

Empirical Study about Prudence and Aggressivity in Valuation

MARIANA GURĂU

Nicolae Titulescu University, Bucharest
marianagurau@univnt.ro

MARIA ZENOVIA GRIGORE

Nicolae Titulescu University, Bucharest
mgrigore@univnt.ro

Abstract: In order to meet the objective of accounting, to present a true and fair view of the financial position, performance and cash flow of an economic entity, it is necessary to choose appropriate accounting policies. The accounting policies represent the rules regarding the recognition and evaluation of the structures in the balance sheet and the income statement. There is a degree of subjectivism in the evaluation, in the context of the intersection between the accounting and the fiscal objective. The notion of disconnection between accounting and taxation is pretty new. This is the reason for what there are a fear about valuation in the circumstances where taxation does not recognizes it. In this regard, we included in the present paper an advisory study involving professional accountants and presented their point of view in the field of valuation at different times of the financial year. One of the objectives of these study is to clarify underline the importance to choose the accounting policies with no implications of taxes rules. The accountant have to understand that in our days accounting policies must be independent. However, we cannot neglect the truism that it is in human nature that where there is no constraint regarding the provisions of a normative act, they will not apply.

Keywords: taxes policies, valuation, disconnection, prudence, accounting policies.

1 Introduction

Accounting theory was developed to support and unify accounting practices, by providing explanations targeted at defining it and served as a force of understanding necessary to ensure a system and logic for accounting practice. In time, the concepts of accounting theory and accounting practice were separate, and sometimes even they came to be contradictory. The practice has become less dependent on random and error.

Accounting research has progressively evolved from normative research to an empirical approach. Regarding the evolution of economic sciences, the introduction of a positive approach required the use of new tools whose first experiments were made on the validation of the decision-making utility hypothesis of accounting information.

Empirical tests have highlighted that the market has the power to predict the content of accounting information to be made public, which has raised the question of the nature of the usefulness of accounting rules and, in general, of the institutional role of accounting as a system for producing financial information.

This article is a synthesis of the research conducted with the objective of developing the concept of positive accounting research and reflecting the importance and timeliness of the assumptions regarding the accounting practices of the entities formulated and tested by positive steps.

In Romanian modern accounting reglementation there was a strong instability. For studding the risk aversion of accounting specialists when choosing accounting policies is necessary an approach to the relationship between accounting and taxation.

The notion of disconnection between accounting and taxation (fiscality) is pretty new. This is the reason for what there are a fear about valuation in the circumstances where taxation does not recognizes it.

In the absence of a modern accounting tradition, the accountant prefers to apply taxation rules in accounting purposes.

This is not a new topic in our work, we already studied the role of accounting policies in the image provided from financial statement, but in this paper we intend to include an advisory study involving professional accountants and provide their point of view in the field of valuation at different times of the financial year.

For this purpose, we have tried to involve fifty five accountant from companies with different business areas. Forty nine accountant have accepted to answer at our questions.

When we started the study, our intention was to detect the opinion of the accountant about the accounting policies, but we have met the ignorance about the difference between valuation and revaluation, between fiscal and accounting depreciation, between fiscal and accounting economic life of fixed assets.

At the end of the study we will analyze how the participants in the economic circuit, users of financial information, are affected by this relation starting from the goals of each area.

The topic we approached was analyzed by many researchers.

About the disconnection between accounting and taxation in Oprean and Oprean¹, 2012, p. 20) opinion the synchronization with the accounting firm's taxation system converges towards developing accounting methodologies by which to mitigate and to eliminate the carrying distorted representation of reality and to express achieving equity in financial accounting reports.

According to Băcanu² “The similarities between the accounting objectives and the taxation objectives are only at a general level. Thus, both for accounting and taxation there are various secondary objectives, which joined together help for fulfilling a main objective”.

2 The accountant's aversion to risk when choosing accounting policies

The objective of accounting (financial statements) is to provide a true and fair view regarding financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in the decisions they take on providing resources to the entity.

