



Emerging Markets Queries in Finance and Business

# An Overview of Past and Present Romanian Accounting

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## Abstract

This paper is an attempt to make a brief presentation of the Romanian accounting evolution with its specific elements, from its beginnings as marked in the historical sources, namely the first publications in the area of accounting, to the present days. We would like to outline the representative stages in the history of accounting and the major changes brought by each stage. At the same time, along with the presentation of the Romanian accounting evolution, essential aspects about the information included in the balance sheet are highlighted, the purpose being to make a presentation of the latter, as well.

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## 1. Introduction

This paper is an attempt to make a brief presentation of the Romanian accounting evolution with its specific elements, from its beginnings as marked in the historical sources, namely the first publications in the area of accounting, to the present days. We would like to outline the representative stages in the history of accounting and the major changes brought by each stage. At the same time, along with the presentation of the Romanian accounting evolution, essential aspects about the information included in the balance sheet are highlighted, the purpose being to make a presentation of the latter, as well.

As the turning point in the history of the Romanian accounting is considered to be the downfall of communism, followed shortly by the transfer to the market economy and the start of the accounting reform in

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Romania, this paper is divided into two major parts: Romanian accounting before 1989 and Romanian accounting after 1989 until present.

## 2. Accounting before 1989

If we attempt to draw up a brief presentation of the history of accounting we will unfortunately discover that the historical sources in Romania are quite limited compared to other European countries. Apart from the landmark work of the highly appreciated C.G. Demetrescu "The History of the Accounting Literature in Romania", edited in 1947, other sources considered by the same author are "brief presentations included in accounting courses or isolated articles published in specialized journals" (Demetrescu, 1972: 287).

In Romania, the first works were published after 1800, mainly under the form of translations of French or German accounting literature and "they did not represent a genuine Romanian accounting vision, rather an adoption of concepts and practices from abroad" (Demetrescu, 1972: 287).

In the Romanian Principates the beginning of a regular accounting is associated with 1829 and the Organic Statute (ro. Regulamentul organic), which followed the removal of the Turkish monopoly on the Romanian exports. It was the first time when the budget and the state finances were separated from the state (ruler) and a public accounting was set up. The principle of double-entry bookkeeping(accounting) was introduced in the Public Accounting Law in 1929 with important changes that followed several other alterations experienced over the years. This principle was imperiously necessary because until its implementation the general state accounting had been organized too simplistic and uncompetitive thus generating many confusions and inconsistencies with regard to the state wealth.

The presence of certain economic enterprises in the major municipalities in the country (such as power plants, water utility plants, trams, etc.) led to the introduction and the application of the double-entry principle before the 1929 Law was promulgated. Within this context Bucharest municipality was able to make the first balance sheet on the basis of the inventory and of the double-entry system even since 1925. The goods were included in the yearly inventories and were divided into goods that generated income and goods that did not generate income.

During those times both the private enterprises and the state enterprises of a general interest started to apply the double-entry bookkeeping and to a certain extent they were targeted for the control of the budgetary execution. Thus the 1929 Law also stipulated the obligation of preparing the balance sheet and the Profit and Loss account, on the basis of this law, the Superior Council for Public Enterprises and Public Assets Management established a scheme for the balance sheet and for the Profit and Loss account (Demetrescu, 1972: 292)

The first written evidence in the Romanian language for the double-entry bookkeeping (accounting) is the work of Professor Emanoil Ioan Nichifor, printed in 1837 in Brasov under the title "Pravila comertială" (The Commercial Code). One can state that this work marks the kilometre 0 of the Romanian accounting literature and the emergence of the first accounting manual in the Romanian language (Horomnea, 2012). The emergence of this work was not a fortuitous event in Brasov, a transit city for the commercial relations of those times. The merchants needed knowledge of economic calculations in order to perform their activity. The work of Professor Nichifor makes references to notions of religious and civic education in relation to the merchants' activity, as well to several notions of accounting, commercial law and commercial arithmetic.

Although the Romanian accounting literature starts with the work of professor Emanoil Ioan Nichifor, the first work that totally leaves the area of translating and replicating the foreign literature from those times and brings about a significant contribution that paves the way of the Romanian accounting thought and practice, is the course of Theodor Ștefănescu. Entitled "*Double-Entry Bookkeeping Course*", this was first published in 1874 and then reprinted in six editions until 1908. The book analyzes accounting as a science; it indicates its universality, as well as its necessary presence in all areas of economic activity.

