EVALUATION AND ESTIMATION IN ACCOUNTANCY. CONCEPT-EVOLUTION

OVIDIA DOINEA, CLAUDIU ŞERBAN *

ABSTRACT: *Defining the terms of accounting evaluation and estimation has a significant importance for the impact these concepts have on the enterprise's financial position and performance. Evaluation is described as the method of quantifying and measuring in a value expression, respectively in monetary standard of the existence, movement and transformation of the economic patrimony and of the results obtained by its capitalization. Accounting estimation is approach as an appreciation of the monetary value regarding the measurement standards for debts, capitals, incomes and expenses or as a judgment based on presumptions and future projection concerning the elements that can be precisely evaluated in the present.*

KEY WORDS: *accounting evaluation, accounting estimation, estimation techniques, evaluation process, financial statements*

In the process of accounting evaluation and estimation, the defining the terms of accounting evaluation and estimation has a significant importance for the impact these concepts have on the enterprise's financial position and performance, or in other words on the balance sheet and the profit and loss account. Starting from this objective, we will try to present the evolution of the evaluation concept in order to point out the necessity of the evaluation process in the measurement of the enterprise's financial position and performance.

The concept of evaluation is brought in discussion since antiquity when the Greeks associated to the cashing another value than that of the currency. At the same time Luca Paciolo, author of an accounting written text, in 1494, considered accounting to be a process able to point out a person's transactions and to determine its wealth, and was the first to be aware of the evaluation as a process. The projection of evaluation made over the entire wealth, it can be affirmed the necessity for a basis of evaluation and some evaluation criteria for establishing the size of the wealth to exist was really necessary.

* *Lecturer, Ph.D., University of Craiova, Romania, ovidia.doinea@yahoo.com*
Assist.Prof., Ph.D. Student, University of Craiova, Romania

The process of evaluation was initially approached from the perspective of the quantitative measurement. From the oldest times, the accounting was oriented towards identifying the events and transactions that generate cashing and payments, and less towards the evaluation of the elements resulted from these transactions. So, though the accountancy is by definition a science of evaluation by which monetary elements are projected, (respectively measurable elements), the evaluation concept developed relatively late. This shy and slow evolution of the evaluation can be explained by the fact the transactions were made exclusively by cashing and payments, materialized in cash (a value with quantitative/physical form that could dissimulate the necessity of adopting some evaluation criteria).

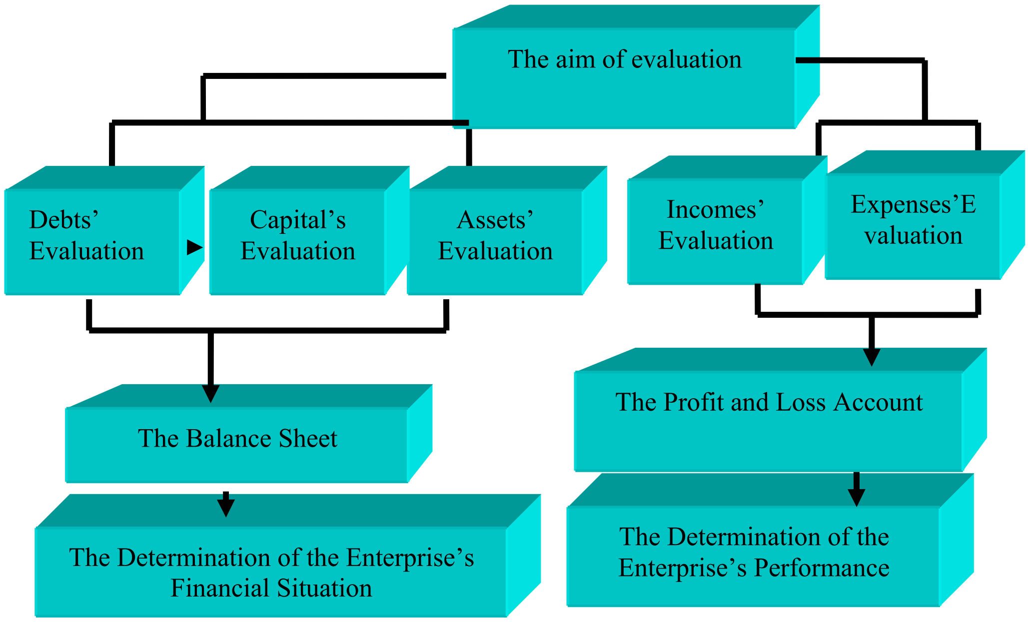
The evaluation theory has appeared at the end of the 19th century. The first economist that established the basic elements by which the value of a property can be determined was Alfred Marshall. In his conception in order to determine the value of a property, the following must be taken into account: the direct market comparison, the replacement cost and the incomes' capitalization.

