"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 9, No. 1, pp. 6–13
P-ISSN: 2069-0932, E-ISSN: 2066-1061
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www.orizonturi.ucdc.ro

CONTINUOUS IMPROVEMENTS OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS CONCERNING EQUITIES

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Abstract

Equity, less discussed in the literature in Romania, and the International Financial Reporting Standards (IFRS) are essential to initiate and conduct any financial or economic activity, i.e., a prerequisite for the establishment of an entity and their sustainable existence. In this context, it may be pointed out that attention is fully justified that theoreticians, practitioners and external users—especially existing and prospective investors, rightly called privileged users—pay attention to the equity accounting information in respect of quality and reliability.

Key words:
IAS⁄IFRS, equity, accounting information, quality/credibility

JEL Codes:
M41

Of the many issues relating to the supply of accounting information in equity have been selected for discussion, only those considered as having a relatively high level of difficulty also have been less discussed in the literature, but in practical work, contribute to increasing the quality and reliability of said information. Also entities already applying IAS/IFRS were considered, but also those who intend to adopt the standard. This analysis established, first, the theoretical basis of comparison and hence the accentuation of improving the quality and credibility of accounting information to which we refer by characterizing the situation in accordance with national accounting rules, stating that they were spotted and corrected deficiencies relating to accounting errors, change policies and accounting estimates.

These problems are solved and then resumed both theoretical and practical, through examples of appropriate quality requirements under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", proceeding at the correct balances involved from the time when they occurred, so the information from the current financial statements, becoming also comparable. The attention was granted also to the tuning aspects of IAS/IFRS on equity, specific accounting information of the compound financial instruments, including their evaluation, etc..

Referring to Romania, it should be noted that the major achievements made so far in the field of the matter, even though the beneficiaries are putting pressure on equity information, and not only for its quality and thus increasing valence its usefulness in the economic decision rationale.

Latest developments in accounting, namely the implementation of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), but the emergence of accounting rules in accordance with European directives (MPF Order No. 1802?2014) covers issues on improving the quality and credibility of accounting information in equity as they are found in major accounting standards, such as "The Annual Presentation of Financial Statements", "Earnings per Share", "Financial Instruments" and particularly "Accounting Policies, Changes in Accounting Estimates and Errors".

IMPROVING CREDIBILITY ACCOUNTING INFORMATION ON EQUITY

Improving credibility accounting information on equity is to increase its quality assurance and therefore its usefulness in decision making, concern and continue to provoke attention, almost equally in the field of the producers and beneficiaries. Permanent interest on the said information is fully justified by the fact that in the economic entity, equity is involved, directly or indirectly, in the

adoption of many decisions by its beneficiaries, who want them to be well grounded, and potential risks to be minimal.

These problems, viewed in context of the application of accounting regulations according to the European directives[1], are considered to be resolved to satisfy most interested recipients of information to take economic decisions that directly or indirectly affect the entity's equity. In this respect, we consider, first, the current information resources offer of financial accounting, which, through the accounts and other accounting and reporting tools, is carried out during the year, aimed mainly to the entity makers (a). Second, we give consideration to the specific information of annual financial statements, which are designed predominantly to external users of information to knowledge indicators ended the year on equity (b).

(a) Information available in the current year to base decisions concerning equity, related entity shall ensure, primarily with corresponding synthetic accounts of the general procedures which ensure the establishment, namely: capital contributions and issue of new shares (capital), share premium, reserves, retained earnings and result of the financial year. Account who reflects capital's analytical structure is important, providing information of interest, namely the delineation of its shareholders or the number and nominal amount of shares they have subscribed and paid, etc..

Said accounts also provide information concerning ways that can reduce capital and thus reduce the number of shares or their nominal value reduction due to withdrawal of shareholders or, repurchase shares, accounting losses in years so previous and end periods existences of management and therefore the year end.

