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The persistence of the accounting policies after the transition to IFRS of the Romanian listed companies

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Abstract: The study aims to analyse the accounting policies chosen by Romanian listed companies during the mandatory transition to IFRS in their individual accounts (starting with 2012). Following particularly Kvaal and Nobes (2010), we propose the general hypothesis of a continuation of the main accounting policies already in use in the Romanian national accounting, to the extent that they are compliant with IFRS. The data collected for about 80 firms allow us to conclude that this general assumption is widely confirmed. The items analysed relate to the statement of financial position (format and some other elements), the income statement (several items), the cash flow statement (operating cash flow, dividends and interests), fixed assets (measurement after recognition of PPE, intangibles and investment properties), cost formulas for inventories, dimensions of the financial statements.

Keywords: IFRS, accounting differences, accounting choices, continuation of accounting policies

JEL codes: M41

1. Introduction

The transition to the IFRS in Europe is an event which has generated a very rich literature that tackles numerous aspects. Thus, there are studies that identify IFRS benefits and/or weaknesses, the extent to which financial statements from different countries can be compared, the differences between financial statements according

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to national standards and according to IFRS, compliance to IFRS, differences in applying IFRS, consequences in terms of capital cost, the place of fair value, the value relevance of IFRS information, their impact on the management of results, the quality of financial information in IFRS vs in national standards etc. Ahmed *et al.* (2013) provide an excellent literature review and an analysis of empirical studies that have focused on IFRS effects on financial reporting. One of the reasons why the EU adopted IFRS beginning with 2005 had to do with the latter's capacity to guarantee a "high level of transparency and comparability of financial information in the Community" (Regulation 1606/2002). Yet, Nobes (2008) warns that complete international comparability is not ensured solely by the IFRS and that the IFRS will not be applied in the same way everywhere. This depends especially on different national, institutional, financial, legal, economic, and cultural contexts. Thus, local factors influence the application of the IFRS. In their turn, Wehrfritz and Haller (2014) complete the explanation of variations in the application of the IFRS by invoking the flexibility introduced by these international standards and which is due to explicit options, to the freedom allowed in their interpretation and to the need to make estimations. In the case of Romania, Albu and Albu (2012) find that a highly influential factor in IFRS implementation is the nature and legitimacy of the regulator (the Ministry of Finance); another important factor resides in the quality of mechanisms used to enforce the IFRS and to follow up this process.

In the evaluation, estimation, presentation of assets, liabilities, revenues, charges and other information, IFRS sometimes allow one to choose between (most often) two or several variants. The choices of companies listed on European and non-European stock exchanges concerning IFRS accounting policies have already been studied and we intend to perform the same analysis for listed Romanian companies. Given the results of studies on transition in Europe (especially Kvaal & Nobes, 2010) we shall start with the hypothesis that Romanian companies have continued the policies that were valid in the pre-IFRS period. Our results confirm this general hypothesis for most of the elements taken into consideration (evaluation of fixed assets, evaluation of inventories, depreciation of fixed assets, presentation of cash flows, the classification of charges in the income statement) and it leads to the resurgence of certain particular features in what concerns the format of the balance sheet. In addition, we can notice the choices made by Romanian companies in new situations, which feature only in the IFRS (investment property, revaluation of intangible assets).

As far as we know, this study is the first that focuses on Romanian listed companies' choice of IFRS accounting policies in their individual financial statements. Thus, our contribution to literature consists especially in the identification of the main accounting policies used in the individual accounting of listed Romanian companies in Romanian accounting standards (henceforth RAS) and in IFRS, and in highlighting the main changes generated by the transition to the IFRS. Following the example of numerous other studies, we have noticed that the transition to IFRS is accompanied by an important continuation in the choices of accounting policies.

In what follows, this study comprises sections on the context of IFRS application in Romania (section 1), a literature review (section 2), the research methodology that we have used, the description of our sample and our hypotheses (section 3), research results (section 4) and conclusions.

2. The context of the application of IFRS in Romania

In 2012, Romanian authorities chose to impose the application of the IFRS in individual financial statements of listed Romanian companies. The decision was published in June 2012 (and detailed in September 2012), to be applied in financial statements for the fiscal year 2012 – this was, however, a rather fair period of preparation… The Romanian standard setters' choice represents nothing but the activation of an option allowed by Regulation 1606/2002 and which puts Romania on a par with other European countries that followed the same path. In fact, this obligation to adopt the IFRS represents the second episode in the presence of international standards in Romania (after a first attempt initiated in 2001). Ionașcu *et al.* (2014) offer a comprehensive literature review of the history of the IFRS and of their impact in Romania. The initial application of international standards in Romania was the result of several factors, among which were the recommendations of international financial bodies: the IMF and the World Bank (King *et al.*, 2001; Ionașcu *et al.*, 2007; Albu *and al.*, 2011; Albu & Albu, 2012).

The particular features of the Romanian economy, of the Romanian financial market, of the relation between accounting and taxation, and of the Romanian accounting profession have led to a particular application of the IFRS. For instance, Albu and Albu (2012) and Albu *et al.* (2014) find that the level of conformity is relatively reduced in Romania, although there are significant differences between entities.

We should also note that the successive Romanian accounting Regulations that have been valid beginning with the year 2000 and applicable either to all entities or to certain categories (adopted by regulations published in 2002, 2005, 2009) comprise increasingly more elements issuing directly from IFRS. The Romanian accounting regulator's policy of partial alignment on certain IFRS points has prepared practitioners for IFRS and it explains, to a certain extent, the relatively limited impact of international standards on the accounting figures of listed Romanian companies (Săcărin, 2014; Istrate, 2014). As for the choice of IFRS policies and accounting techniques, Păunescu (2014), in a parallel between accounting principles and Romanian fiscal rules, is of the opinion that, for a company that applies IFRS in its individual accounting, it is easier to find the appropriate accounting treatment for certain transactions, but the fiscal position of these companies is more difficult, given the major differences between IFRS and fiscal regulations.

