

MODELING IN ACCOUNTING, AN IMPERATIVE PROCESS?

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Abstract: The approach of this topic suggested to us by the fact that currently, it persists a controversy regarding the elements that influence decisively the qualitative characteristics of useful financial information. From these elements, we remark accounting models and concepts of capital maintenance in terms of the accounting result, which can be under the influence of factors such as subjectivity or even lack of neutrality.

Therefore, in formulating the response to the question that is the title of the paper, we will start from the fact that the financial statements prepared by the accounting systems must be the result of processing after appropriate models, which ultimately can respond as good as possible to external user's requirements and internal, in particular the knowledge of the financial position and performance of economic entities.

Key words: Accounting information, accounting models, accounting principles, accounting policies, accounting result, evaluation, depreciation, historical cost, fair value, present value, realizable value, current cost.

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I. Introduction

In the doctoral research, I appreciated as very useful, the modeling approach in accounting. One of them consists in the evaluation of its imperative nature of the elements that stands on, as well as the mechanism that contributes to the configuration of models. To this end, we started from the main elements that support the importance of the shape of the accounting information in economic and financial transactions with a focus on issues related to ensuring compliance with applicable regulations, but also the freedom in the choice of methods, techniques and finally the models used in accounting.

Main discussion topic was done in section 3.2., entitled "*Approaches to modeling process mechanism in accounting*" in which I described in a flow chart, my own version of this mechanism.

Thus, I have shown that by choosing suitable values of the elements in terms of specific transactions and ensuring compliance, it can reach effective accounting models with the support of appropriate accounting policies.

The debate presented led us to a series of conclusions and suggestions that we present in *section 3.3.*

II. Literature review

Accounting theory and practice improvement issues are always contemporaneousness. This permanent concern reflected particularly in literature, has a solid base on the more pronounced trends related to the convergence of accounting systems and reference standards, in terms of acceleration of the globalization process. As a result, it feels more and more theoretical and clarification needs to configure the best accounting practices, issues that are addressed in the

literature.

First, we mention the International Financial Reporting Standards, IFRS - 2013 part A and B, issued by the International Accounting Standards Board - IASB, which succeeds to develop, in the public interest, a single set of financial reporting standards of quality.

At the same time, a significant number of authors have developed papers with a strong professional load, including those present that we considered most relevant.

Thus, Mihai Ristea and Corina Graziella Dumitru, in the paper "Freedom and compliance in according standards and regulations" (Bucharest, 2012) make a plea, thoroughly grounded for harmonious combination of freedom and compliance in building the accounting's truth that rely on the correct application of the principles, rules, conventions and specific accounting practices.

Niculăe Feleagă and Liliana Malciu in "Policies and Accounting Options" (Bucharest, 2002), address mainly new meanings in defining concepts of accounting policies and accounting options, they describe the orientation of accounting policies with the conceptual framework and present options of policies to the different types of economic and financial transactions.

Bunea Ștefan, in the paper "Monochromy and polychromy in designing accounting policies of enterprises" (Bucharest, 2006), presents a series of approaches to the evaluation and design of accounting developing strategies and respective, the improvement of the financial position and performance of enterprises.

Calotă Traian Ovidiu addresses in a practical manner the issue of method and modeling in accounting. Thus, his paper "Accounting. From theory to practice. Method and Modeling" (Bucharest, 2013) is an important tool to those interested to specialize in this field, and to managers at all levels.

Duțescu Adriana in her paper "Accounting information and capital markets" (Bucharest, 2000) emphasizes the usefulness of financial information for investment decisions and accounting theories applicable to the capital markets.

Paraschivescu Dumitru Marius and Florin Radu developed the paper "Accounting concepts and models in the foreign trade" (Bucharest, 2005) in which starting from the organization of foreign trade, highlight issues specific to the domain (import, export, combined operations).

Dobroteanu Laurentiu in "Genesis and future in accounting" (Bucharest, 2005), addresses mainly to contemporary global accounting and trends in the evolution of accounting.

Mihai Ristea and Corina Graziella Dumitru in "Enterprise accounting earnings" (Bucharest, 2011), put great emphasis on the theoretical foundations of accounting result, its analysis in terms of changes in equity and the income statement analytical models. It also addresses a number of specific practices on financial accounting result in the recognition and evaluation of the result.

Rudolf Mann and Elmar Mayer, in "Controlling. Profitable Management of the Enterprise" (Bucharest, 1996), configure a number of ways that allow structuring a profitable personal management system of the enterprise, starting from financial accounting in the more broad concept of controlling.

Jianu Ionel in the paper "Evaluation of accounting. Theory and method" (Bucharest, 2012), approaches with a strong scientific tinge the evaluation in accounting, the need to regulate this process and research methodology in accounting. Also developing a new accounting theory called "theory of intention".