(b) In turn, the data on the existing equity in a financial year shall be communicated with external beneficiaries, taking into account mainly the balance sheet and statement of changes in equity component of annual financial statements. The balance sheet structure is formed a distinct group of elements of capital, the "capital and reserves", which is part of the final balance for each separate account synthetic equity, with the beginning and end of the year. Statement of changes in equity provides information also from the beginning and end, all these elements are used in capital, with additional data that allow knowledge both increases and reductions of net assets of the entity as a result of developments equity and expenditure, revenue and earnings which have directly affected the size, whether these elements are recognized in the income statement or directly in equity. The evolution of the equity is affected by developments of capital contributions, share repurchase, dividends, etc..

In relation to accounting information on equity at year-end view, it is important to recall the influence they can exert on their operations to correct errors and change of accounting policies produced in previous years.

In turn, changes in accounting policies (required by law to obtain information more relevant and more reliable) only require their mention in the notes, so that people can assess whether the new policy was appropriate, and their effect on retained earnings for the period and the actual trend of the results of the entity.

It may be noted that both of the above financial statements require modification exercises to be performed either error correction or determine the influence of accounting policies, solutions acceptable with reservations. In other words, the financial statements of prior periods or not the current operating adjustments to comparative information they contain and therefore, comparing data from the beginning of the year closes with the end of the trend may suggest a favorable or adverse equity other than actual, and net assets naturally is distorted, especially in case of significance.

CONCEPTUAL APPROACH REGARDING IMPROVEMENTS OF THE IAS/IFRS CONCERNING EQUITIES

There are countless opportunities to improve International Accounting and Financial Reporting in equity. As a first idea, and as a basis for discussion, this paper thinks of a new accounting standard with respect to equity standard to regulate this area, including capital terminology to define an entity and highlight the need for all necessary internal and external users who need financial accounting

[1] Minister of Public Finance Order No. 1802/2014 for approval of accounting regulations with European Directives

information.

Accounting information on equity is targeted primarily by capital, profit or loss and retained earnings because they contain other elements derived therefrom.

Equity, as defined by IAS 1 "Presentation of Financial Statements" includes stocks, bounded by the following categories: statutory and legal, general, quotas and revaluation surplus. IAS 1 divides the shareholders interests into three broad categories: issued capital, reserves and profits/accumulated losses, presenting, however, disclosure requirements for specific details on capital for corporations and various other capital accounts entities.

It should be noted that entities that apply IFRS accounting used to reflect the same set of accounts being used for financial statements in accordance with national rules, adjusted if necessary according to their information needs and requirements of specific accounting treatments international standards. Equity accounting analysis reveals both common points in the two referential and have more specific elements, particularly the specific international standards.

Regarding equity, International Financial Reporting Standards dealing only set requirements for submitting their annual financial statements, without regard to accounting issues that affect the size of operations and/or structure.

In other news, it should be noted the efforts and achievements of the International Accounting Standards Board, which are under the pressure of criticism and proposals from data users, including professional accountants and other interested parties, made findings of such review standards, between which and the "net profit or net loss period, fundamental errors and changes in accounting policies" (IAS No. 8).

In terms of equity and performance, they are defined as the residual interest of shareholders, their various components can be presented on separate lines in stock. For example, in an entity shareholder contributions, results undistributed reserves and reserves representing distribution of income representing adjustments to maintain capital may be presented separately (Lepadatu, 2009, p. 36).

Profit is frequently used as a measure of performance or as a reference for other indicators such as return on investment or earnings per share. Revenues and expenses are directly related to the measurement of profit structures.

Equity are directly related to income and expenses entity.

The definition of income includes income from ordinary activities and gains from any other source. Revenue from ordinary activities can be found under different names, such as sales, commissions, interest, dividends, royalties, rents.

Revenues also include realized gains: for example, those arising from revaluation of investment securities and those resulting from increasing the carrying amount of fixed assets. Where are recognized profit or loss, earnings are usually separate, because their existence is important knowledge for decision making.

Revenues can be used to acquire assets or increase the value of different types of assets, examples of such assets include cash, receivables, goods and services received in exchange for goods and services provided.

