Research Paper Microeconomics

Accounting harmonization in accordance with IAS and the functioning of systems at the microeconomic level

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ABSTRACT

The accounting system in Romania has undergone numerous changes which took place after 1989. The country status is still an economy in transition to a market economy.
In this paper, we analyze a few aspects concerning the reform of the Romanian accounting system alongside the international accounting standards (IAS), the tangible assets in particular (IAS 16), which are the key in harmonizing the accounting documents and situations of various economic entities in the context of globalization.
The case presented deals with the core of the capital of an entity (firm, company), the tangible assets and their importance in the well-functioning of the system at the microeconomic level. The profitability and the sustainability of the firm depend on the modern, functional and well-managed tangible assets.

KEYWORDS microeconomic systems, international standards, tangible assets, profitability

General approach and background
The International Financial Reporting Standards or IFRS are issued by the International Accounting Standards Board (IASB). Since increasingly more investors are seeking information about the financial condition of certain undertakings or organizations, the issue of transparency in international accounting arose.

The vast majority of the EU countries began applying IFRSs since 2005 and drawing the first financial reporting at the end of that year. The application term of the financial reporting standards involved two steps: a) a comparative period and b) a period of the actual implementation.

The adoption of financial standards is considered to be a new evaluation system of performance at the enterprise level.

The International Financial Reporting Standards are, on the one hand, accounting standards and, interpretations of microeconomic activity on the other. The users of financial statements make decisions in order to:

- Decide when to buy, to keep or to sell an equity investment
- Assess actual results
- Assess boundaries for loans granted to companies or organizations
- Determine the taxation policies
- Determine the conditions for self-financing
- Assess managerial responsibility
- Assess the company's ability to pay wages and to provide benefits to employees
- Determine the profit and the dividends that can be distributed
- Determine the financial policy of the company
- Regulate the enterprise's activity.

This paper aims to analyze the existence and implications that a certain asset structure, asset structure represented by tangible heritage assets. The assets mean the technical basis and production potential of a manufacturing company, such as S.C NEW STAR S.A Piatra Neamţ.

The tangible assets occupy the largest share in total assets, which is explained by their decisive contribution to ensuring the technical and production potential of the unit.

The assets fall into one of the three categories according to their specific characteristics, as follows: **intangible assets, tangible assets, financial assets.**

The fixed assets, also called tangible or fixed assets, are purchased to be exploited and are not for resale; by their nature, they have a relatively long service life and, usually, are amortized. They are tangible assets, they distinguish from stocks by the fact that they are not physically incorporated in the products (services) achieved through their usage.

The concept of the *International Accounting Standards*, „the lands and the fixed assets are tangible assets held by an enterprise in order to be utilized in the production of goods or services for rental to others."

The tangible fixed assets have value incorporated in their material content.

The fixed capital subject to recovery is reflected in the heritage of companies through the goods and values designed to serve operations for more than a year and which is gradually consumed. The following are also considered assets subject to recovery:

a) the investments made with hired fixed assets;
b) the capacities commissioned in part for which no registration forms as fixed assets were established. They are comprised in the groups that are about to be registered at a value resulting from the summing of actual expenses incurred by their implementation;
c) the investments for stripping, in order to exploit useful minerals, coal and other deposits; d) the investments in fixed assets in order to improve the initial technical parameters by increasing the input value of the asset.

„The recovery is the allocation (distribution) of the recoverable value of an asset during its expected use period". This is a general interpretation of recovery, we agree to it..

The recovery, in the conception of certain authors, represents the monetary expression of wear.

The recovery is calculated from the time of entry into operation of the fixed asset until the full recovery of its value. To calculate recovery the following three elements must be

known:

1) The recoverable amount (or input): represented by the acquisition cost, the manufacture cost or the utility value. This represents, in most countries, the basis for calculating recovery.
2) The recovery duration is the average length of time where fixed assets might operate. Some authors distinguish between the operation time, which can be shorter or longer and the recovery time, which represents the period taken into consideration to calculate the recovery rules. The International Accounting Standards refer to the useful life span which represent:

a) - the period during which it is estimated that the company will actually use the asset subject to recovery; or
b) - the number of units of production or similar units that are expected to be obtained by the company by the use of that particular asset.

In Romania, the recovery periods of fixed assets are called normal operating periods. These periods are established in a centralized manner by the government and are binding on all economic agents using the same assets, under the same conditions. These times will be periodically reviewed, but no later than 5 years. The normal operating times coincide with the recovery times, expressed in years, related to the linear recovery regime.

