Regulations on organizing and keeping accountancy records according to the european directives

❖ Gheorghe POPESCU ❖
❖Cristina Raluca POPESCU❖
❖ Veronica Adriana POPESCU ❖

The article describes:

⇨ *The main normative acts regulating the accountancy organizing and provisions of such;*

⇨ *The way in which the balance elements are assessed upon inclusion and erasing from the book keeping, upon placing under consume or upon inventory, and hence: how there can be computed the "amount" recorded in the accountancy forms depending on the economical and financial transformation they reflect;*

⇨ *The way in which the principle of "Accountancy documentation" can be implemented by means of a systematic description of the main documents used in accountancy book keeping and of the regulations regarding their filling in, circulation and archiving.*

Key words: accountancy, accountancy under European directives, accountancy principles, basic regulations, accountancy law, norms, filling in and using of justificatory documents, credits, debts, balance, primary documents, registration documents.

Basic regulations on book keeping records in accordance with the European directives

ACCOUNTANCY LAW (Law no. 82/1991 – republished in the Official Monitor no. 48/14.01.2005, stipulates as it follows:

A) Which are the parties having the obligation of organizing and keeping accountancy records?

«***(1)*** *Trading companies, national organizations/companies, autonomous bodies, research and development national institutes, cooperative companies and the other legal entities have the obligation of organizing and managing their own accountancy, namely the financial accountancy, under the provisions of the present law, and the managing accountancy in accordance with the nature of their activity.*

(2) *Public institutions, associations and other legal entities with and without patrimony related purpose, as well as individuals carrying out income generating activities also have the obligation of organizing and managing their own accountancy, namely the financial accountancy, and, as the case may be, the managing accountancy.*

(3) *Sub-units with no legal personality headquartered abroad, held by the entities mentioned under paragraphs (1) and (2), headquartered or domiciled in Romania, as well as the permanent premises located in Romania of legal entities headquartered or domiciled abroad have the obligation of organizing and managing their own accountancy, in accordance with the legal provisions.* » *(art.* 1*)*

B) In what language and under what currency?

« **...** *in Romanian language and under the national currency. The accountancy of the operations performed in foreign currency shall be kept both in national currency, as well as in foreign currency***...** » *(art. 3(1, 2))*

C) How should the book keeping be organized?

"... usually, in distinct departments, managed by an individual purposefully designated in this respect. Such individuals must be economical university studies graduate. … there can be organized and kept grounded on services agreements concluded with authorized individuals or legal entities under the provisions of the Government Ordinance no. 65 of 1994 having the capacity of accountancy expert, and authorized accountant respectively..." (art. 10)

D) Which is the liable party?

As the case may be: *company's administrator; company's owner (if the accountancy is not kept by authorized parties* and « ***…who registered a yearly turnover of up to the equivalent in lei of euro 50,000 …*** » ***(art. 10.4);*** **the accountancy expertise companies or the independent authorized individual *(authorized accountant, accountancy expert)*; manager of the financial and accountancy department together with the employees in such department.**

RULES FOR ACCOUNTANCY ASSESSMENT AND RECORDING

- *recording* in accountancy books of the assets elements shall be performed upon purchase cost, production cost or just value for other records than those purchased or produced, as the case might be *(art. 13)*;
- *credits and debts upon nominal value (art. 14);*
- *accountancy recording of immovable records shall be kept on categories and on each recorded item (art. 12,1)*;
- *accountancy recording of stocks shall be kept upon quantity and upon value or only upon value, in accordance with the legal provisions (art. 12,2)*;
- clients and suppliers accountancy records, of the other credits and obligations shall be kept on categories, as well as on each private individual or legal entity *(art. 16);*
- accountancy records of expenses shall be kept on types of expenses, upon nature or use of such, as the case might be; accountancy records of incomes shall be kept on types of incomes, upon their nature and source, as the case might be; accountancy records of incomes and expenses under the general budget shall be kept upon divisions of the budgetary classification *(art.17)*.

MAIN OBLIGATIONS

a) any patrimony transformation shall be recorded in written;

b) all documents are subjected to chronological and systematic recording *(art. 1);*

c) patrimony inventory shall be performed at least once a year and whenever necessary *(art. 7);*

d) in accountancy profit or loss shall be computed in total upon beginning of each financial period. The closing of income and expenses accounts shall be usually performed upon end of financial period *(art. 19,1)*.

