

The Harmonization of Accounting

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Abstract. The development and configuration of the regulatory framework of the accounting systems in Romania and Hungary took place in different ways. Among the reasons for the diversities in these countries' accounting systems, the following can be certainly mentioned: different purposes of taxation, legal structure, the accountancy's connection with the corporate law and family law, diversification on corporate financing policy, and cultural heterogeneity. Both countries quickly caught up with the international accounting harmonization standards. The adaptation of the international accounting standards has many advantages and disadvantages; these have been discussed in several previous researches. This paper aims at comparing the Romanian and Hungarian states' accounting regulations from the early 1990s, which were implemented in order to harmonize the states' accountancy regulations with the international standards, and their impact on the economy, based on secondary analysis.

Keywords: harmonization, accountancy, IAS, IFRS, accounting standards

JEL Classifications: M41 Accounting

1. Introduction

The main goal of accounting is to provide information for the stakeholders who come into contact with the economic entity. This information has a crucial role in the stakeholders' decision-making process. Providing this information is possible through preparing and publishing the annual account. In order to justify the existence of accounting, the stakeholders and their interests need to be specified first. According to OECD (1987), the primary stakeholders are the companies' owners who want to be informed about the profitability and equity of the company. The management and the employees are stakeholders as well; they are also concerned about the company's profitability. Along with them, the lenders and business partners must also be mentioned, who want to track the company's finances, together with the experts who analyse the finances, while last but not least there are customers and the competitors.

The stakeholders' needs for information are irreconcilable; therefore, the accounting's external regulation is necessary. Accounting regulations are expected to ensure the financial statements' conformity with the reliability- and comparability-related requirements generated by information asymmetry. Information asymmetry appears on a market – in this case on a financial market – when there is uncertainty regarding an investment's or a product's quality. According to Akerlof (1970), there can be “lemons” and “plums” on a market.

Accounting has become more and more important as the “language of business”. Speaking this common language, companies publish their operational information, numbers. Through globalization and its completion, the need for comparable accounting data has come more and more to the front. In other words, globalization flow has certainly had an influence on the harmonization process in accounting (Mamić Sačer, 2015).

The main purpose of the paper is to overview the history of accounting harmonization and the steps and efforts that have been made in order to harmonize accounting on global and country level (Romania, Hungary). Then, it presents Romanian and Hungarian accounting along with the regulation systems' harmonization processes. The harmonization of accounting and the review of Hungarian and Romanian accounting regulations have been in the focus of researchers. The Romanian financial reporting was analysed e.g. by Lapteş and Popa (2013). The Romanian public accounting's evolution was also analysed by e.g. Nistor and Filip (2008) reflecting on the period of 1989–2008, Deaconu and Buiga (2011) covering the post-communist period (1991–2009). Albu et al. (2011) and Deaconu (2006) research the possibility of international accounting standards' implementation for small and medium-sized enterprises in Romania. The Hungarian accounting's history and the international standards' adoption were also analysed by Deák (2005), Borbély (2007b), Kardos and Madarasi Szirmai (2013), and Vajay (2015). Evolution of the accounting system in both countries was analysed by Borbély (2007b). The present paper attempts to overview the evolution of accounting harmonization; it also presents a comparison of Romanian and Hungarian national regulations in terms of their accounting, including the steps made towards harmonization. The accounting systems' analysis reflects upon the period starting from the 1940s to the present.

The paper begins by presenting the antecedents of the harmonization process, which is then followed by the description of the accounting standards and the international overview of the harmonization process. After an overview of the accounting standards, the article reflects upon the adoption of the accounting system and standards in Romania and Hungary. Finally, after drawing a parallel between these two countries regarding the way of how they introduced the national accounting standards, there follows the impact of standard adoption and conclusion.

2. Antecedents of the Harmonization

A company's subsidiaries, which are located in other countries than the parent company, have to prepare financial statements according to specific guidelines. These financial statements have different structure, and they are built in a different way regarding their content; therefore, their performance is hardly comparable for owners, investors, authorities, or other decision-makers. Along with the emergence of multinational companies, the capital market of certain countries became more and more open. Complex and unknown operations appeared, and the need for a common language of business has grown (Epstein & Mirza, 2002). Unifying accounting, as a common performance-measuring language, became a global ambition. As the result of a common business language, the specific business solutions are headed in the same direction. According to Bosnyák (2003), accounting is able to influence and determine the economic behaviour, and as a progressive approach accounting emphasizes the better understanding and explanation of the economic reality rather than only describing it.