III. Scientific contents

3.1. Considerations on the importance of accounting information in the conduct of economic and financial transactions

The performance of the central objective of any business (profit maximization) implies a more efficient management based on timely, accurate, reliable and comprehensive information. These must ensure as fair and complete the situation of the economic entity, in particular, on the

performance and financial position. Such an approach, we can say it was a constant, since the beginning of scientific substantiation of accounting.

In this sense, the founder of modern accounting, Luca Pacioli begins the section *The computis ...*, by saying that "a successful trader needs three things: sufficient cash or credit, good accountants and an accounting system that would allow the assessment of the business at a glance" (Dobroteanu Laurentiu, *Genesis and Future in Accounting*, 2005, page 171).

This observation has been extremely valuable in our opinion, based on all the approaches of improvement over time of the accounting theories and practices, while increasing volume and diversity of economic and financial transactions. Efforts in this regard have led eventually to the normalization of accounting.

Thus, in Romania, even by law, accounting has been defined as "business specializing in measurement, evaluation, knowledge, management and control of assets, liabilities and equity, and the results obtained from the activity of natural persons and legal persons..." (art. 2 paragraph (1) of the Law of Accounting no. 82/1991, with subsequent amendments). Moreover, in the same article and paragraph, the mentioned law also specifies the accounting mission to provide "chronological and systematic recording, processing, publishing and maintaining information about the financial position, financial performance and cash flows for both internal requirements ... and in dealing with present and potential investors, financial and trade creditors, customers, public institutions and other users."

Normalization of accounting systems is to be found in all countries, whether more specific, either by influence from the countries under which were developed. However, this diversity imposed eventually, the need for international standardization. This is how, over time, the current International Accounting Standards Board - IASB, headquartered in London, founded in 2001, which "is committed to developing, in the public interest, of a single set of global accounting standards, high quality which provide transparent and comparable information in general purpose financial statements" (International Financial Reporting Standards, IFRS - 2013, part A, page A3).

IASB, the entity with huge professional authority, has among its main objectives the achievement of convergence of national accounting standards and IFRSs. To this end, for the development of the new IFRSs, the IASB works to establish that "similar transactions and events to be accounted and reported similarly and transactions and different events to be accounted differently, both within the entity over time and between entities. Consequently, the IASB intends not to permit alternatives regarding the accounting treatment" (IFRS - 2013 Part A, page A11).

However, due to the mentioned conceptual framework, the IASB recognizes that financial statements "are usually prepared after the accounting model based on recoverable historical cost and the concept of nominal financial capital maintenance ... other models and concepts could be well suited to satisfy the objective of providing useful information in making economic decisions, but currently there is no consensus in favor of change" (IFRS - 2013, Part A, page A18).

Based on these considerations "conceptual framework has been developed so that it can be applied to a range of accounting models and concepts of capital and capital maintenance" (IFRS - 2013, Part A, page A18).

We note that at the highest level of authority in the accounting field, to which the majority of accounting regulations relate, globally, not only allow the possibility of using several models in accounting, but it works even through concrete measures to create required general conditions.

Hence, we identified two seemingly contradictory aspects in obtaining financial information. Thus, on the one hand, the accounting must take into account a series of rules and principles of accounting and tax, which limits largely the possibility to appeal to alternative, on the other hand, diversification of economic and financial transactions and the possibilities of developing and carrying out accounting policies, which require the need to use a whole range of specific means of action.

In Romania, the accounting regulations compliant with the European directives (approved by the Ministry of Public Finance Decree no. 3055/2009) lay down clear rules of compliance regarding the annual financial statements that need to be prepared, the elements that must include, their quality and also freedoms granted for the use of different methods and / or techniques (rules)

for evaluation, depreciation etc. There are also defined the general accounting principles of evaluation of the elements presented in the annual financial statements, accounting records peculiarities, general chart of accounts etc.

From the above we see that the success in business depends not only on the practical side, the proper technique to carry out transactions, but largely, on effective management, knowledge and control of assets and the **real earning** at the end of the financial end. Therefore, further we present our vision of the multiple valences of modeling process in accounting, respectively the modeling of accounting information so that the financial statements accurately express the situation of the entity, while framing the requirements of accounting regulations compliant with European directives.

3.2. Approaches to the Process Mechanism of Accounting Modeling

Given that we can not be exhaustive because of the limited space available, we mention that our discussion is based on the accrual accounting model (accepted by the IASB and accounting regulations compliant with European directives) and aims on this background to highlight some possible practical ways to ensure the qualitative characteristics of accounting information (relevance, reliability, credibility, understandability, etc.), while compliant with the accounting regulations in accordance with the European directives. It is mainly for accounting transactions based on the general chart of accounts, the adoption of the most suitable accounting policies and ensuring their permanence, the application of the general accounting principles.