The definition of expenses includes losses as well as those expenses that arise in the conduct of current activities of the entity. For example, expenses arising during the entity's current activities include the cost of sales, wages and depreciation. They are found usually in the form of withdrawals or reduction in value of assets, such as cash or cash equivalents, inventories and tangible.

Losses represent other items that meet the definition of expenditure which may occur or not during the course of the entity's current activities. Economic benefits are reductions in losses, and in this regard is no different in nature from other expenses.

Losses are included in the category, for example, those resulting from disasters such as floods or fires, and those resulting from disposal of fixed assets. Also, the definition of expenditure includes unrealized losses, such as those resulting from increased exchange rate loans if the entity has entered foreign currency. Usually, the income statement separate presentation is made losses

due to the importance of knowing the existence and value in decision making.

Reassessment or adjustment of the amount of assets and liabilities result in increases or decreases in equity. Although these increases or decreases meet the definition of income and expenditure are not included in the income statement under certain concepts of capital maintenance, they are included in equity as capital maintenance adjustments or revaluation reserves.

Approach is necessary to evaluate more carefully the structures of financial statements. Evaluation is the process of determining the values that structure financial statements will be recognized in the balance sheet and profit and loss. This involves choosing a particular basis of valuation. Assessment base most commonly adopted by economic entities in preparing financial statements is historical cost. It is usually combined with other bases of evaluation. For example, stocks are usually made to the minimum of cost and net realizable value of marketable securities—at market value and pension liabilities—to their present value.

CAPITAL AND CAPITAL MAINTAINING CONCEPTS (LEPADATU, 2009, P. 40)

The capital concept is presented in Figure 1. In Figure 1, transparency refers to the principle of creating an environment where information on existing conditions, decisions and actions are accessible, visible and understandable to all market participants. Responsibility refers to the need of market participants, including the authorities, the to justify their actions and take responsibility for their decisions and their results. Transparency is required to install the responsibility of the three major groups of market participants.