3. The Harmonization Process

There are three main regulation systems regarding the accounting standards (Deák, 2005):

- US GAAP¹ is the most famous accounting principle; it expanded beyond the US borders a long time ago. However, the US GAAP would be politically unacceptable in many countries (Nobes, 2013).
- IASC – the International Accounting Standards Committee was set up in 1973. The committee's main goal was to create unified International Accounting Standards (IAS).
- The European Union (EU), where the public regulation of accounting started from the 1970s.

The most probable winner of the *global standards* title was either the IAS or the US GAAP. The EU's regulation system was not properly elaborated; therefore, the EU recognized that it should take a side and join the standard creation process. Finally, through Directive 2001/65/EC, the EU decided to join the IAS and submitted its candidacy to the IASB. The "Norwalk Agreement" was the next step towards the global standards. This agreement was made between the

1 US GAAP – Generally Accepted Accounting Principles – are those accounting principles which were generally accepted and adopted by the United States Securities and Exchange Commission (SEC). In parallel with the socio-economic evolution, the series of national GAAPs develop as particular countries' accounting principles (Deák, 2005).

Financial Accounting Standards Board (FASB) of the USA and IASC in order to establish the convergence of the US GAAP and IAS (FASB, 2002).

Behind the accounting regulations' standardization, there is a second harmonization, similar to the US GAAP and IAS convergence. The latter's (harmonization) goal is to support the free movement of capital through international investments and presence on the markets of their countries. This was a significant step forward, while until then only the financial statements made according to specific national principles (e.g. American) could be adopted in that particular country (e.g. USA). Therefore, the statements had to be translated according to the target country's regulation standards (Deák, 2005). This meant additional work, cost and also required wider knowledge.

The next step towards the harmonization process was that the IASC amended its constitution and became International Accounting Standards Board (IASB). Along with the IAS (International Accounting Standards), the IFRS (International Financial Reporting Standard) denomination was introduced. The standards previously published by the IASC remained, while the new ones got the IFRS name.² The first IFRS was published in 2003 (Majoros, 2010).

The EU received the IAS/IFRS consolidated statement creation procedure, which is mandatory for companies present in stock markets. From the beginning of 2007, every EU Member State has adopted that third parties can prepare financial statements according to US GAAP without translation to IFRS. Another major step was taken in June 2007, when the SEC and the EU decided to collaborate more closely in order to develop a global accounting system. As a result of this agreement, since 15 November 2007, foreign companies in the American stock market can choose between US GAAP and IFRS as accounting principles when preparing their financial statements (Majoros, 2010).³

According to IASB (2015), the IFRS Standards are assigned for use worldwide by more than a thousand countries. However, the IFRS was heavily criticized mainly because of the framework concept and their independence in decision-making (Fekete et. al, 2008).

It would be a mistake to draw hasty conclusions based on the number of jurisdictions which adopted the IFRS approach because among those countries which declared their intent to converge their own national regulations with the IFRS many had heterogeneous accounting systems and were situated on different stages of the convergence roadmap (Kazainé, 2008).

The most important milestones of accounting harmonization are listed in *Table 1*.

2 www.iasplus.com.

3 The SEC adopts the financial statements according to the IFRS – published by IASB; however, these are not equal with the standards adopted by the EU. This solution is disapproved by the European Parliament (Gulyás, 2014).

Table 1. *Global accounting harmonization milestones*

Year	Milestones
1960s	Requesting international standards. ⁴
1973	The International Accounting Standards Committee (IASC) was established.
1970	The First Company Law Directive (68/151/EEC) was modified. The amendment reflects upon the disclosure of company-level information and accounting legislation in the European Union.
1978	Developing the Accounting Directives of the European Union.
1995	Through implementing the Accounting Directives, the EU does not achieve total harmonization; therefore, it changed its strategy and committed itself to using the IAS.
1995–2000	“Core Standards” project IASB – developing the central standard set which will be proposed to global actors. In 2000, IOSCO ⁵ adopted the national accounting standards.
2001	The Directive 2001/65/EC of the European Parliament, among others, permits the use of the method known as “fair value accounting”. The IFRS Foundation and the International Accounting Standards Board were established. IASB → IASC; IAS → IFRS.
2002	FASB and IASB signed “The Norwalk Agreement” in order to achieve compatibility. Regulation (EC) No 1606/2002 harmonizes financial accounting by prescribing the obligatory utilization of IFRS for those companies that are present on trade markets in the EU.
2005	The EC proposed that all member countries adopt IAS/IFRS for consolidated accounts from 2005.
2007	The SEC allowed the acceptance (SEC, 2007) of the financial statements prepared using IFRS.
2008	G20 calls IASC and FASB to resolve the convergence issues.
2009	IFRS for SMEs.
The national accounting legislation is more and more pushed into the background (a few examples)	
2006	China working on the convergence of their standards with IFRSs – voluntary adoption of IFRS by public companies. ⁶
2007	Canada GAAP → IFRS.
2011	Canada commences the use of IFRS standards.
2012	Russia, Argentina, and Mexico launch the use of IFRS standards.
2015	Introduction of IFRS and IFRS for SMEs in the following countries: Angola, Canada, Colombia, Hungary, India, Japan, Norway, Pakistan, Saudi Arabia, Thailand, Ukraine, United Arab Emirates, and Uruguay (Pacter, 2016).

