as "the winners and losers with the new accounting standards", but instead useful information can be obtain to benefit, by investing in the value titles of the companies which are to benefit from the IAS/IFRS adoption; it is rather more useful to investigate the way in which the classification criteria of the data provided by the companies change, in order to make better evaluations overall.

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