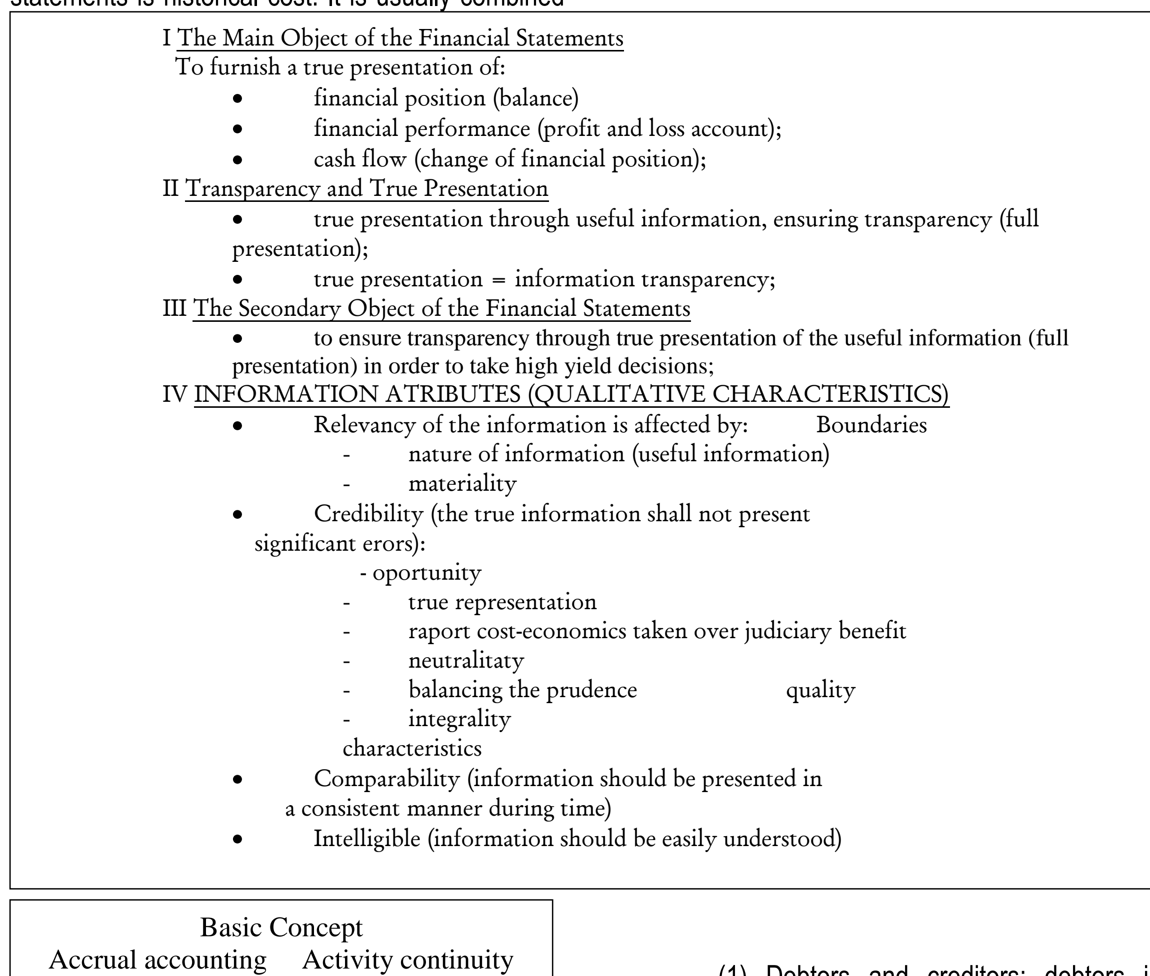

Figure 1. Capital concept

(1) Debtors and creditors: debtors in the double aspect (debtors of the company group or entity), creditors and creditors, particularly lenders benefit providers, including customs and current

spending;

(2) Issuers and investors: shareholders, associates, employees or shareholders in corporate companies;

(3) National authorities and international financial institutions: governments, central banks, financial institutions, international financial institutions.

Transparency can not prevent financial crises; Excessive transparency gives competitors an unfair advantage but to deter market participants from making a complete presentation of information.

Boundaries of useful information (Lepadatu, 2009, p. 42):

(1) Opportunity: An exaggerated delay in reporting may lead to a loss of relevance, but may increase credibility;

(2) Cost-benefit: Benefits from information should exceed its cost of supply;

(3) Balancing quality characteristics: To meet the objectives of financial statements (financial position, financial performance, cash flows) and make them suitable to a particular environment—business lending, presentation, etc.—information providers must achieve an appropriate balance between qualitative (attributes) information, between relevance, credibility, comparability and understandability, so as to achieve the desired goal.

Also, interest relief should be considered to ensure that international standards are appropriate regulatory framework for obtaining further information on equity, which is presented in summary fashion, on those considered to be representative.

(1) Entities applying IFRS/IAS are obliged to disclose the number of shares authorized, issued or outstanding. Authorized capital contains the maximum number of shares that an entity is allowed to issue under its statute or its documents of incorporation.

(2) If subscriptorilor public offerings may be required to pay only a part of the underwritten securities, making the balance sheet as part of capital not yet paid. Under these conditions, only the net amount of capital comes to be included in the balance sheet equity. In this respect, it relies IAS 1 "Presentation of Financial Statements" which seeks to distinguish between actions that were issued and fully paid and those that were issued but not fully paid.

(3) On repurchased its own shares, IAS 1 provides that shares held by the entity or its subsidiaries are identified for each class of share capital and to be deducted therefrom, and IAS 32 "Financial Instruments: Disclosure and Presentation" states that the transaction procurement must be reported in the statement of changes in equity. If subsequent sale, any difference between the acquisition cost and past earnings is reflected as a change in equity and not as a gain or loss affects profit or loss. However, IAS 32 states and that the costs associated with equity transactions to be recorded as such reductions, if the transaction was a share issue, or increases it, if they are made in connection with the purchasing action.