RESULTS

Efficiency of utilizing fixed assets

Regarding the fixed assets at NEW STAR S A Piatra Neamt, one can consider that a series of factor analysis models of which the most commonly used are as follows:

$$a)\ \frac{CA}{Mf}\times 1000$$

turn over (CA) and the fixed assets value (Mf)

Table 1. Indicators related to the turnover

Indicators	Acc. to OMFP	Acc. to IAS
Provided turnover	12.731.605	12.731.605
Achieved turnover	7.998.110	7.998.110
Provided fixed assets	12.019.745	11.766.839
Achieved fixed assets	11.076.606	10.837.739
Modification of turnover at 1000 lei fixed assets	-337.15	-344
Influence of fixed assets	90.19	92.76
Influence of turnover	-427.34	-436.76

n 2013 there has been a dramatic drop in turnover of 4.733.495 lei, i.e. 37, 18%. The situation is thought to be critical manifested solely because of the massive reduction of sales. This situation is also reflected upon the analyzed indicator: 427, 34 lei (in the case of OMFP) and 436, 76 lei (if applying IAS). It is recommended to find new clients, to retain existing clients, in order to redress turnover.

Fixed assets experience a further decrease in the amount of 943.139 lei, i. e. 7. 85%, if national rules apply, and a decrease of 929.100 lei, i. e. 7, 9 %, if international standards apply. However, in both cases, fixed assets result in a favorable effect over the indicator used worth 90, 19 lei, i.e. 92,76 lei.

$$b)\ \frac{RE}{Mf}\times 1000 = \frac{CA}{Mf}\times\frac{RE}{CA}\times 1000$$

where: $\frac{RE}{CA}$ - represents the commercial rate of return (incidental to the operation)

Table 2. Indicators related to the fixed assets values

Indicators	Acc. to OMFP	Acc. to IAS
Provided fixed assets	12.019.745	11.766.839
Achieved fixed assets	11.076.606	10.837.739
Operational result 0	241.044	241.044
Operational result 1	451.973	449.949
Modification RE/Mf *1000	20.75	21.03
Influence of fixed assets	1.71	1.76
Influence of operating result	19.04	19.28

According to national rules, in 2013, an increase in the operating results of 210.929 lei, i.e. 87.5% is recorded. The situation is considered to be favorable in terms of costs, which have a rate of -32.28% superior to the revenues decreasing rhythm of 30%. Modifying the operating result determines a positive influence on the analyzed indicator of 19, 04 lei.

The fixed assets experience a further decrease in the amount of 943.139 lei, i.e. 7, 85%, but positively influence the analyzed indicator by 1,71 lei.

Following the same course, according to international standards, the operating results increased by 208.905 lei, i.e. 86, 67%; costs decrease by 32, 26% and revenues by 30%. Also, the modification of the operating result causes a positive influence upon the analyzed indicator by 19, 28 lei. The fixed assets, albeit a decrease, they cause a favorable influence on the analyzed indicator worth 1, 76 lei.

CONCLUSIONS

The benefits of applying IAS at the microeconomic level are:

- A higher degree of company transparency,
- Financial statements closer to reality with a higher degree of comparability;
- The ability of foreigners to invest in the company (the same accounting treatment)

Applying the standard IAS 16, on the other hand, often makes reference to the professional rationale and the outcome is subjective. The impairment of assets is the aspect most often subject to bias, representing a way by which reshaping can be applied to accounts and financial situations based upon interest, mainly by recording too high provisions and their replay on incomes.

The tangible assets are a key aspect within our society, given that their absence a business cannot be conducted, especially in the case of manufacturing companies.

In our specific case, the enterprise requires a replacement of the fixed assets management program in order to ensure the quality of the information generated upon them and also a faster access to data.

It is also recommended to renew existing fixed assets because they are in an advanced stage of wear, jeopardizing the quality of manufactured products and therefore the future performance of the firm (company, entity).

For the well-functioning of a firm, for the right interpretation and analysis of the financial situation (profit, solvability..), the harmonization of the accounting system and of financial situations is compulsory, due to the fact that the firm (entity, corporation) acts on an open market, under the action of demand and supply and, therefore, the potential collaborators or purchasers from all over the world have to know exactly the situation of the respective entity.

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