For this purpose we consider that the accounting regulations mentioned foresee alternatives, in the sense that if "the application of certain provisions of the regulations is incompatible with fair representation, the entity shall depart from that provision by presentation in the notes of the effects of the derogation effects on value of assets, liabilities, financial position and profit or loss "(Mihai Ristea, Corina Graziella Dumitru, Freedom and compliance in accounting regulations, 2012, page 31).

This quote is actually the essence of the provisions of section 9-11 from the accounting regulations compliant with European directives (approved by the Ministry of Public Finance Decree no. 3055/2009), and state the fact that the annual financial statements "should provide an accurate image of the assets, liabilities, financial position, profit or loss of the entity"(section 9 of the regulations). This means that the data recorded in accounting and processes after which accounting information will be configured to take into account, in a larger measure the specific characteristics of economic and financial transactions, the rules and best accounting practices.

Therefore "in applying accounting regulations compliant with European directives, entities must develop its own accounting policies, which are approved by the managers ..." (art. 10 of the Decree of the Ministry of Public Finance no. 3055/2009). But, the specific accounting policy adopted in conjunction with modalities for the implementation of general accounting principles and specifics of each transaction lead us practically, to certain configuration models of accounting information contained in financial statements.

To better explain this in Chart. 1, I explained, in a flow chart form, a variant of the process of modeling in accounting. Thus, starting from the specific economic and financial transactions should be chosen and used those techniques and models that best fit that specific, while ensuring compliance with accounting regulations. It is about depreciation, provisions, adjustments to depreciation, but especially alternative methods of evaluation.

Specifically, we mean: options for depreciation of tangible assets (related to duration, value, unit of measure, etc.), the value of provisions to cover risks and uncertainties, and last but not least, the choice of tangible assets evaluation models (model cost and revaluation model), stocks, assets resulting from own production, etc..

The solutions adopted will have as effect different net values of assets and expenditures and ultimately will affect the results, including the value of the owner's funds. At the same time, methods of application, in particular the principle of prudence and principle of connection of costs with incomes will influence the value of expenditures and incomes.

Also, the manner in which assets are classified, respectively debts, cause different values of assets and / or debts.

Cumulative effects described so far, will materialize through a specific configuration of indebtedness indicators, liquidity and respectively, of profitability, which ultimately means an adequate value of the economic entity (as a whole or) and a configuration of chances for contracting loans. Also all that mentioned, finally configures the managerial performance in managing the entity.

Of course, the process described must be seen in its dynamics. Thus, the choice of models and related techniques must take into account simultaneously, ensuring compliance with regulations and the need to fulfill the objectives of the entity.

This implies, on the one hand, improving accounting policies so that to be as adapted as possible to the specific of transactions which are the entity's object of activity and thereby arrive at their continuousness, and on the other hand, revaluation (if applicable) of models and related accounting techniques.

