The Professional Judgment and the IAS/IFRS Referential

VIORICA MIRELA ȘTEFAN-DUICU
Lecturer, the Department of Economic Sciences
„Nicolae Titulescu” University
185 Calea Văcărești, 4th District, Bucharest
ROMANIA
chirita.mirela@gmail.com

ADRIAN ȘTEFAN-DUICU
Auditor
ROMANIA
stefanduicu.adrian@gmail.com

Abstract: *This paper aims to describe the professional judgment resulted from the issuance and application of international standards IAS/IFRS. A main purpose was to practically and conceptually identify the forms in which this judgment is generating its effects in the professional activity. The professional judgment raises various interrogations regarding its valences in the organizational environment and represents a central element of the current legislator's attention.*

Keywords: *- professional judgment, IAS/IFRS, accounting, information, regulators*

1 Introduction

The International Financial Reporting Standards - IFRS incorporate a set of regulations. Currently, these norms are issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide an identical information process and a common global set of procedures for companies so that the accounts can be understandable and comparable in an extended manner across international boundaries.

A large number of standards that are part of IFRS are known under the name International Accounting Standard (IAS). These standards were issued by IASC - Board of the International Accounting Standards Committee - the predecessor of IASB, and are still within use today.

IAS standards were issued between 1973 and 2001. On April 2001, the new International Accounting Standards Board (IASB) has adopted all IAS Standards, developing a permanent process of improving them. The new standards are called IFRS. IAS standards are no longer issued, those that already exist are still in force until they are replaced or amended by the issuance of new IFRSs.

2. A general view of the Financial Reporting Standards

Table 1. List of International Financial Reporting Standards

IFRS	← IAS
	IAS 1: Presentation of Financial Statements
The Conceptual Framework for Financial Reporting	IAS 2: Inventories
IFRS 1 First-time Adoption of	IAS 7: Statement of Cash Flows

International Financial Reporting Standards	
IFRS 2 Share-based Payment	IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
IFRS 3 Business Combinations	IAS 10: Events after the Reporting Period
IFRS 4 Insurance Contracts	IAS 12: Income Taxes
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	IAS 16: Property, Plant and Equipment
IFRS 6 Exploration for and Evaluation of Mineral Resources	IAS 17: Leases
IFRS 7 Financial Instruments: Disclosures	IAS 19: Employee Benefits
IFRS 8 Operating Segments	IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
IFRS 9 Financial Instruments	IAS 21: The Effects of Changes in Foreign Exchange Rates
IFRS 10 Consolidated Financial Statements	IAS 23: Borrowing Costs
IFRS 11 Joint Arrangements	IAS 24: Related Party Disclosures
IFRS 12 Disclosure of Interests in Other Entities	IAS 26: Accounting and Reporting by Retirement Benefit Plans
IFRS 13 Fair Value Measurement	IAS 27: Separate Financial Statements
IFRS 14 Regulatory Deferral Accounts	IAS 28: Investments in Associates and Joint Ventures
IFRS 15 Revenue from Contracts	IAS 29: Financial Reporting in Hyperinflationary