Of course that over the years other authors have marked their contribution to this domain through their works. However one needs to notice that the issue of the regulation of accounting and of the balance sheet-type (ro. bilanțului tip) was made under the guidance of Professor Spiridon Iacobescu. Together with his brother Al. Sorescu, he published his works in three big volumes in 1923, 1929 and 1933. It was for the first time in the Romanian accounting literature, as well as in the international one, that the legal concept of accounting principles was presented. New theories were also mentioned about the performance of balance sheet starting from the equality the Economic patrimony = Legal patrimony, respective the Economic values = Equity + Liabilities and the balance sheet is defined both from the accounting perspective, as well as from the legal one.

Constatin G. Demetrescu left behind him a vast scientific activity through which he solved several accounting problems, both theoretical and practical. He defined and solved not only the rules for accounts functioning, the account definition, the notions of debit and credit with their present meaning, but he also removed the confusion between balance sheet and inventory that some authors used to make, thus clearly establishing that the balance sheet is an accounting act and the inventory an administrative act. In his work (Demetrescu, 1972: 327) the balance sheet is presented either “under the account form where the final situation of all accounts from accounting is synthesized, according to the accounting perspective, or “under the report form, where the accounts information is processed and presented in compliance with the legal rules or following the enterprise economic and financial interests” according to the legal perspective.

The issue of making a balance sheet-type as a form of accounting, where the legal, administrative and economic situation of the enterprise should be included, was first raised in 1902 by Theodor Ștefănescu. However, only in 1927 a balance sheet-type was made for the state economic enterprises and in 1934 for the banks. Attempts to establish a balance sheet-type for all economic enterprises in the country were recorded, but they all failed.

In 1947 the general principles of the first form for regulating the Romanian accounting were laid out by the Permanent Council for Accounting Regulation, which was established within the Ministry of Industry and Trade. At the same time in 1948, within the Ministry of Finance, the Division for accounting regulation and guidance was set up and this adopted the main measures that laid the foundations of the socialist accounting in our country. These were the followings: drafting the first charts of accounts for each branch of the economic activity (which in 1957 aligned to that of the industrial enterprises and to a common economic content), drafting the balance sheet-type schemes and other monthly, quarterly and annually reports, standardizing and rationalizing the accounting documents, the establishment of new forms of bookkeeping record and others.

The period between 1947 and 1990 is called by professor Ion Ionascu (Ionascu, 1997) the stage of “socialist realism” and it can be characterized by the “evolution of accounting to a monist-oriented accounting deeply affected, especially in the first years, by the political ideology of that period” (Neag, 2000). Being under the Soviet influence, Romania moves to a planned and centralized economy, “an economy that was centred on production, no matter the cost involved” (Feleaga, Ionascu, 1998). Accounting becomes “a form of the economic record” (Ionascu, 1997). Within this context, the accounting information served the state regarding production, costs and flows, and the “balance sheet was considered, in most cases, secret information” (Ionascu, 1997).

### **3. Accounting after 1989 until present**

Starting with 1990, once the political regime was changed, the coordinates of the Romanian accounting were changed as well. The transfer from a centralized economy to a market economy imperiously required a legislative change. And, because the process of accounting regulation was a public one, derived from a legislative process, the Ministry of Finance was the main actor (Ionascu *et. al.*, 2007) from the very beginning. Romanian accounting reform has a starting point. Can we say the same thing about the end of this process? The

evolution of Romanian accounting regulations is full of interferences from the beginning to the present (Neag *et. al.*, 2008)

The first stage of reform was considered the period from 1991 to 1999 and it started with the publication of the Accounting Law no. 82/1991, whose objective was the creation of an accounting system adapted to the market economy. However, until 1993, Romanian accounting had not suffered any significant changes. Only starting with 1994 Romanian enterprises began to function according to this law, which was enforced by the Government Decision no. 704/1993. Due to political, economic and cultural reasons, Romania turned to the continental accounting system, using as source of inspiration the French experience, therefore the accounting principles, the general chart of accounts, and the layouts of financial statements were inspired from the French accounting model (Albu *et. al.*, 2011). The various reasons for choosing the French accounting system are discussed elsewhere (Feleaga, 1992; Roberts, 2000) and comprise cultural, political and economic factors.

