THE CONSEQUENCES OF ACCOUNTING STANDARDIZATION AND HARMONIZATION OVER THE CONCEPT OF FINANCIAL POSITION

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ABSTRACT: *The concept of financial position and its multiple meanings are often related to the balance sheet, being defined as the financial statement reflecting a company's financial position at any time, without giving details on what is meant by financial position. The concept of financial position was refined in the conceptual accounting frameworks of FASB, IASB and ASB. Differences in the content of this concept are linguistic, and therefore insignificant. Therefore we propose the following to make an analysis of dimensions and nuances of the concept.*

KEY WORDS: *financial position, standardization, financial statements, balance sheet, FASB, IASB, IFRS, ASB, conceptual accounting framework*

1. STANDARDIZATION AND REGULATIONS REGARDING FINANCIAL STATEMENTS

Standardization efforts are reflected in the definition of postulates, principles and accounting rules. Normalization aims to achieve accounting standards at a national or international level or at the level of the capital market, with the intention of establishing uniform accounting practices. Normalization is defined in accounting literature as: the process of harmonizing the presentation of financial statements, accounting policies and terminology, which is done by defining principles and accounting rules. Although financial situations may seem similar from one country to another, there are differences generated by the diversity of legal and social environments, as well as by the different needs of the users, determined by specific national specific national requirements. The set of statements on financial reporting was imposed for the first time officially in the United States. Currently, the standardization body in U.S., the Financial Accounting Standards board (FASB) demands the preparation and presentation of the following statements:

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- Balance sheet or statement of financial position;
- Statement of income or gains;
- Statement of net earnings;
- Statement on change in financial position, called the Statement of sources and uses of funds, known as Statement of cash flows;
- A summary of accounting methods/practices and other explanatory notes.

Financial reporting in Europe is going through a process, originally called of harmonization, with the formation of the legislative and economic framework of the EU. In 1978 was issued the Directive 78/660/EEC of the EU Council (4th Directive), who's objective is to coordinate the provisions related to the presentation and content of annual accounts (name used in continental European countries for financial statements) and of annual reports of companies in the Member States, with the assessment models used for the preparation of annual accounts and their publication for commercial companies. According to article 2 of the 4th Directive, the annual accounts must contain: the balance sheet; Profit and Loss Account; Notes on the annual accounts.

The amendment brought by the Directive 2003/51/EC in June 2003 added the possibility of allowing or demanding the inclusion in the annual accounts of other statements than the three mandatory ones, so that entities can prepare financial statements comparable to the financial statements prepared in accordance with the international standards. The need to implement International Financial Reporting Standards in the EU has led to the Regulation nr.1.606/2002 developed by the European Parliament and the EU Council, referring to the application of international accounting standards, known as IAS Regulation, to private companies that meet certain criteria (balance sheet total, turnover, average number of employees). In time, Directive IV suffered a series of changes in order to eliminate disparities between the provisions of European directives and the provisions of international standards. European directives, while stricter in imposing demands to all Member States, allows the possibility of adaptation to specific national demands. For this reason, the financial statements of companies in different countries have specific characteristics.

EU's strategy to turn to international accounting standards was determined, first, by the obligation imposed on European companies listed on international capital markets to publish financial statements in accordance with the requirements of these markets, and secondly, by the IAS/IFRS being accepted also by the Americans (as a result of the collaboration between IASB - IOSCO towards improving IAS/IFRS), the European Union considered that a solution to the problem would be the orientation towards these standards. But that solution does not solve all problems, in the sense that as long as the EU demanded that the European directives and demands are met also, together with IAS/IFRS, there was and certainly will require amendments to reduce the arisen conflicts. Because of the role and importance of the statements and of the credibility of financial information, differences in interpretation can be difficult to resolve without an accepted conceptual accounting Framework across Europe.

The International Accounting Standards Board (IASB) with the U.S. and European standardization body campaign to reduce the differences in the presentation of financial statements, trying to harmonize regulations, standards and accounting procedures regarding the elaboration and presentation of financial statements. It is known that companies that compile annual financial statements in compliance with IAS/IFRS have in mind the provisions contained in the *Framework for the preparation and presentation of financial statements. Accounting conceptual framework is "a coherent system of objectives and fundamental principles, linked together, which may lead to the formulation of robust rules and state the nature, role and limits of financial accounting and financial statements"* [3].

In fact, this conceptual accounting framework is *a normative accounting theory*, which underlies the development of *accounting rules*. According to professors Niculae Feleaga and Ion Ionascu, the *Accounting conceptual framework* "is a guide for developing accounting rules and for their interpretation. It is a support for processing operations related to transactions and the events involved in the companies activity, which are not solved by the rules" [2].

2. DIMENSIONS IN DEFINING THE CONCEPT OF FINANCIAL POSITION. COMPARATIVE STUDY

FASB in SFAC5 Recognition and Measurement in Financial Statements of Business Enterprises, defines the presentation of financial position as a situation that provides information on assets, liabilities and equity of an entity and the relationship between them at any time, as reflections of the economic resources on one hand and the financing structure on the other hand, emerging from the needs of users. IASB defines financial position by four coordinates which also give clues on its information capacities:

2.1. Economic resources controlled by the company

Information about resources are useful to the extent that they help to forecast future cash flows. Resources are accepted by the IASB's conceptual framework as assets only if they meet a set of restrictions:

- *they are controlled by the company.* The notion of control is not defined in an explicit manner. A resource is presumed to be controlled if the company has the opportunity or ability to extract incorporated economic benefits but also the ability to restrict access to other entities to the potential it offers. Therefore, control must be exercised effectively.
- *they are the result of past events.* The definition of economic assets requires resources to be controlled, as a result of past transactions or events. Therefore, the company with access to future economic benefits, but which had, up to the date of the balance sheet, the ability to limit access of others to these advantages, will not record an asset on the balance sheet date.
- *they generate future economic benefits for the company.* The ability to generate future economic benefits is the essential dimension of an asset. The economic benefits related to an asset correspond to the potential with which the asset contributes, directly or indirectly, to a flow of cash or cash equivalents.