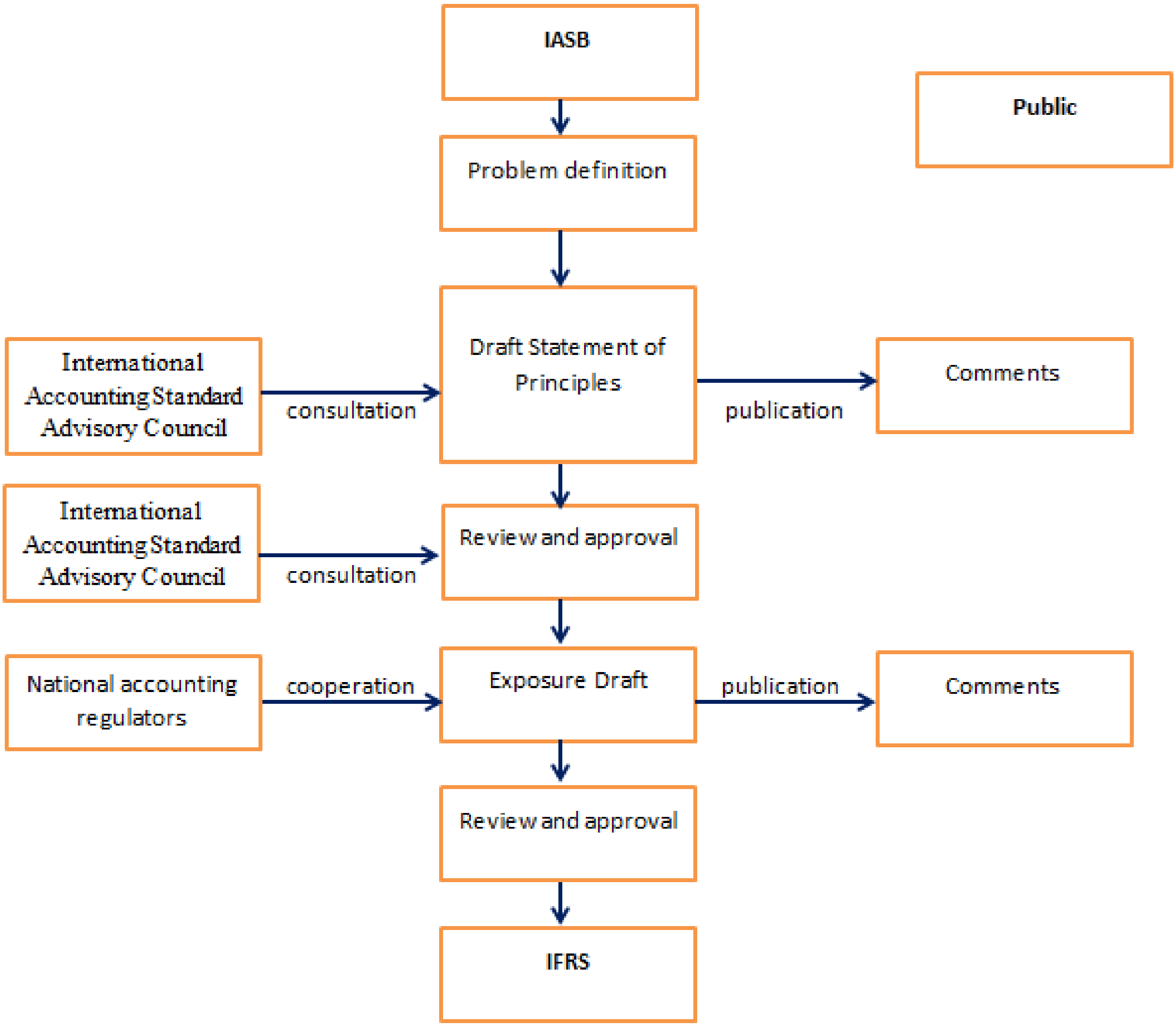
with Customers	Economies
IFRS 16 Leases	
IFRS 17 Insurance Contracts	
	IAS 32: Financial Instruments: Presentation IAS 33: Earnings per Share IAS 34: Interim Financial Reporting IAS 36: Impairment of Assets IAS 37: Provisions, Contingent Liabilities and Contingent Assets IAS 38: Intangible Assets IAS 39: Financial Instruments: Recognition and Measurement IAS 40: Investment Property IAS 41: Agriculture

Source: issued by the author after *IFRS Foundation and the IASB* website

The conceptual framework of IFRS, an important regulatory element, guides the accounting practices and implicitly the conduit and judgment at a professional level through the presentation of the financial statement's objectives, of qualitative characteristics of accounting information through their utility for the financial statement, of the image of the "capital" concept and the detailed presentation of the elements that serve as foundation in the construction of the financial statements.

Within this framework we find the "theoretical principles and the concepts that form together the reference system for the issue and presentation of the financial statements for the external users, basically what should the accounting be, delimited as a normative accounting theory, respectively a particular case of the general accounting theory" (Ristea, Dumitru, 2005, p.12).