The balance sheet follows the account format: the left column includes the assets and the right column the liabilities and the owner's equity. The division of the patrimonial elements into assets and liabilities is made according to the economic purpose and according to their source (legal status). The assets are classified according to the ascending order of their liquidity and the liabilities according to the ascending order of their payability. An outline is presented as follows:

Table 1. Account-form balance sheet:

ASSETS	LIABILITIES
Assets	LIABILITIES and OWNER'S EQUITY
TOTAL	TOTAL

If until the downfall of communism the state had been the main user of the accounting information, this reform imposed the change of the financial statements character in order to better inform the various categories of financial and accounting information users (Neag, 2000); therefore the Romanian financial accounting regains its status as an accounting system oriented to the synthesized documents, mainly to the balance sheet (Feleaga, Ionascu, 1998).

According to the Regulation no. 704/1993, it was mandatory for the government business enterprises (ro. regiile autonome), for the commercial companies where the state had at least 20% of the registered capital, as well as for the other legal persons that performed economic activities to draw up a quarterly balance sheet. This included: the balance, the profit and loss account, the execution account, (ro. contul de executie) for the public institutions, the annex and the management report (ro. raportul de gestiune). At the same time the small and medium-sized enterprises were allowed to draw up a simplified balance sheet. Thus two notions emerge: standard system balance sheet (ro. bilanț contabil în sistem de bază) and simplified balance sheet (ro. bilanț contabil simplificat) – as well as the possibility of choosing one system; yet the differences between the two were minimal and they were presented in the annexes as they were ambiguous.

The drawbacks of this stage in the reform were multiple. To mention a few: both the definitions of the six accounting principles as well as the rules about the assessment methods were insufficient. The criteria for the identification of the elements that make up the financial statements did not exist (they were not defined).

The next stage of the Romanian accounting reform (the period from 1999 to 2005) represented a radical change, namely the orientation to the European Directives and to the International Accounting Standards. In their work (2011), C. Albu *et al.* present the reasons why the Romanian law-makers chose to harmonize the accounting legislation both with the European Directives, as well as with the Anglo-Saxon model. This stage was initiated by the Order of the Minister of Public Finance no. 403/1999, whose objective was the

harmonization of the individual accounts of large enterprises with the Fourth Council Directive and with International Accounting standards. The Order includes in Volume II the IASC Conceptual Framework and clarifies for the first time the accounting rules for the presentation of the assets, liabilities and capital. This was later abrogated and then reintroduced in the Order of the Minister of Public Finance no.94/2001. The latter preserves the IASC conceptual framework and makes reference to the listed enterprises that mandatorily have to follow this order. Three other criteria are also defined in order to classify other enterprises, which were supposed to be in compliance with those criteria; for the left enterprises a new order was released in 2002 - the Order of the Minister of Public Finance no. 306/2002, according to which it was mandatory for them to draw up simplified annual financial statements, harmonized with the European Directives. It was very important at that time to state that our accounting regulations were in compliance with the European Directives (Romania became a European Member State on 1<sup>st</sup> of January, 2007), (Neag, 2008).

The improvements brought from one stage to the other mainly followed the accounting principles, which, apart from their increase in number, from six to nine principles (the non-compensation principle is divided between the principle of the separate evaluation of the assets and liabilities elements – adopted from the Fourth Council Directive and the principle of non-compensation – that refers strictly to the non-compensation between the values of the assets and those of the liabilities, respectively to the non-compensation between the income and the expenses), also adopted a clearer and more explicit presentation. From the general framework for drafting and presenting the financial statements made by IASC (IASB at present) the principle of the economic precedence over the legal aspect and the principle of the significance threshold are adopted. At the same time, the criteria for the identification and evaluation of the assets, liabilities, incomes and expenses are defined. The bases for the evaluation of the financial statements structures are also defined: historical cost, current cost, realizable value, present value, the law-maker making clear that in the Art.101 that: “The evaluation basis that is most frequently adopted by the enterprises for drawing up the financial statements is the historical cost. This is usually combined with other bases for evaluation (OMF 403/1999). The general chart of accounts is maintained.

At this stage one can notice that, by means of these changes, obtaining a “true image” of the financial statements becomes more evident in the Romanian accounting system.

The notion of balance sheet is replaced by that of the annual financial statement of the enterprise. The balance sheet is presented under the standard format. The report format presentation was adopted following the Anglo-Saxon model, based on the equation: Assets- Liabilities = Owner's Equity.

Table 2. Report-form balance sheet:

ELEMENTS OF THE BALANCE SHEET
ASSETS
- LIABILITIES
= OWNER'S EQUITY

The third stage can be considered as starting with 2005 with the re-publication of the Accounting Law and the re-publication of the Order of the Minister of Public Finance no. 1752/2005 for the approval of the accounting regulations complying with the European Directives. With these, both the Order of the Minister of Public Finance no. 94/2001 and no. 306/2002 were abrogated.