Clarifications regarding the application of Accountancy Law regarding the concordance between accountancy and the European directives, by means of Order no. 1752 of November 17th, 2005 issued by the Ministry of Public Finance, having as object the approval of accountancy regulations in line with the European directives – published in the Official Monitor no. 1080/30.11.2005, there have been approved the Accountancy Regulations in accordance with the European directives, as it follows:

ASSESSMENT OF THE BALANCE ITEMS

« **52.** – *The items comprised in the yearly financial records are generally assessed grounded on the principle of purchasing or production cost. If the re-assessment of the corporal assets or the assessment of the financial instruments upon right value is decided upon, then the provisions of sub-section 7.2.5 herein shall apply.* »

(a) Upon the date of recording with the unit – assessment of the balance items shall be made upon the incoming value *(accountancy value)* which shall be established as it follows:

● Assets representing contribution to the registered share, upon the contribution value established consequent to assessment;

● Assets obtained upon free title, upon their right value;

● Assets purchased upon onerous title, upon purchasing cost;

● Assets produced within the unit, upon production cost.

● Upon nominal value of the credits and debts - (the price written in the invoice on the transaction date).

(b)Upon inventory – assessment shall be made upon the current value or upon use of each item, named *inventory value,* which is established depending on the asset's utility, its state and market price.

● In case of credits and debts, such value shall be established depending on their value to be potentially cashed, namely on the payment;

(c)Upon conclusion of the financial period – assets and debts items are assessed and recorded in the yearly financial registers upon their incoming value, namely upon the accountancy value correlated with the inventory results. In this scope, the incoming value or the accountancy value shall be compared with the value established by means of the inventory as it follows:

● ***In the case of assets items*:**

⇨ The differences in plus shall not be recorded in the accountancy books, and such elements shall be kept upon their entrance value (case*: the inventory value is larger than the accountancy value);*

⇨ The differences in minus between the inventory value and the net accountancy value of the assets items shall be recorded in the accountancy books grounded on additional writing off, in the case of assets that can be written of if depreciation is irreversible, or an adjustment shall be made for the depreciation or loss of value, when the depreciation is reversible, such elements being also maintained upon their entrance value (case: *the inventory value is smaller than the net accountancy value*);

+ Irrespective of the inequality sign, patrimony items remain on their initial entrance value, but in the second case in order to reflect the real state the depreciations shall be recorded distinctly in another balance sheet.

+ Unlike interpretation of the two differences is regulated by the prudence principle, which does not allow for the assets items and the incomes to be overestimated.

● ***In the case of the passive items such as debts:***

⇨ Differences in minus shall not be recorded (case: *the inventory value is smaller than the net accountancy value*);

⇨ Differences in plus (case*: the inventory value is larger than the accountancy value)* shall be recorded in the accountancy records, upon items afferent to debts.

● ***In the case of foreign currency expressed items:***

⇨ Monetary items expressed in foreign currency (*availabilities and others like, such as accredits and banking deposits,* *currency credits and debts*) must be reported upon the currency exchange rate from the date of concluding the financial period. The currency exchange rate differences, either favorable or unfavorable, between the rate on the date of recording the currency expressed credits or debts or the date when the previous financial reports are submitted and the date of concluding the financial period are recorded under financial incomes or expenses, as the case might be;

➪ In the case of credits and debts expressed in lei the discharging of which is made depending on the exchange rate of a particular foreign currency, the potential favorable or unfavorable differences resulting from assessment of such shall be recorded under exploiting or financial incomes or expenses, depending on the nature of the operation.

➪ The non-monetary items purchased upon foreign currency and recorded under historical cost (*immovable assets, stocks*) shall be reported using the currency exchange rate from the date of performing the transaction;

➪ The non-monetary items purchased upon foreign currency and recorded upon their right value (*immovable assets, stocks*) shall be reported using the currency exchange rate from the date when the respective values are established.

(d)Upon the date of patrimony erasing or placing under consume the assets shall be assessed and discharged from the accountancy books upon their entrance value (*accountancy value*).