Source: author’s own creation

4 The significance of international accounting increased after World War II as the result of the development of economic integration and the growth of the “cross-border capital flow” (FASB, 2013).

5 IOSCO – International Organization of Securities Commissions.

6 China as the world’s biggest emerging country carries out a convergence procedure of the national standards and IFRS, which is followed by various people (academics, regulators, etc.) (Lee et al., 2013).

In the international literature, there are several well-known academics who deal with the impact of the IFRS introduction. The general point of view is that those countries tend to adopt and implement IFRS which have a weaker investor lobby, and the IFRS is a tool for improving this lobby (Hope et al., 2006; Shipper, 2005). According to Pownall and Shipper (1999), a good investor lobby means the importance of implementing IFRS in countries with developed accounting regulations.

4. Accounting System and IFRS Adoption in Romania

Romania made huge efforts regarding the implementation of the International Financial Reporting Standards (Fekete et. al, 2008). The implementation of the accounting standards in Romania is, on the one hand, urged by the EU membership. Globalization and the increasing cross-border operations are considered further external factors which lead to the adoption and application of the accounting standards. On the other hand, there is a more important, internal reason to improve the Romanian accounting system by considering and adopting the international harmonization process. There was an aspiration to get a “comparative advantage” for Romanian companies by adopting IFRS. Since IFRS represent globally accepted standards, they have international significance and are revised by experts. By implementing IFRS, Romanian companies which are present on international capital markets considered the adoption as a financial leverage (Ionaşcu et. al, 2014).

According to Lapteş and Popa (2013), the Romanian accounting does not have an exact form or structure – from 1990, it has been “in a constant search of identity”. This is true indeed. However, today, the Romanian accounting is euro-compatible, but it has made a long journey from the western- (French, Italian, and German) and, later, Soviet-inspired accounting system to the IFRS (*Table 2*). In the followings, there is a brief overview of the IFRS’s impact on Romanian accounting.

Accounting has played several different roles since its existence. The first was a managing tool – traders used the predecessor of today’s accounting system to administer their businesses. Creditors and the state were interested in the tax calculation, which can be performed by using data collected from financial statements. Accounting was also a controlling tool, an instrument used during the communism to control the country’s production according to the national plan (Ionaşcu et al., 2014). The companies often manipulated the accounting data to achieve the plan, e.g. using the unfinished production (Borbély, 2007b).

Table 2. *Milestones of the Romanian accounting system*

Period	Romanian accounting system	Users of accounting information
before 1949	Western-inspired No national chart of accounts	<i>Traders, creditors, the state</i>
1949–1989	Soviet-type There is a national chart of accounts and a legislative perspective on accounting.	<i>The state</i>
1990–1998	French-inspired (from 1994) – Partially adopted European accounting directives Building an accounting system in line with the European Union's requirements. Law No 82/1991 on the accounting system: Financial reporting obligation of economic entities – Government Ordinance No 65/1994	<i>The state, credit institutions, companies</i>
1999–2005	Hybrid accounting – (French- and Anglo-Saxon-inspired accounting in partial conformity with IFRS) Romanian accounting regulations not compliant with EU requirements as regards IFRS. 2001: The adoption of the first Corporate Governance Code of Bucharest Stock Exchange, IFRS voluntarily adopted by companies on the trade market. Accounting regulations in conformity with European directives were adopted by unlisted companies. Order No 306/2002 of MPF: simplified financial reporting for SMEs.	<i>The state, credit institutions, companies</i>
2006–2011	Dual accounting system The 4 th European directive → all individual accounts, EU-IFRS → voluntary for consolidated accounts of listed companies and banks. 2006: Company Law → Mandatory adoption of corporate governance principles. 2008: The adoption of the new Corporate Governance Code of Bucharest Stock Exchange, replacing the previous code from 2001.	<i>The state and credit institutions, companies</i>
2012–2015	Full EU-IFRS-compliant accounting system Order No 1802/2014 of MPF ⁷ – for quoted companies and banks (consolidated and individual accounts). IFRS accounting regulations in conformity with national accounting regulations.	<i>The state and credit institutions, companies</i>

