RELATIVITY OF ACCOUNTING VALUES: CAUSES, CONSEQUENCES AND LIMITATION POSSIBILITIES

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Abstract
Accounting is influenced by a variety of historical, economic, cultural, and other non-accounting factors that led to different judgments in creating a system for representing the reality, the application of regulated requirements and the validation of the fidelity of the information in the annual financial statements, as a final product of accounting. In this article, we focus on the main determinants of the relativity of the values that characterize the events in the life of an organization, which can determine the different reporting of similar realities. Thus, we focus on the influence of taxation on accounting, on accounting policies and management decisions and the professional judgment in forming an opinion on the financial statements and we try to identify solutions to limit the relativity of the accounting values.

Keywords
professional judgment; regulatory framework; taxation; accounting policies; management decisions; faithful representation

JEL Classification
M41; M42

Introduction
Accounting values are the result of the professional judgments used in preparing and applying regulations, but also in the examination made in order to appreciate the compliance with regulations. So, the quality of the professional judgments exercised in creating and implementing a system for accounting representation of reality, although partially controlled, is essential in increasing the reliability of the information provided by accounting (Enachi & Andone, 2015).
To support the preparers, auditors, regulators and standard setters, The Institute of Chartered Accountants of Scotland (2012) elaborated a professional judgement framework for financial reporting. This framework presents the principles of a professional judgement for preparers (knowledge gathering and analysis, assessment of accounting guidance, process for making a judgement, documentation of judgement), auditors (knowledge gathering and analysis, assessment of accounting and auditing guidance, process for assessing and challenging the client’s judgement, documentation of judgement) and regulators (review of financial statements, review of preparer and auditor documentation, decision) and illustrative lists of actions that to undertake in order to apply the principles.
In what follows, we present the implications of using human judgment over the information reported by accounting, emphasizing the main aspects, by briefly describing three categories of determinants of relativity and ignoring the anomalies in
accounting regulations and the accounting system that could not be discovered and corrected by regulators, entity staff or auditors. At the end of the paper, we present some measures that could be taken in order to limit the distortions of accounting information.

**The influence of taxation on accounting**

Accounting and taxation exist for different reasons (Simon, 2013). They have different objectives, are subject to different rules and serve different purposes (Green, 1995, cited by Simon, 2013). However, there is an interdependence between accounting and taxation, and in the particular case where the specific regulations of the two branches are developed by the same body, the interdependence is even closer (Istrate, 1999).

In this paragraph, we focus on the influence of taxation on accounting and try to identify the main tools it uses. For example, according to the fiscal regulations in some countries, the fiscal year is the calendar year, and the taxpayers who have opted, in accordance with the accounting regulations, for a financial year different from the calendar year can choose the fiscal year to correspond to the financial year. Such an option will normally lead to different values of the taxable bases and implicitly to different amounts to be paid to the state. Even without the existence of such an option, the separation by calendar years of financial years, considered by some authors artificial (Pham, 1989, cited by Ciumag, 2004), does not, compulsory, have the capacity to ensure the comparability of information in time and space. Thus, the balance sheet shows the situation of the assets, liabilities and equity at a given time, and that time may not be representative in the life of the entity. Depending on the field that the entity operates (for example, the seasonality of the services provided) we can see completely different values at the end of the financial year compared to those recorded in most other months of the year.

Pop, Fekete and Cuzdriorean (2013) found evidence, on behavioral level, that individuals indeed perceive some influence of taxation over accounting, since their choices in practice are fiscal-driven and not accounting driven and this in case of recognition of non-current assets, depreciation, revaluation, provisions.

Taxation affects accounting because entities, instead of keeping two types of records, one exclusively accounting and one in relation to the state, prefer, for reasons of effort and costs, to keep a single accounting record influenced by taxation (Istrate, 2011) in many countries of the world, both in the reflection of different categories of expenses (depreciation, taxes etc.) and in the reflection of the values of some assets, sometimes the latter being the cause of the different reflection of expenses.

Taxation imposes rules and procedures, sometimes with the possibility of selecting the desired option, but also offers advantages under certain conditions. Thus, we find in the fiscal regulations express provisions regarding the depreciation methods that can be applied, by categories of assets, the calculation method of the taxable result, the value added tax rate for different categories of goods or services, the rates related to the state budget contributions, social insurance budget, special funds and the manner of determining the taxable matter in their case etc., the tax rate on the result obtained or income for different categories of entities, tax facilities granted under certain conditions and other similar provisions with influence on the values recorded in accounting.