3. The impact of IFRS on the accounting figures of the listed companies

The accounting literature comprises numerous studies that deal with IFRS' quantitative impact on the accounting figures of the listed companies. In these studies (Aisbitt, 2006; Callao *et al.*, 2007; Hung & Subramanyam, 2007; O'Connel & Sullivan, 2008; Marchal *et al.*, 2007; Cazavan-Jeny & Jeanjean, 2009; Haller *et al.*, 2009; Lantto & Sahlström, 2009; Aharony *et al.*, 2010; Callao Gastón *et al.*, 2010; Tsalavoutas & Evans, 2010; Fifield *et al.*, 2011; Clarkson *et al.*, 2011; Aubert & Grudnitski, 2011; Fitó *et al.*, 2012 and many more), the authors analyse equity, net income, profitability etc. The IFRS impact is different depending on country, size of the studied companies, and number of companies in the sample. Ahmed and al (2013) comment the results reported in more than 50 studies on IFRS impact on the value relevance of equity and of income, on the level of accruals and on the previsions of analysts; their results go in the sense of confirming a positive effect of IFRS in what concerns users' information, and equally witness certain differences in IFRS impact depending on the countries considered. The IFRS impact on the accounting figures of Romanian companies listed on the Bucharest Stock Exchange (henceforth BSE) was analysed in several articles. Thus, Săcărin (2014) and Istrate (2014) find a limited IFRS impact on total assets, on equity or on debts. On the contrary, IFRS effects on (operating and net) income and on profitability are important and they go in the sense of a strong diminution of these indicators.

For the first financial year when the IFRS were applied in Europe, Kvaal and Nobes (2010) notice that there are different national versions in IFRS practices due especially to the continuation of pre-IFRS practices, when this continuation was possible. Kvaal and Nobes' results (2010), for the 5 countries that they study, show that, in fact, complete international comparability of financial information is not yet accomplished. The application of the IFRS is an evolving process and Kvaal and Nobes return with an analysis that takes into account accounting policies declared by certain European companies after three years of applying the IFRS (Kvaal & Nobes, 2012). They notice that, despite certain changes operated by companies between 2005/2006 and 2008/2009, the influence of the pre-IFRS national framework is still quite visible. Forst (2014) confirms the existence of differences in the application of the IFRS in the EU and in the EEA (European

Economic Area), differences due especially to the specific features of each country and of each group of countries.

Variations in the application of the IFRS start with different categories of entities to which this obligation is imposed. Leaving aside listed groups (which must necessarily supply consolidated financial statements in the IFRS), member countries can impose or allow the application of the IFRS to other entities, in consolidated financial statements as well as in individual financial statements. In a document published on the site of the European Commission (2013), we find each member country's choices in what concerns the options provided by Regulation 1606/2002:

- permission or imposition in the individual financial statements of listed companies;
- permission or imposition in the consolidated financial statements of non-listed companies;
- permission or imposition in the individual financial statements of non-listed companies.

The concrete data supplied by this document (European Commission, 2013) evince a grand diversity in member states' choice: from the simple permission for single, non-listed groups, to apply the IFRS in their consolidated financial statements (Austria, Czech Republic, Germany, Denmark, Finland, Spain, France, Hungary, Ireland, Lithuania, Romania – from 2015 – , Netherlands, Sweden) to the general obligation for all entities to apply the IFRS, in their individual accounting and in consolidation (Bulgaria, Cyprus.)

National differences in the application of the IFRS are not an entirely new fact: the application of accounting standards in the same jurisdiction was not very uniform even before the IFRS (Walton, 1992). In the same line of thought, Stadler and Nobes (2014) argue that for many items, accounting practices are uniform neither before, nor after the IFRS, for reasons such as type of activity, company size and type of management.

Wehrfritz and Haller (2014) explain the survival of certain national characteristic features in the application of the IFRS (for Germany and the United Kingdom) through the influence of several factors that have to do with the passage from individual accounting (in national standards) to consolidated financial statements (in IFRS), with cultural differences between countries, and with institutional factors (financing model, legal system, tax system, etc.) which have a more or less important, direct or indirect influence. For the two authors the continuation of national practices is also very probable for reasons that have to do with the costs of the adoption of new standards. They find that the continuation of national policies is more important in the case of explicit options than in accounting interpretations and estimations.

Stadler and Nobes (2014) propose a framework of analysis in order to understand management decisions on accounting policies, and their empiric results confirm this framework: national factors are very important in IFRS choices that do not affect accounting figures, and the factors that have to do with industry and the analysed accounting elements influence accounting policies in certain circumstances. In their turn, Haller and Wherfritz (2013) find for Germany and the United Kingdom that companies tend to continue pre-IFRS accounting policies, which can have a negative influence on the comparability of financial information supplied by European companies, and that factors such as industry or the anticipated application of the IFRS have no significant influence on accounting policy choices.

4. Sample, methodology and hypotheses

In our analysis, we have focused on the individual financial statements of Romanian companies listed on the Bucharest Stock Exchange from 2006 up to 2013. The number of analysed companies differs depending on the availability of information concerning company choices. In the tables that describe our results, we marked, each time, the exact number of observations. Data sources are financial statements published by listed companies on their webpages, and data collection was manual.

The starting point of our interval is justified by the fact that, beginning with 2006, applicable Romanian standards are defined as compliant with European directives. Between 2001 and 2005, listed Romanian companies apply accounting standards that are harmonised with European directives and International Accounting Standards. We have chosen to focus on financial statements published beginning with 2006 out of a concern for coherence – the RAS being the same in the interval (and without explicit reference to IFRS, despite the clear elements which originate in the latter) - , even though the passage from 2005 to 2006 did not yield, in our opinion, significant effects on the financial statements of listed companies. For the financial years between 2006 and 2011, individual financial statements are compliant with Romanian accounting standards (RAS), while for the years 2012 and 2013, the information complies with IFRS. The consolidated financial statements available for these periods are less numerous (13 for 2006, 16 for 2007, 18 for 2008, 22 for 2009, 28 for 2010, 33 in 2011, 35 for 2012 and 2013). Mention should be made of the fact that Romania has been an EU member country since 2007, which means that these consolidated financial statements are compulsorily drawn according to the IFRS beginning with this year. Starting with 2012, in the analyses of IFRS accounting policies applied in the individual accounting of listed companies, we shall consider policies that have already been applied in consolidation by listed Romanians groups.