Source: author's own creation based on Ionașcu et al. (2014) and Bogdan et al. (2004)

The reform of the Romanian accounting started with Law No 82/1991, which has been amended several times but still remained the framework of the

7 Ministry of Public Finances.

accounting regulation and is in force until today (Fekete et. al, 2008). The aim of the law is the institutionalization of accounting as socio-economic activity.

The accounting system installed in 1994 was totally based on France's National Accounting Plan from 1982 (Plan Comptable Generale, PCG) insofar as "the entire Romanian legislation is based on the French financial accounting (including all its static accounting particularities, its fiscal and macroeconomic objectives)" (Richard, 1995: 317). This approach suited the country's centralization approach, the new capitalist needs, and the EU's expectations (4th Directive) (Neag, 2000).

The Ministry of Finance, as a single accounting ruler, in 2001, reacting to real market needs and external experts' advice (experts from the Institute of Chartered Accountants of Scotland – ICAS), decided that the Romanian accounting system had to meet the international regulations (IAS) (King, 2001). In the beginnings (early 2000s), using the IAS was a drag for the entities – they were forced to adopt and use the IFRS. Many of them could not use it and could not bear the additional word and time spent preparing the financial statements. From January 2006, the regulation was amended (Ministry of Public Finance Order No 2005/1752), and the Romanian accounting system clearly acts upon the European 4th and 7th directives. Therefore, in case the EU directives act upon the international regulation, the Romanian regulation is in harmony with the IFRS (Fekete, 2008).

The development stages of IFRS application in Romania are summarized in *Table 3*. From 1990 till 2012, the IFRS adoption was voluntary. The national accounting regulations also included the IFRS's voluntary use since 2006 (MPF, 2006). In this term, the voluntary use of IFRS meant a "separate set of financial statements" (Ionaşcu et. al., 2014), and since 2012 listed entities in Romania are expected to provide "individual financial statements" annually.

Table 3. *Adoption of IFRS in Romania*

Period	Adoption	Features of IFRS adoption
1990–1998	Voluntary full adoption	No IFRS-compliant financial statements are authentic in relation with national institutions.
1999–2005	The harmonization with the IFRS is mandatory.	Consolidated financial statements.
	Individual financial statements: <i>2001: Banks and insurance companies</i> <i>2002: Brokerage companies</i> <i>2003: Large non-financial entities</i>	The IFRS was partially applied. Financial statements in conformity with harmonization regulations.

Period	Adoption	Features of IFRS adoption
2006–2011	Voluntary full IFRS adoption , fact included in the Romanian accounting regulations.	
		Mandatory conformity with the IFRS. Consolidated financial statements: <i>2006: Banks</i> <i>2007: Listed companies</i>
2012–2014	Voluntary full IFRS adoption , fact included in the Romanian accounting regulations.	Full EU-IFRS-compliant accounting system for listed entities for consolidated and individual accounts.
		Mandatory conformity with IFRS. Consolidated financial statements: <i>Banks</i> <i>Listed companies</i> <i>2011–2013: Brokerage companies</i> <i>2012–2013: Insurance companies (limited experiment, 11 entities)</i>

Source: author's own creation based on Ionaşcu et al. (2014)

Even if the relevant accounting standards were adopted and implemented in Romania, there is a lack of significant elements regarding “the support of the infrastructure”. The main concern is caused by the financial statements’ quality (Lapteş & Popa, 2013).

5. Accounting System and IFRS Adoption in Hungary

Similarly to the case of Romania, before 1990, Hungary belonged to the socialist territory. Therefore, the economy of both countries shares common aspects. When Hungary was admitted to the European Union, the transition of accounting regarding the requirements of the market economy was already in progress (Borbély, 2007b).

The base of the new accounting system is Law No 28/1991. In Romania, the accounting law was also passed in 1991; however, it did not bring immediate changes. Rather, it created a legal-conceptual framework which was filled with content only three years later, after long professional and political debates (Fekete et al., 2008). In Hungary, since 1991, besides the taxation purposes, the owners’ and lenders’ interests have been at the centre of accounting regulation; however, the primary aspect of taxation and economy’s control was eliminated (Kazainé, 2008).