Especially since changes in tax regulations occur frequently, we cannot talk about relevant comparisons in time and space, characteristics that must be met in providing information through financial statements.
Accounting practices and their influence on the accounting values

In this section of the paper, we bring into discussion the accounting practices, which consist of accounting policies and management decisions with influence on the information provided by accounting. These represent the main way of manipulating accounting information, at the disposal of those who record the events in which the organization is involved. In fact, financial scandals are based on either the discovery of false information or the discovery of the use of techniques to disguise the real situation, known as creative accounting (Malciu, 1998).

Mulford and Comiskey (2002) present a classification scheme for the creative accounting practices that includes: recognizing premature or fictitious revenue; aggressive capitalization and extended amortization policies; misreported assets and liabilities; getting creative with the income statements; problems with cash-flow reporting. We can add to this scheme the influence exercised through the explanatory notes to the financial statements.

The objectives of creative accounting usually are to meet stakeholder’s expectations, to achieve internal goals, to attract the investors, getting tax incentives, income smoothing and enhancing the market value of shares etc. (Khaneja & Bhargava, 2017).

International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors defines accounting policies as the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accounting policies include the options of the managers regarding the accounting variables (Malciu, 1999). In a broad sense, the accounting policies refer to (Casta and Ramond, 2009): the choice (or modification) of evaluation methods relating to annual, consolidated or half-yearly financial statements, and more particularly including the choice of modeling the fair value of assets and liabilities; the choice (or the modification) of the methods of presentation of the annual, consolidated or half-yearly financial statements; determining the volume and degree of aggregation of information published in the financial statements and more particularly in the appendix of annual or consolidated accounts; determining the information published in the management report relating to the annual (or consolidated) accounts as well as in the half-yearly report to the charge of listed companies; determining the date of disclosure of financial information; the voluntary publication of optional financial statements or information relating to the running of the business; the choice (or change) of external auditors; early transition to the International Accounting Standards Board (IASB) or alignment with that of the Financial Accounting Standards Board (FASB); the choice of reporting format and performance indicators (net income, operating income, comprehensive income); the very exceptional abandonment of certain fundamental accounting principles, such as the principle of business continuity, or clearly identified normative provisions according to the principle of overriding.

In the process of applying accounting policies, management makes several professional judgments (apart from those involving estimates) that can significantly affect the values recognized in the financial statements (Feleagă et al, 2008).

If, through accounting policies, different selections of appropriate accounting practices are captured in a given regulatory framework, management decisions refer to different operations that are actually performed by the entity in order to avoid legal or organizational boundaries. Thus, the main purpose of these operations is to give a different image of the company, even if they do not fundamentally change its situation. (Dumitrescu, 2014).
Malciu (1999) presents some example of accounting practices that consist in management decisions with impact on the result recorded by organizations: leaseback operations; artificial assignment of investment securities; circular transactions; stored production etc.

An important problem caused by some of the accounting practices is that different presentation in accounting of similar realities leads by default to the distortion of information at macroeconomic level.

Having no access to information inside the company, except in very special situations, the external users of the information provided by accounting are subject to real risks when their decision is not well documented starting from possible causes generating distorted information.

The professional judgment in forming an opinion on the financial statements

The performance criterion of accounting is the fair view, the extent to which it renders the objective reality, through a complete and pertinent information on economic facts and processes, expressible in monetary standard (Horomnea et al, 2008).

The impartial examination of the fidelity of the information contained mainly in the financial statements of the company is performed through financial audit (Horomnea, 2010), a complex activity, which cannot be regulated in detail, cannot being established valid universal recipes because the situations faced by the auditor are very different (Dănescu, 2007). Thus, the activity of the financial auditor revolves around professional judgment that involves complex professional training, ability, sense of responsibility, independence, professionalism etc. (Dănescu, 2007).

An audit of financial statements provides a reasonable assurance, which means a high, but not absolute, level of assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error (IAASB, 2018).

The auditors cannot obtain an absolute assurance, especially because there are inherent limitations of an audit caused by factors such as: the use of sampling; the shortcomings of any accounting and internal control system; the fact that most evidence is persuasive rather than conclusive - based on deductions rather than beliefs; the need for the audit to be conducted within a reasonable period of time and at a reasonable cost) and the fact that the opinion is based on professional judgment used in obtaining sufficient appropriate evidence (e.g., decision of nature, timing and extent of the audit procedures) and drawing conclusions based on the evidence obtained (e.g., evaluating the reasonableness of the accounting estimates when preparing the financial statements).