Table 1 IFRS accounting policies (presentation and measurement) and accounting estimates to analyse IFRS

IFRS policy	In Kvaal & Nobes (2010)	In this study
1) Statement of profit and loss (SPL)	yes	yes
2) Operating profit shown	yes	yes
3) Equity profits in operating	yes	no
4) Format of the balance sheet	yes	yes
5) Liquidity decreasing/increasing	yes	yes
6) Other comprehensive income displayed	yes	yes
7) Direct/indirect operating cash flows	yes	yes
8) Dividends received as operating/investment	yes	yes
9) Interests paid as operating or financing	yes	yes
10) Fair value model for some fixed assets	yes	yes
11) Fair value model for investment property	yes	yes
12) Fair value model for some financial instruments	yes	no
13) Interest capitalization	yes	no
14) Measurement of inventories	yes	yes
15) Recognition of actuarial gains/losses	yes	no
16) Proportionate consolidation of joint ventures	yes	no
17) Number of pages of the financial statements	no	yes
18) Term used to refer to the *shareholders equity and liabilities*	no	yes
19) Distinct presentation of the current and deferred tax in the statement of profit and loss	no	yes
20) Depreciation of fixed assets	no	yes
Total items	**16**	**15**

In order to check IFRS-induced changes in the accounting policies of Romanian listed companies, we have mostly compared 2011 RAS policies to 2012 IFRS policies. At the same time, in order to shape an image of the evolution of accounting policies in time – which allows us to better understand IFRS impact – we have chosen to present the situation of the use of RAS policies for each financial year from 2006 to 2011 and to show, equally, if IFRS policies are maintained in 2013.

Kvaal and Nobes' analysis (2010) is based on 16 types of choices between the accounting policies of companies transitioning towards the IFRS – Table no. 1. Our study tackles individual financial statements and therefore we do not take into account items concerning consolidation (3 and 16). In addition, there is little RAS information supplied by listed Romanian companies on the treatment of interests concerning credits that finance the long-term production of assets.

For the formulation of the following hypotheses, we shall take into account the classification of accounting systems suggested by Nobes (2008), which regroups most continental European countries in his *Class B* (weak financial market, government control on normalisation, close relations with taxation). Romania is not featured, but Istrate (2014) proposes, in a manner which is actually predictable, that this country belong to Nobes' *Class B* (2008).

Following the example of Kvaal and Nobes (2010) we uphold the general hypothesis of the continuity of Romanian companies' accounting policies in IFRS in comparison with RAS. At the same time, we shall consider that the accounting policies maintained by Romanian companies will be similar to choices made by other European countries belonging to Nobes' *Class B* (2008) and presented in Kvaal and Nobes' analysis (2010): France, Spain and Germany. In order to take into account the diversity of accounting policies, we pose the following sub-hypotheses:

- H1 – the size of IFRS financial statements goes beyond the size of financial statements in RAS;
- H2 – even though since 2001, the format of the compulsory balance sheet (in RAS) for Romanian companies is the list (showing net assets), given the choices of listed companies in their consolidated financial statements established in IFRS since 2007 (Table 2), we consider that the transition to IFRS in individual financial statements will lead to a majority use of the table format (showing the assets separately form the equity and liabilities) in drawing the balance sheet;
- H3 – most Romanian listed companies will preserve the format of the income statement with the classification of expenses by nature, a compulsory format in RAS since 1994 and which is mostly preserved in consolidation (Table no. 2);
- H4 – there are no significant changes in the method to present operating cash flows – this is a quite recent component of financial statements (since 2001) and its application is due to the first stage in the application of IAS in Romania – we can consider that the indirect method will be preferred, following the example of consolidated financial statements (Table no. 2);
- H5 – the revaluation of tangible fixed assets is the model preferred by Romanian companies in IFRS, because this model is very recurrent in RAS or it is due to a recent history of strong inflation in Romania, and to some fiscal reasons;
- H6 – subsequent measurement of intangible fixed assets is performed in IFRS by applying the cost model rather, in the absence of the option to revaluate in RAS and in the absence of the fiscal impact of these fixed assets – companies continue to use the RAS model;

- H7 – in RAS, investment properties were tangible fixed assets (buildings and land) for which revaluation was very frequent – we expect that in the IFRS the fair value model would represent the most frequent choice;
- H8 – inventories evaluation methods remain the same, except in the case where in RAS the LIFO method was applied;
- H9 – in the depreciation of fixed assets, as most companies use the straight line method, we expect that there would be very few changes, in the sense of a lower use of the declining balance and accelerated methods, which were allowed by the RAS and applied especially for tax reasons.

Table 2 Accounting policies in the consolidated financial statement of Romanian companies listed on BSE

Year	Format of the balance sheet (%)			Classification of expenses in the SPL			Method to report operating cash flow		
	N	Table	List	N	Nature	Function	N	direct	indirect
2007	*16*	68.75%	31.25%	*16*	62.50%	37.50%	*15*	13.33%	86.67%
2008	*18*	66.67%	33.33%	*18*	66.67%	33.33%	*16*	12.50%	87.50%
2009	*22*	63.64%	36.36%	*22*	81.82%	18.18%	*18*	16.67%	83.33%
2010	*28*	64.29%	35.71%	*28*	85.71%	14.29%	*23*	27.39%	82.61%
2011	*33*	69.70%	30.30%	*33*	87.88%	12.12%	*31*	19.35%	80.65%
2012	*35*	97.14%	2.86%	*35*	85.71%	14.29%	*34*	23.53%	76.47%
2013	*35*	97.14%	2.86%	*35*	85.71%	14.29%	*33*	24.24%	75.76%

5. Results

5.1 Format of the financial statements

For Romanian listed companies, the transition to IFRS translates into more comprehensive financial statements, which must present sometimes, in notes, much supplementary information comparing to national standards. There are differences in comparison with Romanian standards in what concerns the place of the balance sheet in relation to income statement, the format of the balance sheet, the order of current assets in relation to fixed assets, the classification of expenses, the presence of certain indicators in the balance sheet or in the income statement.