Figure 1. The process of an IFRS issuance



Source: Adaptation based on the work of F. Sârbu - „Sistemul contabil românesc”

The normative pack IAS/IFRS chooses priority of substance over form (choosing definitively the prevalence of economic over legal), establish in certain domains the rule of fair value reevaluation and, within this context, provide a wide space for the professional judgment of the accounting practitioner (Tabara, Horomnea & Mircea, 2010, p. 124).

Within the content of IAS standards, the professional judgment is explicitly mentioned 32 times within the activities presented in Table 2. The references have been presented below, on each activity that has in its content the express mention of the professional judgment, by the presentation of each IAS standard.

Table 2. Explicit mentioning of the Professional judgment within the IAS

• IAS 1
✚ The identification of the financial statements ✚ Within the information that needs to be presented within the balance sheet; ✚ Within the information that needs to be presented whether in the P&L statement of the Notes;

- Accounting Policies;
- Main sources of estimates uncertainty;

- IAS 8
  - The selection and application of the accounting policies;
  - The modification of accounting estimates;
  - The presentation of the information;
- IAS 16
  - Recognition;
  - The depreciable value and the depreciation period;
  - The presentation of the information;
- IAS 21
  - Functional currency;
- IAS 23
  - The debt costs that can be capitalized.
- IAS 29
  - Retreatment of the financial statements;
  - Domain of applicability.
- IAS 34
  - Materiality.
- IAS 36
  - The identification of the cash generating unit of which an asset belongs.
- IAS 37
  - Evaluation – the best estimate.
- IAS 38
  - Domain of applicability;
  - Recognition and evaluation.
- IAS 39
  - The depreciation and non-recoverability of financial assets.
- IAS 40
  - Definitions.

Source: issued by the author

3. Results and discussions

When the definition of the professional judgment comes into discussion, through the prism of normative vision, there are two important perspectives that work together at an organizational level:

1. The explicit perspective – that represents the explicit mentioning of using the professional judgment in the requested situations; this perspective appears wen a norm allows the user of accounting information to act in accordance with his experience and professional skills;

An exemplification of this perspective can be highlighted through IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors as follows: “in the absence of a standard or interpretation that will apply especially to a transaction, another event or situation, the management needs to use the “professional judgment” to elaborate and apply an accounting policy that has as a result information:

a) Relevant for the needs of users regarding the economic decision making process;
b) Credible through the fact that the financial statements:
   i. Fairly represent the financial position, the financial performance and the cash flows of the entity;
   ii. Reflect the economic content of transactions, other events and situations other but their legal form;
   iii. Are neutral;
   iv. Are prudent;
   v. Are complete in all material aspects;

In the case of using the professional judgment mentioned above, the management needs to refer and take into consideration the applicability of the following sources, in decreasing order:

a) The requirements and recommendations from the Standards and Interpretations that refer to similar or alike elements;
b) Definitions, recognition criteria and evaluation concepts for assets, liabilities, income and expenses from the General framework” (IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, A 456).

2 . The implicit perspective – represents a common label of normativism that generates an equivalence of applying the professional judgment and the assembly of norms issued through the obligation of norm application.

The norms stated in the IAS combines the two perspectives of framing the professional judgment in the accounting theory, coming to enforce the IFRS referential that uses preponderantly the implicit perspective.

In accordance with professors M. Ristea and C.G. Dumitru, “the IFRS accounting system is based on principles that invite to accounting policies in accordance with the standards’ provisions but also to the professional judgment of the practitioners …()… The principles require judgment and the judgment is an integral part of issuing the financial statements.” (Ristea&Dumitru, 2012, p. 58).

On the background of the globalization process of the economy, the accounting companies need to develop an increasingly range of services (Sudacevschi, 2016, p. 718) and take into consideration the impact of the professional judgment over the companies. Another aspect that needs to be taken into consideration is that “in the financial theory, considering important the informational and strategic interaction’s imperfections allows the comparison of the effectiveness of different financing methods and different organization types of financial markets” (Grigore, 2009, p. 374).

The objective of these financial statements is to provide information regarding the financial position of the company and the changes that can occur regarding the financial position, information regarding the company’s performance, segments of the market that are influenced by the increase of prices etc. and addresses to an extended number of users among which we state: actual and potential investors, employees, creditors, suppliers, public, the financial analysts etc.

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