Thus, the examination made by professional, in order to appreciate the compliance with regulations, can lead to an increased confidence in a more or less faithful image of the financial position, performance and changes in financial position of an organization (Enachi & Andone, 2015).

According to IAASB (2018), the professional judgment represents the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement. Given the broad intervention of professional judgment, with its subjectivity, the process of auditing financial statements (summary reports, having public character, reflecting the financial position, performance and changes in the financial position of an entity) in order to increase their credibility is affected by a number of factors.
As Grady (1968) sustained, the factors whose combined impact makes it questionable whether the certified public accountant can obtain a fair trial are: 1) it is almost impossible to remove the effect of subsequent events and hindsight and to recreate the environment existing when the examination was made; 2) a lay jury is likely to expect a degree of skill equivalent to infallibility from the CPA; 3) in any suit for damages, where any degree of negligence is found and it is known there is insurance coverage, the jury is likely to be unduly liberal in the measurement of the damages; 4) very few, if any, members of a jury can follow and understand the complex financial transactions and technical testimony presented; 5) where alleged violations of the Securities Act is involved, burden of proof is shifted to the CPA under the terms of the statute.

Thus, due to the factors described above, an audit does not constitute a guarantee that the financial reports are free from material misstatement and the entity can continue as a going concern.

International Standard on Auditing 570 Going Concern presents several events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern and the evaluation of management’s plans for future actions as part of the audit process.

The current practice of presenting most of the information over several financial years can facilitate the appreciation of the future, but the direct indication of some prospective information, depending on needs and intentions, supports the process of estimating the future of the financial position, performance and changes in the financial position of the entity, providing to the users, through certification, useful information in making decisions. In this context, the examination of financial reports that contain prospective information involves taking into account additional aspects of those currently addressed. In this regard, ISAE 3400 The Examination of Prospective Financial Information mention that the auditor should obtain sufficient appropriate evidence as to whether: management’s best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information; the prospective financial information is properly prepared on the basis of the assumptions; the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

Although the opinion of a professional increases the credibility of the financial statements, according to IAASB (2018) the user should not consider this opinion as a guarantee of the future viability of the entity or the efficiency or effectiveness with which management conducted the activities.

Possible solutions to limit the relativity of accounting values

Being known the importance of professional judgment in establishing the accounting values, a first solution that should be taken in order to increase the credibility of accounting is to accentuate the importance of principles by adopting an ethical code for the professional accountants and designing a regulatory framework which to be the result of an optimal combination between rules and principles (more difficult to avoid by practitioners even if it involves the widespread use of professional judgment). We must be aware that the use of a more appropriate principle would reduce the need for arbitrary and detailed rules and these do not mean that a
principles-based standard is always better than a rules-based standard or that concentration on principles will always lead to less complex rules (Nobes, 2005).

Other solutions aim to reducing the number of alternative accounting processing allowed and reducing the implication of taxation on accounting especially by providing taxable bases and rates applicable to them that are adequate and as stable as possible over time.

Referring to the work of auditors, we consider very important increasing emphasis on professional skepticism, defined by IAASB (2018) as an attitude that includes the application of a questioning mindset in the context of an appropriate understanding of the entity, its business and the environment in which it operates. In this respect, the auditors should use not only their personal judgments but also some specialized programs in detecting the manipulation of information.

Other solutions consider rethinking the structure and the content of the financial statements, the only resource available to external users. So, increasing the transparency of the activities unrolled and the results obtained could be made by requesting preparers to include in the financial statements certain non-financial and prospective information, even they cannot be measured in numbers, and formalizing all the components of the financial reports so that to assure that the presentation of relevant information, especially in the explanatory notes, is not avoided.

All these measures aim to offer the accounting the possibility of transposing the reality as objective as possible.

In order to reduce the risk of being affected in decision-making process, when we base on the information provided by accounting, we need to perform time and space analyzes in order to detect possible deviations from the current trend or unusual values, observe the correlations between information in the financial statements over time (for example, correlations between cash flows and accounting results), additional information provided by entities regarding changes in accounting policies, the intentions and expected evolution of the entity and existing links with other entities (through the participation titles held or family links) that carry out activity in the same field or situated immediately upstream or downstream.

**Conclusions**

For the unitary judgment of events, at least at local level, although at international level it is much more relevant, and, implicitly, the provision of comparable information in time and space, we must, first of all, appropriately and clearly define the content of accounting regulations and those specific to the audit activity and to reduce, as much as possible, the role of taxation in determining the accounting values. Obviously, the quality of professional judgments, determined by a number of internal and external factors, plays a decisive role in ensuring faithful representation of the relevant information in the life of an organization.

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