5.1.1 Size of the financial statements

Given the differences between RAS and IFRS, we can expect an increase in the size of financial statements. In order to test this hypothesis we have identified the number of pages of financial reports in 2011 (the last year when Romanian standards were fully applied) so as to compare them with the number of pages of

IFRS financial statements in 2013. We have not focused on 2012 because this year's financial statements comprise the explanation of the transition to IFRS, which can have an important effect on the number of pages and this is a single, non-recurrent event. We can notice a slight increase (almost 12%) in the size of IFRS financial statements in comparison with statements according to Romanian standards (Table no. 3).

Table 3 Size of the financial statements RAS vs. IFRS

Year	Number of observations	Average size (pages)
2011 RAS	80	50
2013 IFRS	80	56
Observations with more pages in 2013 than in 2011	59	-

5.1.2 Format of the balance sheet

In financial statements compliant with RAS, the balance sheet is always presented before the income statement. The transition to IFRS starts to slightly change habits: approximately 40% of the entities already feature an income statement before the balance sheet, following the example of certain companies listed on important European financial market and, probably, under the influence of parent companies and /or of the auditor.

For the content of the balance sheet and of the income statement (henceforth IS), IAS 1 *Presentation of financial statements* establishes only a list of minimum entries that must feature in them, without recommending a specific format. Pre-IFRS Romanian accounting is strongly regulated, including in terms of the format of financial statements that are identical for all entities. Since 2001 (for Romanian listed companies and for companies that go beyond certain thresholds and beginning with 2003, for all other companies), the compulsory format of the balance sheet is the list. The model is compatible with European directives but, at the time of its adoption, it marked something new for a country where the table model had been in force for decades. Apparently, the choice for a balance sheet in a list format is due to the assistance offered, for this phase in the reform of Romanian accounting, by the Scottish body of the accounting profession (ICAS) and to the fact that this reform was financed by British Know-How Fund (King *et al.*, 2001).

After more than ten years of using the list model, we could expect Romanian listed entities to preserve this type of balance sheet (in list form) in the compulsory application of the IFRS. Yet the experience of IFRS consolidated financial statements established since 2007 (the year when Romania entered the European

Union) shows that the balance sheet in table format comes back and imposes itself in the practice of consolidated accounts. In individual financial statements made public on their webpages, approximately 90% of the Romanian listed companies feature an IFRS balance sheet in the shape of a table, with explicit totals for assets and liabilities (Table no. 4). This choice is probably due to a mimetic effect (Albu *et al.*, 2014): Romanian companies certainly drew their inspiration from their European counterparts in the compulsory application of IFRS, including in the shape of financial statements. At the same time we can propose an explication that has to do more with the Romanian accounting tradition: the years when it was compulsory to use the list format did not manage to modify the well-anchored habits of Romanian accountants. In fact, the quasi-generalisation of the balance sheet in table format had been announced, to a certain extent, by choices made in consolidated financial statements since 2007; nevertheless, we must remember the fact that only almost 43% of the listed companies establish consolidated financial statements.

Table 4 Choices in the format of the balance sheet of the Romanian listed companies, in their individual financial statements

Format	2012		2013	
	N	%	N	%
List (showing net assets)	8	10.39	7	8.75
Table (showing separately the total of the assets and the equity + liabilities)	69	89.61	73	91.25
Total	**77**	**100**	**80**	**100**

These results fully confirm our hypothesis H2 – there is no immediate continuity in the format of the balance sheet and we have to go back in time to the period before 2001 in order to find the same format of the balance sheet in RAS.

In the balance sheet, assets are classified in current assets and fixed (non-current) assets. During the years before the imposition of IFRS in the financial statements of Romanian listed companies, the official format of the balance sheet would start with fixed assets. In IFRS financial statements there are 10 entities (approximately 13%) that choose to present current assets before fixed assets; among these 10 entities, there are 9 operating in the financial sector (banks and investment companies).

As for the terminology used to designate the balance sheet and its components, we can notice the extensive use of terms proposed by IAS 1 at the expense of certain classical terms. Thus, instead of *balance sheet*, we encounter quite often the term *situația poziției financiare* (in Romanian) – which originates directly in the English phrase *statement of financial position* – such as it features in the translation of IAS

1. In the case of the use of the balance sheet in table form, assets and equity and liabilities are calculated and presented distinctively: in 2012, for equity and liabilities, from among the 69 entities that preserve this model, there are only 6 (8,70%) which mention *pasiv* (in Romanian) – the other 63 (91.30%) use the compound term taken directly from English *equity and liabilities (capitaluri proprii și datorii – in Romanian)*. In 2013, the situation evolved – there remained three entities that used the term *pasiv* (4.11%).

5.1.3 Format of the statement of profit and loss

The list of compulsory elements to be supplied by an entity in the SPL is presented in IAS 1 and it must be completed with elements required by other IFRS. As for the format of the income statement, IAS 1 reminds one that there are two variants: to regroup charges by their nature and to classify charges by their function. In 1994, RAS opted for the model that classifies charges by nature, and so far this principle has not been changed. We can therefore expect the transition to the IFRS to translate into the preservation of this type of presentation. In fact, in Table no. 5, one can see that the choices of listed companies go for classification of charges by nature in more than 85% of the cases (which confirms our hypothesis H3). Among the countries analysed by Kvaal and Nobes (2010), it is only in the case of Spain that the classification of charges by nature represents the majority choice (in France and in Germany, IFRS classification by function prevails).