Chapter II, Section 6 – General Accountancy Principles stipulates that:

« ***41.*** *– The items comprised in yearly financial records are assessed according to the general accountancy principles provided under the present section, according to engaging accountancy. Thus, the effects of transactions and other events are recognized when such transactions and events take place (and not when the treasury or its equivalent is cashed or paid) and they are recorded in the accountancy books and reported in the financial records of the afferent periods.*»

Such accountancy principles are as it follows:

a)Prudence principle– *according to such over-evaluation of the active items and of incomes is not admitted, nor the under-evaluation of passive items and expenses.*

«***44.****The assessment must be made upon a prudent basis, mainly:*

a) There can only be included the profit obtained by the date of the balance sheet;

b) There must be taken into account the debts throughout the current financial period or throughout the previous financial period, notwithstanding if such become obvious only between the date of the balance sheet and the date of drafting such;

c) There must be taken into account the fact that all predictable debts and potential loses incurred throughout the current or previous financial period, notwithstanding if such become obvious only between the date of the balance sheet and the date of drafting such;

d) There must be taken into account all depreciations, irrespective if the outcome of the financial period is represented by loss or profit. »

Examples:

1) We deem that for a car "Car" the net accountancy value is of lei 10,000; the inventory value in 20xy has been assessed as amounting to lei 15,000.

2) In February 200xy the entity purchases sandals in trend for last year amounting to lei 30,000 (*purchasing cost*). In the summer season the sandals trend has changed and the sandals could no longer be sold upon their initially assessed price. The management has decided upon postponing the sale of the sandals until next year when signals exist that the sandals under discussion will be once more in trend.

3) In November 20xy we sold to SC Ghinionista SRL merchandise amounting to lei 10,000 (*sale price*), payable by the said company in 60 days. On the 10th of January there have been cashed lei 2,000, whilst in February the mentioned company is in payment impossibility

According to the above stated rules here is what there should be recorded in the accountancy balance sheet concluded on the 31st of December 20xy:

No. operation	Entrance value	Inventory value	Balance value
1.	10.000	15.000	10.000
2.	30.000	20.000	20.000*
3.	10.000	10.000**	**

In reality we would face the following situation:

***) for operation 2:** we shall record Merchandise (account 371) amounting to lei 20,000 and *"Adjustments for merchandise depreciation – account 397"*, amounting to lei 10,000.

****) for operation 3:** although the inventory value upon 31st of December amounts to lei 10,000, consequently grounded on analyzing the events occurred up to the date of reporting the financial records, we shall record in the balance sheet *"Clients - account 411 amounting to lei 2,000"* and *"Uncertain clients or clients facing litigation – account 418 amounting to lei 8,00i"* in the same time with recording *"Adjustments for clients depreciation – account 491"* de amounting to lei 8,000.

b) Methods permanence principle – *implies applying the same methods regarding the writing off (linear, accelerated,* *decreasing), the assessment upon discharging, the same methods for establishing and distributing the expenses in order to obtain costs (ponder average cost, FIFO, LIFO), etc.*

« **43**. *Assessment methods to be applied on a regular basis from one financial period to another.* »

Observation: We can change an a-ssessment method upon beginning of the financial period upon one of the following situations:

♦ Legislative amendments;

♦ In case of merger;

♦ In case such is deemed as being more relevant.

Upon change of the method, there must be written separately, in an explanatory note, both the said change and the reasons causing it, as well as the effects of such.

c)Activity continuity principle – *according to such it shall be implied that the patrimony unit normally continues its activity during a predictable future without commencing the liquidation procedure or significantly reducing the activity.*

«**42.** *There must be assumed that the entity carries out its activity grounded on the activity continuity principle.*

Such principle implies that the entity shall carry out its normal functioning, without commencing the liquidation procedure or facing a significant activity reduction. If an entity's administrators become aware of certain uncertainty elements regarding certain events that could lead to inability of such to carry out its activity, the said elements must be described in explanatory notes. If the yearly financial records are not drafted grounded on the continuity principle, such information must be provided along with explanations regarding the manner of performing the records and the reasons on which the decision was grounded according to which the activity of the entity ceases. »

Although this principle has not been undertaken under the attention it disserves, due to the effects of the restructuring and privatization period and to the massive intervention of the politics (*salving or supporting*) of certain companies – it is of essential role in the market economy, given the fact that the patrimony situation reflected by the balance sheet is grounded (*it reflects the reality*) only if the company does not commence the liquidation procedure; otherwise the patrimony situation is most time significantly decreased. From this time forward, according to the new regulations such would represent a basic principle.

d)Period independency principle - *(The principle of period separation) implies the time delimitation of incomes and expenses whilst such are employed and their recording in the financial period to which they refer.*

According to such principle two aspects are pursuit: certain amounts, incomes or expenses, cashed throughout the current financial period (*rent incomes for the next year or expenses for the next year*) regarding the following financial periods must not influence the result of the current period; the documents shall be recorded in the accountancy books depending on the date written on such, during the period to which they refer.