Due to the country's imminent joining of the EU (expected on 1 January 2007), Romanian law-makers had to abandon the regulations harmonized with Fourth Accounting Directive and IAS, and they had to adopt separate regulations conforming to the EU accounting requirements (Ionascu et. al., 2007). Compliance with the European directives is made against the background of certain definitions, identification criteria, evaluation

criteria as stipulated in the International Financial Reporting Standards. All enterprises (no difference is made between listed and not listed enterprises, as well as between small and medium size enterprises and the large ones) had to draw up financial statements according to the European Directives starting with January 1<sup>st</sup>, 2006. Any enterprise could make financial statements according to the IFRS for its own interest. The form and the content of the balance sheet were mandatory for all enterprises, irrespective of their size.

Starting with the financial year 2007, according to the Order of the Minister of Public Finance no. 1121/2006 for the application of IFRS (to enact Regulation no. 1606/2002 of the European Parliament and of the Council), the listed enterprises mandatorily draw up IFRS consolidated financial statements. At the same time, all credit institutions (listed or not listed) apply IFRS in their consolidated financial statements.

In 2009 the Ministry of Public Finance releases a new Order, no. 3055/2009 for the approval of the Accounting regulations conforming to the European Directives by means of which the Order no. 1752/2005 is abrogated. Addition, the Romanian Securities Commission is a public authority in charge of the development of accounting regulation applicable to companies that operate in financial markets. Generally, SMEs are subject to Order 3055/2009 (Neag, Masca, 2012). This is a new regulation that represents a clear departure from the idea of simplifying of the accounting rules (Neag *et. al.*, 2010). Considering the recent release of this new regulation, we expected to find within the provisions of this Order aspects related to the debates at European level. (Neag *et. al.*, 2011)

The new Order gets into force in 2012 and is more complex than the one from 2005, because it brings about more clarifications regarding the regulation text. At present, the Romanian accounting system is regulated by this Order. Compared to the previous rules, the present regulations additionally stipulate for the rules of identifying and evaluating the assets, liabilities and capital, the rules for presenting the elements in the annual financial statements, the presentation of the qualitative characteristics of the annual financial statements, as well as the description of their users and of certain rules regarding management accounting. The accounting policies are defined, as well as the events following the balance sheet date. The balance sheet format is maintained.

#### 4. Conclusions

The analysis of the Romanian accounting evolution reveals its development along with the evolution of the Romanian state. Although the European accounting thought has its own written sources even from the 15<sup>th</sup> century, e.g. the principle of the double-entry mentioned by Luca Pacioli in Venice in 1494, historical sources referring to the Romanian accounting appear only after 1800s. The first works and the necessity of a bookkeeping appeared for the first time in the cities with trade activities. Although delayed compared to the foreign literature, the Romanian accounting literature started with translations from foreign works, later completed by original contributions which, after the WWI, aligned us with other European countries.

The principle of the double-entry bookkeeping was introduced in the public accounting law only in 1929 and the balance sheet chart and the profit and loss account were drafted on its basis. Bucharest Municipality managed to draft the first balance sheet in 1925, due to the presence of big enterprises at that time. The drafting of a balance sheet type for the state-owned economic enterprises was made in 1927 and for the banks in 1934. In 1940 drafting a balance sheet type for all economic enterprises in the countries was desired but this was not possible because the state was the major shareholder at most companies. In 1947 the first form of Romanian accounting regulation took shape by outlining the general accounting principles.

From 1947 to 1990, Romania, being under the Soviet influence is marked by a transfer to a planned economy and the accounting principles in this period differ from the accounting principles of the market economy, the state being the main user of the financial information, which served mainly the macroeconomic statistics. During those times the balance sheet was secret.



After the downfall of communism the Romanian accounting has followed three main stages of the accounting reform. At the beginning Romanian accounting was influenced by the continental accounting system, the balance sheet following the account-form representation.

Being under the impression of the Anglo-Saxon accounting system, the balance sheet has been represented as a report until present times. Substantial changes have been concentrated on the ways of presenting and assessing the elements from the balance sheet, on their identification and description. Even though one cannot speak about the existence of a conceptual framework within the Romanian accounting, by the Order no. 3055/2009 the Romanian Accounting system made the transfer to a higher stage, thus marking a progress regarding accounting regulation. The new changes in this area concern the implementation of IFRS in the individual financial statements and implicitly in the application of IAS 1 “Financial Statements Presentation.” The form and the content of the financial statements included in this context will inevitably move to a new stage, one of maturation and clarification for the new concepts included in the international accounting register.

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