Table 5 IFRS classification of expenses in the SPL of Romanian listed companies

Classification of expenses	2012		2013	
	N	%	N	%
By nature	66	85.71	69	86.25
By function	11	14.29	11	13.75
Total	**77**	**100**	**80**	**100**

The use of a classification of charges by function in the case of certain companies can be explained by the fact that these companies have a foreign main shareholder who, probably, imposes this format for the sake of an easier homogenization in the case of consolidation: in fact, 9 of the 11 companies that use this model have a foreign shareholder who owns more than 50% of the shares.

Some other elements that could characterize the income statement/statement of comprehensive income have to do with companies' explicit choices. Thus, we shall present the methods/ formats preserved by Romanian listed companies in what concerns the presence of operating income, the current tax expense/ deferred tax income, and the components of the other comprehensive income.

The presence of operating income (in RAS, it had to be present, always): after the exclusion of banks and other financial entities, whose particular features in data presentation are important in the case of SPL, we found 11 entities (out of 66) that have chosen not to explicitly feature operating income in their income statement. This finding correlates with what Kvaal and Nobes (2010) noticed: in all the 5 countries which they analysed, operating income is present in more than 50% cases and the percentage goes even as far as 100 % (for France and Germany).

The distinct presentation of the current/deferred tax expense is only possible in IFRS financial statements – in RAS there is no deferred taxation. In the format of financial statements required by the Ministry of Finance and by the BSE to companies listed since 2012, there are four lines to report taxes: current tax expense, deferred tax expense, deferred tax income and other equivalent taxes. On the contrary, in IFRS financial statements that listed entities publish on their webpages, the situation is different. In Table no. 6, we notice that most companies feature a single line to declare tax expense.

Table 6 Presentation of the income tax expense in the IFRS SPL of Romanian listed companies

Year	Number of observations	Total tax expense			No information
		Total	from which:		
			deferred tax in SPL	deferred tax in notes	
2012	77	65	15	37	12
2013	80	68	17	50	12

In the case of 12 companies (both in 2012 and in 2013), there is no declared tax, due especially to fiscal loss during the fiscal year and/or to fiscal loss reported in previous fiscal years. For the others, approximately ¼ declare deferred taxes in the SPL, while the others either do not declare anything, or they ventilate the tax charge in current and deferred in notes.

The other comprehensive income (OCI) and the distinct presentation of comprehensive income are new elements in the IFRS, by comparison with RAS. In 2012, 9 companies (out of 77) did not declare a comprehensive income as distinct from the net income; in 2013, there remained 7 companied in this situation. In the case of companies whose comprehensive income differs from net income (53 in 2012 and 42 in 2013), the OCI are the revaluation reserve (in more than 60% of the cases), variations in the fair value of certain financial instruments (more than 25% of the observations), actuarial gain/loses (approximately 10% of the cases), and other elements.

5.1.4 Some specific requirements in the financial reporting of Romanian listed companies

The Romanian authorities was and remains one of the privileged users of accounting information supplied by Romanian entities in financial statements, for statistic and fiscal ends. The centralization of this accounting information is facilitated by the identical format of financial statements imposed by the Ministry of Finance. Faced with the diversity allowed by the IFRS in the presentation of financial statements, the regulator reacted by demanding all listed companies to fill in, in addition to what they were providing to investors, a set of accounts common for everybody and which resembles the previous formats: balance sheet in list format and income statement that classifies charges by their nature. So all these documents have the same format for all, which allows authorities to centralize information in the same way as they did before the IFRS. In fact, listed entities that had chosen a different model from that of the Ministry publish two balance sheets and they can publish two income statements. This information in the same format for all listed companies is equally preserved by the Bucharest Stock Exchange and made public in the financial characterization of each entity listed on its site.

5.1.5 Cash flow statement

This component of financial statements should undergo the least modifications due to the transition to IFRS, given its construction on the principle of cash-based accounting and not of accrual-based accounting. In fact, there have been changes for certain entities due either to definitions of cash and of cash equivalents, or to different classifications according to flow category in RAS and in the IFRS – yet this is not the focus of our study here. At the same time, the change of accounting standard can justify the passage from the direct method to present operating flows to the indirect method or vice-versa. In Table no. 7 we summarize the use of direct/indirect methods for operating cash flows, knowing that the transition to the IFRS was accompanied by 10 such changes; 7 companies that transit from the direct method towards the indirect method and 3 in the opposite direction: our hypothesis H4 is confirmed. We can notice that the direct method is very much present, in comparison with what we learn from Kvaal and Nobes (2010): for the three continental European countries, the indirect method is used by the vast majority of companies that apply the IFRS.

In the evolution of the methods to present operating cash flows (Table 7), we notice that there had been changes before 2012, which had not been justified by the transition to IFRS. When comparing the data in Table 7 with the consolidated data in Table 2, one can notice that the direct method, even though it remains a minority option, is much more embraced in individual financial statements and it is preferred by companies that do not establish consolidated accounts.

Table 7 Method of presentation of the operating cash flow

Year	Valid observations	Indirect method	Direct method
2006 RAS	**75**	43 (57.33%)	32 (42.67%)
2007 RAS	**80**	45 (56.25%)	35 (43.75%)
2008 RAS	**81**	45 (55.56%)	36 (44.44%)
2009 RAS	**81**	42 (51.85%)	39 (48.15%)
2010 RAS	**82**	42 (51.22%)	40 (48.78%)
2011 RAS	**84**	45 (53.57%)	39 (46.43%)
2012 IFRS	**77**	45 (58.44%)	32 (41.56%)
2013 IFRS	**80**	47 (58.75%)	33 (41.25%)

Table 8 Presentation of the dividends and interest in the cash flow statement of Romanian listed companies RAS vs. IFRS