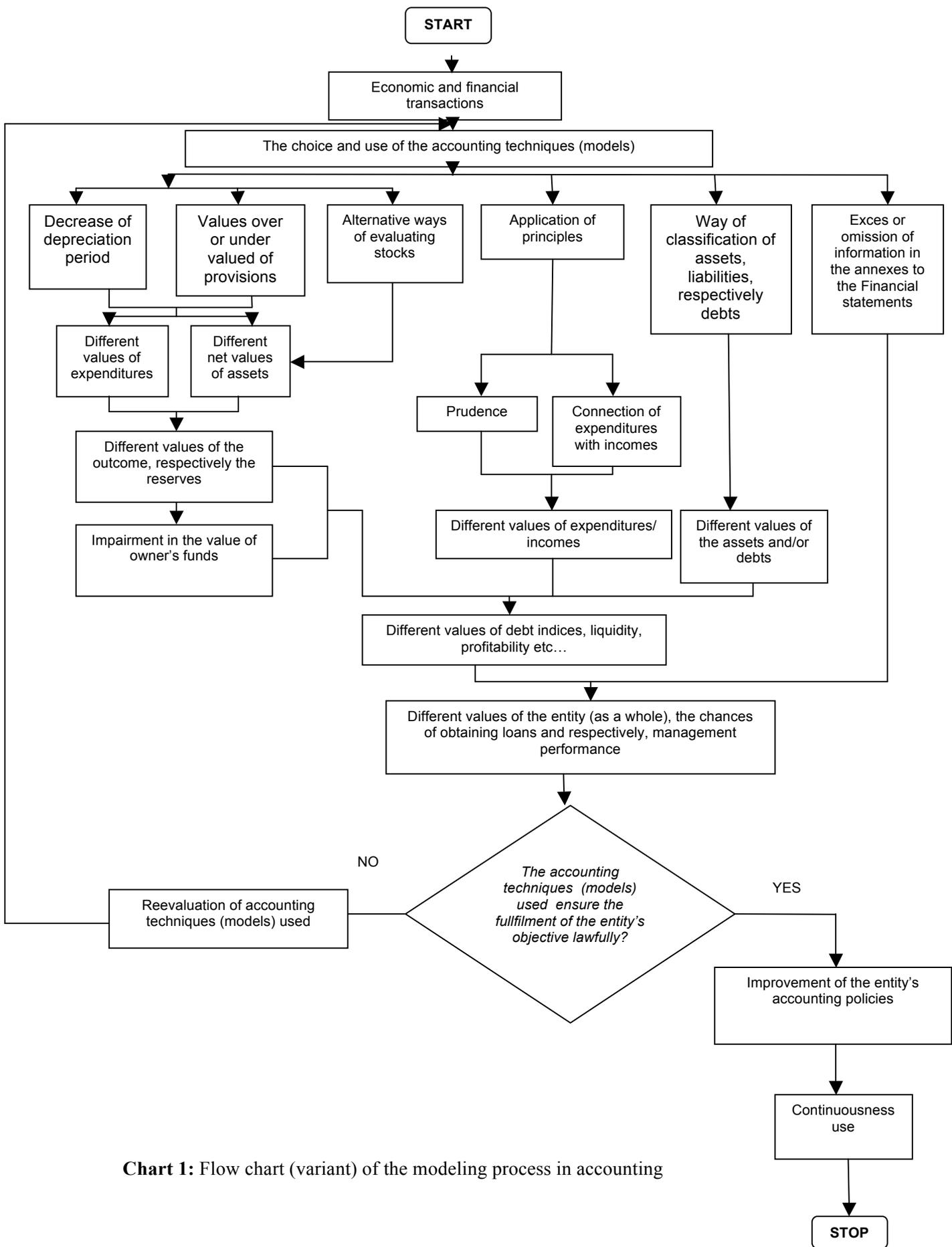


Chart 1: Flow chart (variant) of the modeling process in accounting

In this way, when founding the entity, in the phases of reorganization and / or stabilization (after moments of crisis), the models of accounting and stable accounting policies can be chosen on the basis of actual or simulated browsing of the the algorithm described in Chart 1. Practically, the algorithm allows the configuration of the most appropriate accounting models in terms of efficiency for specific of the economic entity.

This approach fits the requirements of the so-called specific "uniform" accounting specific to Romania "in which accounting is standardized and used as an instrument of control by managers of enterprises, but also by the public power ... requires a uniform execution of evaluation, of presentation and publication of accounting information "(Bunea Stefan, Monochromy and polichromy in the design of accounting policies of enterprises, 2006, pages 28-29).

Therefore, we distinguish the convergence of this approach with the actions provided by the new IFRS, through which IASB wants to impose, as we have previously shown, that similar transactions and events are accounted for and reported similarly, that is not to allow alternatives in terms accounting treatment. In this way, it becomes not only necessary but also imperative the configuration and use of specific models of accounting for the entire typology of economic and financial transactions (examples: tangible and intangible accounting, public subsidies, financial instruments, stocks and work in process, activities of import - export, intra-Community acquisitions of excisable goods, etc..).

3.3 Conclusions and suggestions

The continuous growth of diversity and complexity of the economic and financial transactions implies a continuous process of adaptation to the new conditions of the theory and practice of accounting. It is not only a convergence of accounting models towards a universal model that responds fully for the irreversible process of globalization (characterized among other things by increasing the share of transnational entities), but equally to the use of a unique financial reporting standards system on the "provisions for recognition, evaluation, presentation and description in connection with transactions and events for the general purpose financial statements ... and ... for transactions and events that may intervene in specific areas" (IFRS - 2013 Part A, page A11).

In our opinion, this will be the purpose, a prerequisite for globally harmonize economic and financial relations. However, for this set to catch more and more contour and to be stable, it is imperative for the unified approach of similar financial and economic transactions, including tax perspective, by adopting similar accounting models, that is not only compliant with the regulations applicable, but to be sufficiently effective.

Therefore, we advocate that to every entity, the management to ensure the selection, adoption and sustaining of the most suitable accounting policies and options for the development comply with its economic and financial transactions and which provides a good basis for configuring and using the effective models accounting with a major impact on the quality and usefulness of accounting information. From this perspective, we can say that the modeling of accounting is imperative.

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