Information about the financial position aims:

- economic resources controlled by the entity and that are useful for anticipating the entity's ability to generate future economic benefits;
- structure of funding sources, it is necessary to anticipate future needs credit and the possibility of obtaining such loans;
- the distribution of profits and future cash flows, liquidity, solvency of the entity and the ability to adapt to changes in the economic environment in which it operates.

Those who prepare the financial statements are people, and certainly their subjectivism also intervenes. Thus, besides the accounting objective, the company, the tax and the professional accountant also intervene. The accountant is the one that has to answer to all these objectives.

The objective of taxation consists in calculating, charging, placing, tracking payment of taxes and contributions due from economic units, state.

These objectives are achieved by promoting financial policy economic and social. Taxes are a form of sampling a part of the income or property of individuals or legal entities to the state to cover its expenses. This sampling is necessarily non-refundable basis and without consideration of the state. It is necessary that fiscal rules to be known and respected as from payer and the tax authorities.

The objective of the economic entity, of the owner is to make a profit. Ownership unbundling and power within the entity favored the development and other objectives, but whose implementation remains subject to obtaining a satisfactory profit. These goals relate to increasing or maximizing sales and the quality of service rendered or goods.

Making a profit remains, therefore, the first purpose of the entity, but not only.

The accountant objective is to achieve the first three objectives respecting accounting and tax rules so that:

- To present a true and fair view of the financial position, financial performance of the entity and changes in financial position and financial performance (the objective of accounting);
- Ensure the correctness of the calculation and recording taxes owed by the economic entity (which consists of fiscal objective);
- To build the desired result as beneficial owners using tax incentives and accounting and tax treatments, when the choice (within the limits of the objectives of the two fields of accounting and taxation).

¹ Oprean, V. and Oprean, D. (2012). Dileme ale ingineriei organizațiilor: complementaritatea relațiilor contabilitate fiscalitate în context macro și microeconomic. RFPC. No. 10

² Băcanu, M.N. - „Comparative Study Regarding the Taxation Objectives and the Accounting Objectives – Domains of Influence in the Economic Circuit” International Conference: Development as purpose of human action New challenges for the economic science, Special Issue Volume XXIII (2016)

In this study we will consider the behavior of the professional accountant, his choices in respecting the three objectives, considering his concern to circumvent the risks.

A comprehensive global financial reporting framework provides greater comparability of financial information, ensures the quality and transparency of financial information, increases user confidence in accounting information.

In order to create such a reporting framework, pursuing the reduction of creative accounting practices and accounting fraud, accounting research focuses on studies on the standardization of corporate governance practices among issuers in different market segments, the harmonization of accounting policies and practices, the laying down of interpretative provisions, allowing for the alignment of the accounting policies of the totally new operations that are basically ignored by current practices, reducing the number of options permitted by accounting policies and their interpretive delineation.

Emphasizing the conformity of annual financial statements with the provisions of accounting reference regarding their true image, M. Ristea³ underlines the fact that the conformities with the provisions from accounting regulations do not exclude the presence of some liberties.

For the realization of the empirical study we used as scientific research methodology, the accounting positivism, based on hypotheses, even arbitrary, proceed to their empirical testing based on observed data, seeking to explain and predict facts that identify an accountant predictable behavior. Focus of accounting theory is not represented by a conceptual edifice, the whole accounting postulates and principles, because principles are intended now to explain the experimental results without themselves being explained. "If the assumptions do not correspond to the results of empirical observation, theory is invalidated, requiring either abandoning assumptions either their reformulation.

As a research method, we used questionnaire-based research and, as a form of research, the statistical survey.