	Presentation in…	2011 RAS	2012 IFRS
Dividends received	Operating	4	2
	Investing	25	20
	Others	1	2
	Total observations	**30**	**24**
Interests received	Operating	17	13
	Investing	35	38
	Others	3	4
	Total observations	**55**	**55**
Dividends paid	Operating	2	2
	Financing	41	36
	Others	1	1
	Total observations	**44**	**39**
Interests paid	Operating	43	47
	Financing	15	13
	Others	2	-
	Total observations	**60**	**60**

Kvaal and Nobes (2010) analyse two components of the statement of cash flows, whose place in a category of flows depends on each entity's choices: received dividends (in operating flows or in investing flows) and paid interests (in operating flows or in financing flows). Table 8 features the situation of the presentation of these elements in 2011 (in RAS) and in 2012 (in IFRS) and we can notice that there is a certain diversity in presentation both before and after IFRS and that IFRS-induced changes are not very important. In the sample chosen for this analysis, we have eliminated the entities whose activity is essentially financial, due to their particular features with respect to the presentation of interest and dividend (Table 8). Furthermore, in addition to Kvaal and Nobes (2010) analyse, we have presented paid dividends (even though their place is almost always in financing flows) and received interests (even though, for non-financial companies, they are very few). The presentation of dividends and received interests mostly in investing flows distances us one more time from the prevailing situation in the continental European countries analysed by Kvaal and Nobes (2010), for which these flows are mainly presented in operating.

The changes of category of flows for interests and dividends are presented in Table 9.

Table 9 Changes in the category of cash flow for the dividends and the interests on the transition to IFRS of the Romanian listed companies

Items	From Operating to Financing	From Financing to Operating	From Operating to Investing	From Investing to Operating
Dividends received	4	3		
Interests received	5	7		
Dividends paid			2	
Interests paid			6	2
Total changes	**9**	**10**	**8**	**2**

5.2 Accounting policies in the measurement and the use of estimates for some assets and liabilities

The classification of assets in IFRS, especially the presentation and/or distinct measurement of investment properties, biological assets, non-current assets held for sale, deferred tax liabilities or financial instruments is much more complex that the ones practiced in RAS. We shall present IFRS accounting policies for categories of fixed assets that remain valid in IFRS (focusing only on tangible and intangible assets), as well as choices in the case of investment properties (in which case one can opt for the cost model or for the fair value model) and for inventories. Biological assets do not interest us much in this context because their evaluation must always be made at fair value (in IFRS).

5.2.1 Measurement after recognition of the tangibles fixed assets

The evolution of Romanian economy (after Ceaușescu's fall in 1989) was characterized by a strong inflation during several years. According to data provided by the Romanian National Bank, Romania underwent hyperinflation (cumulative inflation rate over three fiscal years higher than 100%) up to the end of 2003. Despite these conditions, the Romanian regulator did not impose an inflation accounting. The only possibility to present certain assets at values closer to market value was the revaluation of tangible fixed assets. In order to apply this procedure, in the 1990s, companies had to wait for an explicit decree from the Government – and such decrees were issued in 1990, 1992, 1994 and 1998. In 2000, companies were free to choose revaluation, under certain circumstances. Some revaluations were compulsory, others were optional. The strong depreciation of the national currency determined most companies to choose revaluation. Thus, the practice of revaluation in Romanian accounting has always been quite current. After 2003, the exit from the hyper-inflationist period was accompanied by the real-estate boom which went on up to the end of 2008. The increase in real-estate prices itself stimulated the practice of revaluation, especially of plots of lands and of buildings. A fiscal element (valid since 2004) comes to further encourage the revaluation of buildings: actually, tax on buildings reach the level of 20% of their accounting value (and even 40%) for constructions which had not undergone accounting revaluation at least every three (five) years. Under the circumstances, one can understand why the revaluation of certain tangible fixed assets had become a quasi-generalized practice among many Romanian companies. Table no. 10 centralizes data supplied by Romanian listed companies concerning the model applied for the measurement of tangible fixed asset after recognition. These data confirm the very frequent use of revaluation in Romania – maximum 6% of the listed entities apply solely the cost model. The analysis of methods declared by listed companies between 2006 and 2011, in RAS, allows us to notice that there had been many changes for each individual company: approximately 25% of the companies changed RAS methods during this period: the passage from revaluation to cost either for all fixed assets, or for certain categories, or even passage from cost to revaluation.

The advent of IFRS did not change much in the economic and fiscal environment and one could expect this accounting policy – the fair value model – to be preserved for tangible fixed assets. Table no. 11 features the policies declared by Romanian listed companies for the evaluation of tangible fixed assets after their initial accounting registration.

Table 10 Measurement after recognition of PPE for Romanian listed companies, in RAS

Year	Total listed companies in the sample	Cost model	Revaluation model	Revaluation for buildings, cost for the others	Revaluation for buildings and land, cost for the others
2006	61	2	37	11	11
2007	65	3	38	11	13
2008	66	4	34	11	17
2009	68	4	35	10	19
2010	67	4	35	11	17
2011	82	2	40	16	24

Indeed, many listed companies continue to practice revaluation when applying IFRS, even though the weight of companies preserving only the cost model increases from 6% to 19% in 2012 and to 16% in 2013, which confirms our H5 hypothesis. Preserving the revaluation model in IFRS accounting is all the more easy for Romanian companies because pre-IFRS rules are very close to IAS 16 in what concerns revaluation accounting. In fact, since 2001, RASs have become increasingly closer to IFRS for fixed assets (Istrate, 2012). Kvaal and Nobes (2010) notice a completely different situation in France, Spain and Germany – there is no choice for the fair value model in these countries.

Table 11 Measurement after recognition of PPE for Romanian listed companies, in IFRS

Year	Total listed companies in the sample	Cost model	Revaluation model	Revaluation for buildings, cost for the others	Revaluation for buildings and land, cost for the others
2012	77	15	30	9	23
2013	79	13	31	12	23

In Table 12 we can notice that there are, however, 28 entities (more than a third from our sample) that have introduced more or less important changes in the methods maintained for the subsequent evaluation of tangible fixed assets, on the occasion of the compulsory transition to IFRS.