FASB's definition given to an asset is more restrictive. It does not refer to resources but the probable future economic benefits. Temporal and control restrictions are concerned. Professor Nicolas Feleaga noted that the definition of the American conceptual framework generated intense debate related to capitalization of intangible elements such as brands, market share, research expenses, etc.. British conceptual framework does not equate assets and future economic benefits. The definition implies that not the economic benefits are controlled by the company, but rights and other ways to access these benefits. In our opinion, this definition is even more restrictive than the one provided by FASB, but has the advantage of reducing ambiguity. The existence of the latter is defined in the restriction of items recognition in financial statements.

2.2. The financial structure of the company

Information about the financial structure is useful in order to anticipate the needs of credit and how the results and future cash flows will be distributed to those who have an interest in the company. They are also useful for anticipating the company's chances to receive funding in the future. Financial structure of the company is assessed through qualitative elements of debt and equity. IASB's definition of debt overlaps with that given by the FASB. The presence of the expression "... it is expected for an exit possibility to result..." in the first case and of "probably" in the second case (as with the definition of assets), means that the entity activates in an unsafe environment. ASB eliminates ambiguity in the definition of debt leaving it to the recognition criteria.

It can be concluded that such definitions encompass not only legal or judicial obligations, but also social or moral ones. A difference can be grasped however. In order to present the cause of an asset (or debt) IASB uses the notion of past events while FASB makes a distinction between operations (or transactions) and events. The operations usually result from an agreement of the entity, which is no longer required in the case of the events. ASB insists on the idea of control over operations and events in order to recognize the existence of debt and state that there are certain debt and obligations that are not likely to generate a transfer of economic benefits even if they can not be recognized in financial statements.

In the definition of *equity*, regardless of the conceptual framework to which we relate, the concept of residual interest is essential. It is based on the hypothesis of the company's liquidation. At the base of equity there is only a residual ownership right over all assets of the entity and not on specific activities. From the above definition and, in particular, from the expression "residual interest" it results that debts are prioritized on the entity's assets and, as such, they must be placed before equity when it is their right or interest on same assets.

The two elements of adjustment of equity have a particular conceptual treatment. We target owner's investments and distributions in their favour. The American conceptual framework retains these adjustments in the set of elements of financial statements. IASB does not explicitly retain these elements in defining the company's financial position. They are found, however, in the form of restrictions in the definition of expenses and income. Practice shows that one can not always draw a clear dividing line between debt and equity elements.

2.3. Liquidity and solvency of the company

IASB's conceptual framework emphasizes the importance of this information in making predictions about the ability of the company to honor outstanding financial commitments. Liquidity is the expression of short-term management, while solvency concerns a longer perspective. Liquidity is seen as a way to control access to other resources.

2.4. Company ability to adapt to changes in the environment in which it operates

The international conceptual framework is poor in details concerning the size of financial position. More generous is the British conceptual framework that emphasizes the financial side of the company's adaptability to environmental changes. Financial adaptability of a business is its ability to act effectively in order to change the size and pace of cash flow, in order to respond to unexpected needs or opportunities arose. An entity wishes to have a financial adaptability as one such quality helps the company to mitigate the risks facing its business and to survive during periods of low (or even negative) cash flows generated by various operations.

3. USERS OF INFORMATION ON FINANCIAL POSITION

J.N. Frank remarks: the multitude of users of financial statements leads to a multitude of images of financial position.

Creditors look at information provided by financial statements from another perspective than managers or investors. Their interest is directed towards ensuring the recovery of loans and extending them. Also, creditors are looking for information on ensuring their credits. But the financial position is not reflected for all creditors by the same information. Commercial creditors look at the financial position differently than the financial creditors. The creditors who have an interest in the company's activity have completely different approach on the financial position of an entity (financial creditors that make a long-term investment in the entity).

This type of creditors' interest becomes similar, up to a point, to the interest of investors. In this regard, the reflection of financial position is made by information on solvency, future projections regarding the company's ability to generate cash flows, which brings into question the concept of continuity and reconsiders the importance of elements present in the financial statements both in structure and value. Although similar, the interests of creditors and investors in reflecting the financial position are not identical. In the case of creditors, the focus is on presenting information related to total assets (items that ensure recovery of investment), from the perspective of investors the importance is on size and structure of equity (value which generates future earnings brought by the investment or value that can be recovered from the withdrawal of the investment).

The perspective of the management entity is multiple; each department of the entity has specific needs for information. The balance sheet, as a component of the financial statements, can not fully meet the need for information of the management, but can be a bridge between internal and external environment of the entity.

4. CONCLUSIONS

If world economy is under the "banner" of a large "earthquake" of business globalization, of internationalization of economic relationships, accounting can not remain immune to these mutations, being virtually on the verge of a big process of "conciliation" which takes place within a broader process of harmonization of accounting, in which the different accounting systems attempt to redefine their position in order to find a accounting language universally understood. The need for convergence and uniformity in accounting requires its normalization. This will materialize the objectives, principles, methods and rules regarding accounting reporting, both in the production of accounting information and its use.

The current objective related to producing the financial statements, as it is mentioned by the IASB, remains the one about presenting the financial position, financial performance and changes in the financial position. Current design on balance sheet accepted by users of financial accounting information is that it reflects the entity's financial position at a certain moment in time and allows the issuing of opinions on past activities that may constitute a basis for shaping future work.

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