The questionnaire is a data collection method that includes a predetermined set of questions, built for information or opinion analysis, transmitted directly or by mail to designated respondents in a specific manner. Respondents should complete the questionnaire without the researcher's assistance, which diminishes the response rate. On the other hand, it is necessary to follow the relevance in the questioning of the questionnaire, which will ensure a short time that should be invested in order to respond and interest for the respondent. The format, content and mode of expression are key elements of the questionnaire. In this respect, an optimal wording must be found that does not bother the respondent, but at the same time ensures access to all the information the researcher needs.

We wrote the questionnaire using both closed questions (which involve answers by simply ticking a variant), but also open questions that offer the possibility of personalizing the response where the respondent considers it necessary.

Closed questions are characterized by the provision of predefined responses, which facilitates comparisons and analysis of the collected information, ensuring a higher understanding of the questions, and the information obtained is of great relevance to the study undertaken.

Open questions are used to test more complex elements that do not know all the categories of response and are usually used to establish the point of view of each respondent.

Open questions are directed to the outline of the professional judgment used in drawing the financial statements.

Respondents also had the opportunity to add their comments if the answers provided did not fully represent their point of view.

We took into account the boundaries of a survey based on a questionnaire reflecting the lack of flexibility, the low response rate, the lack of control over the studied environment, the impossibility of spontaneous reactions.

The general hypothesis of the study is: *In choosing the accounting policies, the accountants are prudent, they don't like the risks.*

The study was conducted between January and March 2019, and the analysis was conducted on the basis of a sample of fifty-three different business entities, small and medium-sized companies that prepare simplified financial statements.

³ Mihai Ristea, *Conformity and Liberty in Accounting Policies of Financial Period Closing*, article published in Pro Domo, Monthly Journal of CECCAR, no. 2/2011 pg 19-22

Our approach resulted in receiving fifty-three completed questionnaires. In the process of building the database for information processing, four questionnaires were filled in incorrectly. Wrongful questionnaires were not considered.

After the first selection stage, there were forty-nine questionnaires. Of these, thirty come from companies that have their own accounting department, of which twelve have part-time employees, and eighteen have full-time employees. Nineteen of the respondent companies chose to outsource the accounting service.

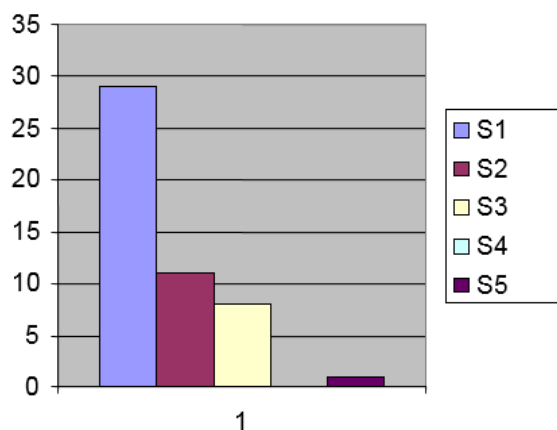
Thus, the responses taken into account and analyzed were received from forty-nine enterprises: thirty with their own accounting department and nineteen enterprises that turned to accountancy firms, information that we systematized in the following table:

Companies participating in the study	49	→ Outsourced accounting service	19		
		→ Own accounting service	30	→ Part time program	12
				→ Full time program	18

3 Presentation of collected data and their analysis in the context of the formulated hypotheses

The wording of the questionnaire was generated by the fact that in recent years, financial reporting as a product of accounting has become necessary for an increasingly diverse group of users. Therefore, the need to present a true and fair view of the financial position, performance and change in financial position becomes more and more motivated.

Eight respondents were dissatisfied with the lack of clear procedures for accounting and tax rules. What measures do you think should be taken so that the accountant can take time to apply the accounting policies?



S1 = Reducing the frequency of legislative changes;

S2 = Reduction in the number of tax returns;

S3 = Introduction of clear procedures for both accounting and tax rules;

S4 = Improve the accounting and tax knowledge of civil servants;

S5 = Other.