Table 12 Changes in the evaluation model of the PPE, on the transition to IFRS

2011 RAS	2012 IFRS	Companies that changed method
cost and revaluation	cost	9
revaluation	cost	5
cost and revaluation	revaluation	7
revaluation	cost and revaluation	6
cost	cost and revaluation	1
Total		**28**

IFRS 1 allows the use of fair value as deemed cost on the date of the transition. In the financial statements of Romanian listed companies that applied IFRS for the first time in 2012, we can find 18 such companies (23%) that maintained this option allowed by IFRS 1. It is interesting to notice that among these 18 companies, 6 declare the cost model, 5 continue to revaluate all tangible fixed assets and 7 re-evaluate only land and/or buildings.

In the revaluation of tangible fixed assets, one can suppose that listed entities apply correctly the rules stipulated in IAS 16. To check the compliance of financial statements with accounting standards is an auditor's work. Gîrbină *et al.* (2012) notice that among the 26 entities listed in the first category of the Bucharest Stock Exchange for the year 2010, there were 6 with a qualified opinion. For the period 2008-2012 Cordoș and Fülöp (2013) find unqualified opinions that do not go beyond 80% in the case of Romanian listed companies (64% in 2008, 70% in 2009, 76% in 2010, 80% in 2011 and 68% in 2012). In his turn, in a quantitative analysis of IFRS impact, Istrate (2014) finds that his results must take into account the fact that among the 68 entities in his sample, there were only 36 (53%) with unqualified opinions or without any observations. Under the circumstances, we have tried to identify references to the revaluation of fixed assets in audit reports for the fiscal years when IFRS were applied (2012 and 2013). In the 155 exploitable observations for these two years, we identified 12 audit reports with a qualified opinion and a report with a disclaimer opinion where, among the provided justifications, we find elements concerning revaluation. We must say that among these 13 observations, there are three companies that feature in both years, which means that the number of individual companies is 10. Auditors' comments are presented in Table 13.

Table 13-Observations of the auditors concerning the revaluation of PPE in justifying the qualified opinion for Romanian listed companies (2012 and 2013)

Explanations of auditors for the qualified opinion	Frequency
1. There are not enough justifications for the confirmations of the fair value	3
2. There is a selective revaluation (some assets in the same category are not revaluated)	3
3. The company did not performed the impairment test, even if there was indications that an impairment loss have occurred	3
4. The revaluation reserve was transferred to the share capital before the derecognition of the PPE involved	2
5. The revaluation was performed by the employees of the company	1
6. The revaluation is not regularly performed (at 2013m there was not an estimation of the fair value)	1
7. The fair value was not identified et the closing date	1
8. The depreciation was recognised in equity and not in profit and loss	1
9. The new software was not yet applied correctly	1
Total observations	**16**

5.2.2 Measurement after recognition of the intangibles assets

RASs do not allow the revaluation of intangible fixed assets. IAS 38, on the contrary, proposes the same two models (cost and revaluation) for the treatment of intangible assets after their initial recognition. The transition to IFRS allows us to notice that, in that case too, the change is not significant: among the 77 observations from 2012, there are 2 (2.60%) which revaluate; in 2013, there are 4 companies out of 79 (5.06%). These results confirm our hypothesis H6.

5.2.3 Cost model and fair value model for the investment properties

This category introduced by IFRS in the accounting of Romanian listed companies did not exist in RAS. Even though the accounting recognition of fair value variations is done differently in comparison with tangible fixed assets, the choice is always one between the cost model and the fair value model. Actually, data reported in Table no.14 show that fair value is the most frequent option for investment properties and, in addition, it is coherent with choices concerning buildings and lands reported in PPE: hypothesis H7 is thus confirmed.

Table 14 Choices for cost model/fair value model for Romanian listed companies in IFRS

Year	Total companies in the sample	Companies who report investment properties	Fair value model		Cost model	
			Total	*From which using fair value model for buildings*	*Total*	*From which using cost model for buildings*
2012	77	**31**	**24**	23	**7**	4
2013	79	**33**	**27**	27	**6**	4

Table 15 Cost formula for inventories for Romanian listed companies, in RAS (2006-2011) and in IFRS (2012 and 2013)

Year	Total usable observations	CMP	FIFO	LIFO	Standard cost	Observations
2006 RAS	54	24	29	1	9	In 9 cases, companies declare 2 methods
2007 RAS	57	24	33	1	8	In 9 cases, companies declare 2 methods
2008 RAS	61	25	36	1	9	In 10 cases, companies declare 2 methods
2009 RAS	62	26	34	1	11	In 10 cases, companies declare 2 methods
2010 RAS	64	26	36	1	11	In 10 cases, companies declare 2 methods
2011 RAS	70	30	37	1	14	In 10 cases, companies declare 2 methods
2012 IFRS	65	27	36	0	7	In 5 cases, companies declare 2 methods
2013 IFRS	64	29	37	0	7	In 7 cases, companies declare 2 methods

5.2.4 Cost formulas for inventories

The ignition recognition of inventories is quite similar, at least at the level of the written norm, in RAS and in the IFRS (purchase cost, production cost). For the reporting in the financial statement, RAS propose, for interchangeable stocks, weighted average cost (WAC), just like FIFO and LIFO (to which techniques such as the standard cost method or the detail price method are added). All these methods, with the notable exception of LIFO are compatible with IAS 2. Table 15 centralizes the main methods used by listed Romanian companies in RAS and in IFRS.

Looking at each entity, we noticed changes in the cost formula in the cases presented in Table 16. There are 13 companies out of 65 (20%) which benefited from the passage to IFRS to change the method, and a single company which was obliged to do it (the company that used to apply LIFO).