Irving Fisher, neoclassical American economist, has developed the theory of value-income, which adopts the approach of value based on income. Fisher sustains that the value of a property is depending on the size of the future incomes brought to day (annuity, rent, profit and cash flow) generated by the property (Stan S., 2000). These methods of determining a property's value find applicability even nowadays, especially in the branch of the real estate evaluation, even the name given by Alfred Marshall and ulterior by Irving Fisher has been maintained.

The IASB general frame defines the evaluation these days like that: "evaluation is the process determining the values at which the structures of the financial statements will be recognized in the Balance Sheet and in the Loss and Profit Account". Starting from this definition given by the IASB general frame to the evaluation frame, the conclusion drawn points out the fact the aim and the necessity of evaluation are imposed by one hand by the determination of the enterprise's financial position and on the other hand, by the determination of its activity's result. Therefore, in this context, the evaluation can be defined as the method of quantifying and measuring in a value expression, respectively in monetary standard, of the existence, movement and transformation of the economic patrimony and of the results obtained by its capitalization.

In order to evaluate the financial position of an enterprise it is necessary to evaluate its assets and debts and by their means to evaluate the capital. On the other hand, for the evaluation of the enterprise's performance the evaluation of incomes and expenses is necessary, and to the capital's evaluation a general conception is associated. The next schematic presentation can be associated to the aim targeted by evaluation, which represents in fact the principal pylon to fundament the theoretical aspects regarding this concept.

The specialized literature includes many definitions given to the accounting estimation as follows: the estimation is considered: an appreciation of the monetary value regarding the bases of measurement for debts, capitals, incomes and expenses (Feleagă, Malciu, 2004); the estimations „represent judgments based on presumptions and future projections regarding the elements that can be appreciated precisely in the present" (Cecilia Ionescu, 2007).



Source: Projection realized by the authors

Figure 1. The aim of evaluation

If we refer to the techniques of estimation, these are methods and estimations adopted by an enterprise in order to determine the monetary values that correspond to the bases of evaluation (measurement) selected for the elements that compose the financial statements.

The delimitation of the accounting policies – estimation techniques become even more difficult because both of them imply that the enterprise must recourse to one ore more measurement bases (the monetary attributes of the elements composing the financial statements). The methods use to reach to the adequate monetary values, corresponding to the selected measurement bases, do not represent accounting policies (example: the reporting at the exit price of a similar good), but estimation techniques.

For example, the estimation techniques include: estimation of the different depreciation adjustments' value, estimation of the utility period of the fixed assets and their residual value, estimation of the present works' percentage of advance, estimation of the utility period of the tangible and intangible fixed assets, in order to determine their return value and implicitly the depreciation of the assets.

So to create an efficient informational system, relying in estimation techniques, there must be identified first of all the elements from the financial statements that have to be evaluated by using estimations capable to lead to the obtaining of a current value in the financial statements. Therefore, generally speaking, the estimations represent rational appreciations of some facts and events.

Using objective estimation is essential in the elaboration of financial statements and must not leave from the presumption that this situation might weaken the credibility (viability) of the information presented in these statements.

The international organism recommends however, the presentation of the information regarding presumptions and other sources of uncertainty in estimation when the balance sheet is done in order to increase the relevance, viability and intelligibility of the information reported.

Consequently, it can be pointed out correctly the relation between the accounting evaluations and estimations by the fact that, in the case when some elements from the financial statement can not be evaluated precisely, the evaluation process has to recourse to estimation techniques closely related to the evaluation bases and the principles of accounting evaluation, so to determine the monetary values corresponding to the evaluation bases selected for the presented statements. Therefore, the evaluation bases represent accounting policies that might affect considerably the balance sheet and the profit and loss account.

Considering that „the various evaluation bases are used within the financial statements in different combinations and degrees of utilization"(the IASB general frame) but, taking into account, that no ne of the evaluation bases has a general validity and is not totally satisfactory, the impact of the accounting evaluations and estimations on the enterprise's financial situation and performance represents in fact the modality by which the enterprises succeeds to select those evaluation bases for the elements from the financial statements, so the ensure the credibility and relevance of the information offered and to present a true and fair view of the enterprise's activity.

It must also be mentioned that most of the times the effect of the accounting estimations take the shape of incomes and expenses, which means they affect the profit and loss account of the budgetary year in which the estimation is done as well as the future budgetary years, if the estimated element is spread on more periods of time.

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