4 Limits of study and suggestions for future research

We accepted the small degree of response following the study of Sellitz and the collaborators, taken over by A. Duțescu, who managed to highlight the advantages, disadvantages and elements that lead to the availability or unavailability of answering a questionnaire by mail or traditional.

In this paper we did not propose, in the present study, to analyze the impact of non-compliance with the accounting principles, on the outcome I tried through a case study that I presented in another paper.

For closer the theory to practice, we propose for future research a study which start from the practical needs to the existing theoretical structures, to explain the extent requires all companies to enter in this carousel of convergence regarding submission of accounting information unpolluted from fiscality.

Understanding of the application of accounting principles through the components and joints philosophy of Recognition and Measurement (as practical) and rules on financial statements and disclosure (that theoretically) are at a very low level, which broadens very abyss between specialists in creating accounting standards and those applying them in practice.

5 Conclusions

In conclusion, the hypothesis formulated was confirmed, respectively, that a large part of the economic agents is somewhere on the edge between accounting and taxation when drawing up the financial statements from the point of view of recognizing and evaluating the balance elements. Because the time spent as well as the cost of tax processing of accounting information is significant, even an educated accountant professional may be forced to discount the accounting principles with the hope of saving time and administrative costs.

Questionnaires with questions about evaluation included the risk aversion of accountants. Thus, it is found that:

- The knowledge about the valuation of economic assets at the entrance to the entity is largely known. Only two of the respondents had incomplete answers in this area, ie they did not introduce the cost of the internal transport.
- The derecognition valuation rules are known by all accountants in the studio, including those on inventory (FIFO, LIFO, CMP).
- Confusion, (30% of respondents) between evaluation and reassessment is made.
- There are major reluctances to the inventor's valuation for the balance sheet. Forty five of the forty eight respondents answer that they find it risky to use inventory value, because there are no rules to guide them.

As a result of the study, our proposal is to develop detailed rules for the end-of-term evaluation, so that the view reflected by the financial statements of the companies is a true and fair one.

References:

- [1] Băcanu, M.-N. (2015). Romania from Connection to Disconnection between Taxation and Accounting - a Comparative Analysis of the Two Areas. *Analele Universitatii Ovidius*. Constanța.
- [2] Băcanu, M.N. - „Comparative Study Regarding the Taxation Objectives and the Accounting Objectives – Domains of Influence in the Economic Circuit” International Conference: Development as purpose of human action New challenges for the economic science, Special Issue Volume XXIII (2016)
- [3] Duțescu, A., *Informația contabilă și piețele de capital*, EdituraEconomică, Bucuresti, 2000,
- [4] Ciucur, E. and Gurău, M. (2012). The role of accounting and fiscal policies in the relations between accounting and fiscality. *Business & Leadership*. No. 2.
- [5] Gurău, M., - *Relation between accounting and tax reflected in accounting policies. Aggressive vs conservative. Case study for Romania*, LAMBERT Academic Publishing, 2014,
- [6] Matei, M.N., Matei, CR, Horhotă L - *National and International Norms on Accounting Policies and Procedures Applicable to Amortizable Tangible Fixed Assets. Impact on Patrimonial Result* – *Global Economic Observer*, nr 2, vol 5, 2017
- [7] Oprean, V. and Oprean, D. (2012). Dileme ale ingineriei organizațiilor: complementaritatea relațiilor contabilitate fiscalitate în context macro și microeconomic. *RFPC*. No. 10
- [8] Ristea, M, *Conformity and Liberty in Accounting Policies of Financial Period Closing*, article published in *Pro Domo*, Monthly Journal of CECCAR, no. 2/2011 pg 19-22
- [9] OMFP nr. 1802/2014 *pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate*
- [10] MFP: Legea Contabilității nr. 82 din 24 ianuarie 1991, cu completările și modificările ulterioare
- [11] M.Ordinul nr. 2861/2009 pentru aprobarea Normelor privind organizarea și efectuarea inventarierii elementelor de natura activelor, datoriilor și capitalurilor proprii.