In 2004, the Hungarian Accounting Standards Board was set up in order to create standards. However, the process was not successful and needed a fresh start in 2011, but, after all, no independent standard has come out yet (Vén, 2015).

There are no substantial differences between the principles of the national regulations and the international accounting standards; the only differences can be found at the level of details (Kazainé, 2008); so, Hungarian regulations are in line with the international principles.

Table 4. *The milestones of Hungarian accounting regulations*

Year	Hungarian accounting regulation
1947	First national chart of account which is compulsory. Before 1947 in Hungary, only a few companies used particular charts of accounts, developed according to their own concepts.
1954	Decree of the Financial Ministry. The Financial Ministry's legal order determined the compulsory content of the companies' financial reports. The accounting's first conceptual approach.
1968	Decree XXXIII. Besides setting the structure of the financial statement, it was also crucial to standardize its contents (cost calculation, cost price calculation, accounting balance sheet, income statement regulation).
1989	The transition of the practical Hungarian account started.
1991	Law XVIII. According to the Law's Preamble, for the performance of economy, there is necessary for stakeholders to have available financial statement information. The availability of this information is essential for making decisions.
2000	Act C. The basis of the Hungarian accounting system is Act C, 176 § – the section about accounting standards along with EU directives. The above mentioned section of Act C, among others, deals with the determination of the financial statements' structure on the basis of company size.

Source: author's own creation based on Kardos & Madarasi-Szirmai (2013)

In 2013, a process started in order to map the kind of conditions that could ensure the use of IFRS for several economic entities when preparing their individual (stand-alone) financial statements (Molnár, 2014). Currently in Hungary, on the basis of EC Regulation No 1606/2002, only those companies have to provide consolidated financial statements in conformity with the IFRS which are listed on the stock market. However, recently, the possibility to apply IFRS standards to individual financial statement has been introduced as well (Vajay, 2015). The ordinance of the Hungarian government (1639/2014, XI. 14.) on the preparation of individual financial statements in conformity with IFRS regulations deals with the extension of IAS/IFRS approval constraints. The suggested schedule of the adoption is summarized in *Table 5*.

Table 5. *Suggested schedule of IFRS adoption*

Entity type	IFRS introduction in:		
	2016	2017	2018
Credit institutions	x	<i>Mandatory</i>	<i>Mandatory</i>
Insurance companies and other financial entities	Optional	Optional	Optional
Listed companies' individual or separate financial statements	Optional	Mandatory	Mandatory
Companies applied in preparation of consolidated financial statements in conformity with IFRS, based on parent company's decision	Optional	Optional	Optional
Other large entities	x	Optional	Optional

Source: author's own creation based on Molnár (2015), cited in Vén (2015)

According to the present plans, at the beginning of the so-called *transitional period*, the application of the standards would be voluntary, and after a few years it will be mandatory.

Vajay (2015) is concerned about the IAS/IFRS appliance in case of additional activities such as international standards and taxation systems convergence, its impact on tax incomes, data, information retrieval, and the decrease of administration work.

6. The Impact of IFRS Adoption

The regulation systems of Hungary and Romania are macro-based, meaning that the system's control is carried by the authorities. Both are also continental type, the regulation's principles are *de jure euro-compatible*. The two country's accounting system was adapted, and, like the most transitional economies, they used a West-European national accounting system as a pattern to develop their own national system (Borbély, 2007a); and as transitional economies the harmonization of accounting standards began with the IAS/IFRS and EU Directives (King et al., 2001).

7. Conclusions

As Mamić Sačer (2015) states, the most distinctive particularity of the accounting system in the 21st century is the harmonization process. Nevertheless, national regulations still determine a country's accounting system, wherefore these systems

remain incomparable. The regulations of the accounting harmonization focus on consolidated financial statements. However, the total harmonization of the accounting system is a long process, even if the countries had already taken crucial steps towards the convergence of financial statements and towards the improvement of their comparability.

In Romania and Hungary, most economic entities are small and medium-sized enterprises. However, in both countries, the IAS/IFRS application is mandatory for those companies which are listed in the European Union's stock market, but the main goal of standard harmonization is to spread out the IAS/IFRS appliance at the level of insurance, credit institutions, and small and medium-sized enterprises.

As it was mentioned in the introduction, globalization has had a major impact on national accounting regulations. Although the Romanian and Hungarian small and medium-sized enterprises are concerned with national regulations in terms of their accounting, multinational companies' data retrieval is regulated mainly by international standards.

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