Table 16 Changes in the cost formula for the Romanian listed companies on the transition to IFRS

2011 RAS	2012 IFRS	Number of companies that changed the method
FIFO	standard cost	3
FIFO and WAC	WAC	1
WAC and standard cost	WAC	2
FIFO and standard cost	FIFO	2
WAC	FIFO	1
WAC and standard cost	FIFO	1
Standard cost	FIFO	1
Standard cost	WAC	1
LIFO	FIFO	1
Total		**13**

Thus, hypothesis H8 is rather confirmed.

5.2.5 Depreciation of property, plant and equipment

Since 1994, Romanian standards have been allowing the use of several depreciation methods: straight line depreciation, declining balance depreciation, accelerated depreciation and units of production method. It is only beginning with 2010 that accounting regulations recognize the exceptional (fiscal) character of accelerated depreciation. Anyhow, there were few companies that applied this depreciation mode, for certain types of equipment (Table no. 17). Straight line depreciation represents the most widespread method before and after the transition to IFRS.

Table 17 Depreciation methods of PPE, for Romanian listed companies, in RAS (2006-2011) and in IFRS (2012 and 2013)

Year	Total entities	Straight line	Declining balance	Accele-rated	Units of production method	Observations
2006	**61**	61	5	5	1	Between 6 and 12 companies use every year 2 or 3 methods, for different categories of PPE
2007	**64**	64	5	5	1	
2008	**65**	65	6	5	1	
2009	**67**	67	4	5	1	
2010	**73**	73	4	5	1	
2011	**79**	79	4	4	1	
2012	**76**	76	2	-	4	
2013	**76**	76	2	-	5	

In Table 18, we can see that very few companies change the depreciation mode and that the main change concerns the renunciation at accelerated depreciation which does not really correspond to the spirit of IAS 16, which confirms our hypothesis H9.

For the depreciation period, we have not found enough elements in financial statements to estimate the extent of potential changes.

In the case of tangible fixed assets, straight line method is applied in all eligible cases, except for a company which uses the units of production method both before and after IFRS.

Table 18 Changes in the depreciation method used for PPE caused by the transition to IFRS, form Romanian listed companies

2011 RAS	2012 IFRS	Companies who changes the depreciation method of PPE
straight line and accelerated	straight line	4
straight line and declining balance	straight line	2
Total		**6**

6. Conclusions

The impact of IFRS compulsory or voluntary application on the accounting policies of listed companies has been the focus of numerous studies. One of the main hypotheses posed by authors consists in the continuation of national accounting policies, to the extent that they are compatible with IFRS and that thus, the international comparability of IFRS financial statements is not yet achieved (see especially Kvaal & Nobes, 2010; Haller & Wherfritz, 2013; Stadler & Nobes, 2014). In this study we shall maintain the same hypothesis for the case of Romanian listed companies that had to apply, compulsorily, the IFRS in their individual financial statements starting with 2012 financial statements. This Romanian transition has already been studied in other analyses of the economic, financial, cultural context of the application of the IFRS in Romania, the history of Romanian accounting reforms, the quantitative impact of the IFRS…

To our knowledge, the study is the first to analyse the choices of IFRS accounting policies made by Romanian companies by comparing them to accounting policies in national standards. In this analysis we must take into account the fact that, for at least a decade, Romanian accounting has been adjusting step by step to international standards and that therefore, RAS had already incorporated a certain number of options that are specific to the IFRS.

Following the model proposed by Kvaal and Nobes (2010), we have maintained 14 items - types of accounting policies / accounting estimations in which cases companies can choose between two (and sometimes several) possibilities that comply with IFRS, to which we have added the size of IFRS financial statements set in relation with financial statements according to RAS. Our hypotheses take into account the fact that from the point of view of the classification of accounting systems, Romania is close to continental European accounting models, and that choices can be compatible with those already made in consolidated financial statements.

The first hypothesis of our study takes into account the size of IFRS financial statements which, given the more numerous presentation obligations that are specific to IFRS, should go beyond the size of financial statements in RAS. This hypothesis is validated, but the differences are not very important. The 8 other hypotheses pursue the idea of Romanian companies' continuation of accounting policies - except for the format of the balance sheet. Results obtained after the (manual) collection and interpretation of data from financial reports published by listed Romanian companies confirm our hypotheses:

- the balance sheet in table format is the most frequent format among Romanian listed companies, which confirms choices already made in the consolidated financial statements established in IFRS since at least 2007 – despite a compulsory different format in RAS;

- the income statement is presented mostly with an analysis of expenses by nature, which is not surprising given the obligation of this type of presentation in RAS; in addition, in the income statement, the operating income is explicitly featured in most cases, while the expense/the deferred tax income is presented in the income statement in approximately 25% of the cases;
- the method for the presentation of operating cash flows is quite stable in time and there are few IFRS-induced changes; the transition to IFRS has rather led to a change in the category of dividend and interest flows, but in this case too, changes concern a minority of companies;
- systematic revaluation remains the preferred policy of listed Romanian companies in what concerns tangible fixed assets, even though there are approximately 15% companies that in IFRS, apply only the cost model, in comparison with the situation in RAS, where the weight of this model is much less important;
- intangible fixed assets cannot be re-evaluated in RAS –IFRS do not change the behavior of Romanian companies in this field;
- in RAS, there was no distinct category of investment property – all buildings and plots of land were tangible fixed assets (revaluated, mostly). The transition to IFRS confirms that the fair value model is the most frequently used;
- inventories evaluation methods – there are only 13 companies (out of 65) which have changed the method on the occasion of the passage to IFRS (of which 1 had to give up the LIFO method) ;
- for the depreciation of tangible fixed assets, changes are not significant.

Among the limits of our study, we can highlight the small size of the sample, the absence of other types of choices in accounting policies (government grants, financial instruments, pension plans…), the fact that we have not taken into account sectors of activity and company size, as well as the absence of references to companies from comparable countries in Central and Oriental Europe. Our subsequent research could extend our analysis precisely to other choices and especially it could compare Romania to other ex-communist countries (Hungary, Poland, the Czech Republic, Slovenia, Slovakia, and Bulgaria).

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