« ***45.*** *There must be taken into account the incomes and expenses afferent to the financial period, irrespective of the date when such incomes or expenses are cashed or paid.* »

e)Intangibility principle – *The balance sheet upon commencement of a financial period must correspond to the balance sheet upon concluding the previous financial period.*

f) Non-compensation principle – *according to such the active items and the passive items must be assessed and recorded in the accountancy books separately, and the active and passive positions of the balance sheet cannot be compensated, nor the incomes and expenses positions in the outcomes account.*

«***47.*** *Any compensation between the active elements and debts or between income elements and expenses is forbidden.*

Any potential compensation between credits and debts of the entity in rapport with the same economical agent can be performed upon complying with the legal provisions, however subsequent to recording in the accountancy books the incomes and expenses upon their entire value. »

g)Distinct assessment of the active and passive items

«***46.*** *According to such principle, the components of the active items and the debts should be assessed separately.* »

Such accountancy principles in accordance with the forth Directive are added to two more principles according to the seventh Directive. The last mentioned ones are as it follows:

h)The principle of economic aspect's prevalence over the juridical aspect

« ***49.*** *The values in the balance sheet and profit and losses account elements shall be recorded by taking into view the economical background of the reported transaction or operation, and not only the juridical form of such.* »

i)The principle of significance range

« ***50****.The balance sheet elements and those under the profit and losses account which are preceded by Arabic numbers can be combined if:*

(a)*They represent an insignificant amount under the provisions of par. 9; or,*

(b)*Such merger renders a higher clarity level, under the condition of the elements to be merged so that to be presented separately in the explanatory documents.* »

GENERAL NOTIONS REGARDING ACCOUNTANCY DOCUMENTS

In accordance with Accountancy Law no. 82/1991: « **...***Any performed economical-financial operation shall be recorded at the moment when it is carried out in a written document representing grounds for the accountancy recording, thus becoming a justificatory document. The justificatory documents which represent* *grounds for the accountancy recording held liable the persons who draft, revise and approve them, or those who make the accountancy recording of such, as the case might be.* » *(art. 6).*

JUSTIFICATORY DOCUMENTS recording any patrimony related change (*economical-financial operation*) are subjected to the accountancy assessment (*accounts inclusion*), are recorded in the accountancy books and processed in order to meet the informing needs in respect with its own accountancy and managerial team.

«*Accountancy, as activity specialized on measuring, assessing, knowing, managing and controlling the actives, debts and capitals, as well as the results obtained from the activity of legal entities and private individuals must ensure chronological and systematical recording, the processing, publication and keeping of information regarding the financial position, financial performances and treasury fluxes, both for the internal demands of such and in relation with the current and potential investors, financial and trading creditors, clients, public institutions and other users* ». *(Art. 2, paragraph 1).*

«*Ministry of Public Finances drafts and issues norms and regulations in the field of accountancy, the general accounts schedule, models of financial recordings, registers and common forms regarding the financial and accountancy activity, methodological norms regarding the filling in and using of such.* » *(Art. 4, paragraph 1).*

The accountancy activity of a financial period can be depicted as in figure 1.1 whereas figures from 1 to 9 reflect the main phases in the patrimony accountancy. It is obvious that such shall be filled in with "*inventory*" and the written aspect (reflecting the *Assessment balance*) shall be placed in accordance with the actual aspect (reflecting the *Inventory sheets*), grounded on the *Minute for settling inventory pluses and minuses*. The inventory has also the role of establishing the market value, of the debts and credits.