(4) First capital, also called raw action or additional paid-up capital, is represented by the value received on issue of shares, which is in excess of nominal value.

(5) Revaluation reserves raise where certain assets are revalued in accordance with the accounting treatment prescribed by IAS 16 "Intangible assets" and IAS 38 "Intangible Assets" and are the difference that is established between historical cost and fair value. In general, this problem does not appear on the differences between national regulations and accounting treatment under international standards.

(6) Retained earnings are usually the profits, accumulated losses are reduced by any distributions made from them. However, IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" requires that certain adjustments to retained earnings to suffer as a result of presenting information on the correction of fundamental errors related to prior periods, such as those arising from changes in accounting policies that will be applied retroactively.

ACCOUNTING INFORMATION SPECIFIC TO THE COMPOSED FINANCIAL INSTRUMENTS

If the entity is interested to attract additional funds to finance various objectives, it may appeal to the issue of equity securities resulting in increased equity. To obtain financing through capital increase, it has the possibility to issue preference shares and/or common shares. Typically, the issue financial instruments with characteristics related to both equity and debt.

Moreover, the specific standard for these problems[5] states that an entity issuing such

[5] IAS 32 "Financial instruments" para. 28-32.

instruments, known as compound financial instruments, should reclassify their parts separately or as equity or as liabilities, according to fund contractual agreement which establishes the initial recognition and not its legal form.

However, usually two match points should be noted. For example, an ordinary action or bond is an equity instrument both economically and as the legal aspect.

However, it may stress the fact that there are times when evidence is produced that combines some features of the two categories above. In this case, the essential element that must be taken into account is the existence, not the obligation for the issuer to make payments in the form of cash or other financial assets or to change the title with another tool, under conditions which is potentially unfavorable. When such an obligation is a financial instrument that constitutes a financial liability, it is an equity instrument.

Referring to IAS 32 suggestive to highlight that some preference shares, which implies an obligation to repurchase by the issuer, must be regarded as financial liabilities, even if their other characteristics (right to vote, right to receive dividends, etc.) can be influence them reclassified as equity instruments.

In other news, it is clear that when the book presentation of a financial instrument differs from its legal nature, IAS 32 requires an entity to disclose in the notes true nature of the instrument in question.

Regarding the assessment of compound financial instruments that have the structure elements of debt, equity can be considered as being possibly the following two circumstances: (1) the allocation of residual value component (equity instrument) which is more difficult to assess. This value is determined as the difference from other component (easier to evaluate). Financial obligation of this nature is defined by discounting future streams of interest and the nominal value depending on market rate for a similar bond without equity instrument; (2) assessing distinct components of the obligations and equity (at fair value) and proportional adjustment of these values on a pro rata basis, so that the sum of its parts is equal to the total value of the instrument.

APPLYING ACCOUNTING POLICIES FOR EQUITIES

In selecting and applying accounting policies mentioned, including their modification, it must respect IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the updated version, to which the leadership if they apply or take consider a selection of accounting policies in the absence of standardized rules.

Thus, in this situation, the absence of an interpretation or a rule that applies to a transaction management professional is able to use reasoning to develop an accounting policy that will default to be relevant and credible in terms of users. Adopting such a decision requires, inter alia, application requirements and guidance on similar issues and then definitions, recognition criteria and concepts of equity valuation.

To achieve these goals, the experts are suggesting to establish and adopt accounting policies that are applied consistently and modify them to be exceptional, in that it is required by a standard or new information is found not fulfilling the criteria of credibility and relevance.

Regarding materiality, it is provided that the accounting policies specified by IFRS 1 are not to be applied where their effect is not significant. Also, errors that are found stated that financial statements comply with IFRS, first when significant errors exist, and second whether the material prior period errors were corrected in the first certified financial situation, which differs from existing national regulations.