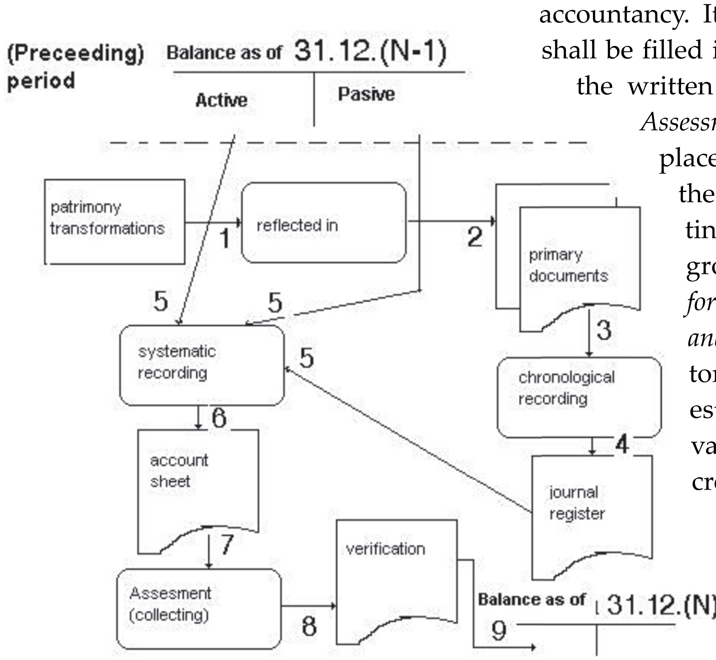

Figure no. 1.1 - Accountancy activity throughout afinancial period

The forms used as accountancy documents can be:

➪ Standard forms, in which the content and form are prior established (invoices, receipts, internal receiving note, account sheet, accountancy registers etc.);

➪ Not-template forms (minute, contracts, explanatory notes, statements etc.).

As a whole, the system of accountancy documents is extremely complex, with numerous particular features in respect with their content and with additional limitations:

➪ *Some are drafted in the unit;*

➪ *Some come and go;*

➪ *Some written documents dispose, others are of executor or justificatory nature.*

In respect with the means of concluding such and with their role, the accountancy documents can be:

• Justificatory (ascertaining the performance of economical-financial operations: invoices, receipts, payment orders, consume notes, payment and cashing orders, salaries schedule);

• Accountancy recording and processing documents (account sheets, sale-purchase registers, journal register, balance sheet, accountancy note);

• Synthesis and accountancy, fiscal and managerial reporting documents (VAT discharge, tax on profit statement, balance sheet, management report, social insurances statement).

For all documents categories there exists *the possibility of keeping, archiving* within legally provided terms, *classification and systematization* of the said, in such a manner as to ease retroactive access and control of the carried out activity:

- For usual operations the prescription term is of 5 years;

- In case of tax dodging (*decided by means of court decision*) the prescription term is prolonged by 10 years;

- In conclusion, the archiving term is of 10 years, however: the payment sheets and balance shall be archived for 50 years; all documents regarding incorporation contract, statute, property titles, rental agreements etc. shall be kept throughout entire duration of the company.

« ***Art.*** *21**:** Accountancy registers shall be used in close connection and shall be reported sorted and completed such that to allow at any time identification and control of the performed operations***.** »

«Art. 22: For the purpose of verifying the correct accountancy recording of the performed operations the control balance shall be drafted at least once a year, upon conclusion of the financial period, or upon terms for drafting periodical financial reports.... »

« ***Art.*** *26**:** In case of lost, theft or destruction of accountancy documents measures shall be taken in order to reconstitute such within at the most 30 days from noticing such, according to the regulations issued in this respect****...*** »

JUSTIFICATORY DOCUMENTS can be:

1) Primary documents drafted at the place and when the patrimony operations to which they refer are performed.

2) Centralizing documents obtained by sorting the primary documents in accordance with the operations, by expressing such in monetary etalon, of the operation measure, and centralizing the data initially recorded in the primary documents, in order to ease their ulterior processing.

Note: There must be maintained the obligatorily of respecting the methodology for drafting and using the primary documents.

NORMS FOR FILLING IN AND USING THE JUSTIFICATORY DOCUMENTS

PRIMARY DOCUMENTS:

- As a principle, such are being drafted where patrimony transformations occur (*in the workplace*);
- There are subjected to the sorting, processing, value assessment, formal assessment, arithmetical verification (*lawfulness, reality, appropriateness, economy*);
- Some are centralized and then recorded in the accountancy books;
- Others are subjected directly to the inclusion in accounts.

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