Since the current version of the standard was considered impossible only criteria for retroactive application of voluntary changes in accounting policies for the past restatement of fundamental errors, including presentations to explain the allowed alternative treatment was not applied. Instead of this concept introduced at the "impossible", he had to clarify its meaning on the retrospective application of changes in accounting policy and the treatment retroactively correct errors in the previous period.

In this situation, although it was suggested that the retroactive application in both cases is impossible, it was decided to specify a narrow definition of "impossibility", as required significant estimates when accounting information submitted amendment does not prevent the adjustment period

before reliable or correct it. Starting from this viewpoint, it was concluded that "failure" is determined by objective way to distinguish, information that provides evidence of circumstances existing at the date on which the values are required to be recognized, evaluated and presented.

While entities are encouraged to apply consistent accounting policies in practice, it may raise objective reasons justifying the change.

In such cases, the basic condition for policy change must be based on a requirement of a standard or interpretation, or the argument that will lead to the acquisition of financial statements providing reliable and relevant information on transactions and events, with implicating the financial position, performance or cash flows. Criteria for recognition of changes in accounting policies are identified in the conditions arising from the application comparing with earlier today.

Effect of changes in accounting policies identified by their retrospective application in that entity will adjust the opening balance of each affected component of equity for the earliest presented period and other items shown values. This way ensure comparability of items and components of equity, provide the new policy for previously reported periods.

If the period-specific effects and cumulative effect of change in accounting policy are impracticable to determine, the entity will make retroactive application of balances and appropriate adjustments for capital items for the current period.

Presentation of information obtained as a result of change in accounting policy is made specifying the cause that lead to their change (of a new standard to transitional provisions in the standards), or elements affecting the outcome of the asset value and condition which lead to the inability to limit retroactive application to prior periods.

If we consider possible changes to accounting policies and estimates are necessary, it is noted that estimates may change only if the circumstances were affected by other credible information that appear only in the current period, while changes in accounting policies shall be in a position to redefine the tax assessment .

In connection with these latter issues which can be retained, where it is difficult to distinguish between two types of changes, the standard requires that they are treated as a change in accounting estimate.

Effects of change in accounting estimate, unless they affect assets and liabilities, and equity elements are recognized retroactively by their inclusion in net profit or loss for the period in which the change occurred and may be extended in subsequent periods, affect the financial statements of existing information.

If a change in accounting estimate affects equity related-items, recognition is made by adjusting their carrying amount at a time when the change occurred.

Errors contain accounting information presented in annual financial statements as a result of their subsequent discovery, comparative information is corrected for the period of observation. In this case, the entity is required to correct material prior period errors retrospectively in the first financial statements which will be presented, or to be withdrawn from the comparative amounts for prior periods in which the error or opening balances in equity for the earliest period presented, if the error occurred before that.

CONCLUSIONS

It is said that in preparing financial statements, most financial entities adopt a concept of capital. Under such a concept, such as the invested money or invested purchasing power, the capital is synonymous with net assets or equity of the entity. Under a physical concept of capital, such as operating capability, capital is the capacity of the entity, expressed, for example, in premises daily.

Selecting the most appropriate entity concept of capital should be made to the needs of users of financial statements. Thus, it adopts the concept of financial capital if the financial statement users are primarily concerned with maintaining nominal invested capital or the purchasing power of invested capital. But if the main concern of users is the ability to exploit, the entity must use the physical concept of capital.

The main difference between the two concepts is given to maintaining the capital asset price changes and treatment effects entity obligations. In general terms, an entity maintained its capital if the end is equal to the capital at the beginning. Any amount in excess of that required to maintain capital at the beginning of the period is considered as income.

Equity and accounting information, which naturally contribute to their good management, are, rightly the subject of several scientific research

papers. It is intended and has failed to consider highlighting the benefits that it generates through the application of IAS/IFRS in terms of improving the quality and credibility of accounting information corresponding equity, which can be a challenge for those who have adopted these standards.

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