Accounting Harmonization Measurement: Case of Emerging CEE Countries

Jiří Strouhal, Carmen Bonaci, Razvan Mustata, Lehte Alver, Jaan Alver, and Arturs Praulinš

***Abstract*—**The adoption of IFRS is supported in many countries inside and outside the European Union because it may improve the quality and comparability of financial reporting. Although the national standards are based on IFRS, they are not identical. The purpose of the paper is to compare national accounting standards of the Czech Republic, Estonia, Latvia and Romania with IFRS, look at approaches of these countries to aspects of financial reporting, and analyze differences and similarities using Jaccard's association coefficients as a general tool.

***Keywords*—**International accounting, harmonization process, comparative analysis, econometrics, CEE countries.

I. Introduction

THE process of international accounting harmonization is directly and positively correlated with the globalization phenomenon, influencing each other, even though there is a certain tendency to only perceive harmonization as an effect of globalization. International accounting harmonization represents a complex and well defined process that relies on actions of international bodies, especially those using well settled accounting technologies or approaches [23]. Enhancing accounting harmonization constituted the major objective of the International Accounting Standards Committee. Its follower, the International Accounting Standards Board (IASB) therefore further assumed a leading role in this direction.

As long as standard setting bodies lack the power to enforce the use of their accounting standards, promoting international accounting harmonization to level they desire depends on a significant number of other variables in the international arena. Accounting systems reflect the economic environment they are serving while reinforcing it and evolving together with it. It is therefore considered that the international accounting system's development is due to the globalization of financial markets and the international economic integration [6, 18, 26]. It is such circumstances that led to modern accounting focusing on the process of accounting harmonization with purposes such as reducing differences in accounting and increasing comparability of accounting information. On one hand national accounting systems are dealing with reducing the number of alternative treatments for a particular item within national accounting regulations through the process of standardization. On the other they must also manage the process of accounting harmonization that aims at reducing dissimilar treatments for a particular item between two different regulations, process that requires further attention and planning. As expected, the process of accounting harmonization has its fair share of proponents as well as opponents, but it seems that both the first and the latter have come to reconsider their arguments when faced with turbulent times such as that of the recent financial crisis. We find it quite natural that accumulating risk exposure that finally led to worldwide recession without the corresponding signals being given through accounting systems would make the world question financial reporting, including financial accounting standards. Some opinions even consider that imposing a single form of accounting, designed for a particular form of capitalism, runs the risk of preventing alternative forms of financial, economic, and legal governance from evolving, such restrictions of institutional choice representing one of the worst forms of restrictive practice [54]. Further development of the accounting harmonization process is for sure to be even more challenging due to the effects of the recent financial crisis that raised even more questions. On the long run we might end up finding that searching for precisely those answers were beneficial for the entire process.

As documented through our previous discussion, interesting times are still ahead for the international accounting harmonization process. Without making any forecasts we will stop at analyzing accounting literature on harmonization, trying to capture some conceptual essentials and underpinnings, manners for quantifying accounting harmonization, as well as developing some empirical analysis based on the considered National Accounting Regulations and the International Financial Reporting Standard for Small and Medium-sized Entities.

A significant number of international accounting studies

Manuscript received April 10, 2011.

This paper is one of the research outputs of the project P403/11/0002 registered at Czech Science Foundation (GAČR) and project POSDRU/89/1.5/S/59184 "Performance and excellence in postdoctoral research within the field of economic sciences in Romania", Babeş-Bolyai University, Cluj-Napoca being a partner within the project.

J. Strouhal is with the University of Economics Prague, W. Churchill Square 4, 130 67 Prague 3, Czech Republic, (corresponding author; tel.: +420224095794; e-mail: strouhal@vse.cz).

C. Bonaci is with Babes-Bolyai University Cluj-Napoca, Romania.

R. Mustata is with Babes-Bolyai University Cluj-Napoca, Romania.

L. Alver is with Tallinn University of Technology – TSEBA, Estonia.

J. Alver is with Tallinn University of Technology – TSEBA, Estonia.

A. Praulinš is with Tallinn University of Technology – TSEBA, Estonia
.

within research literature focus on issues related to formal and material harmonization. Formal harmonization or de jure harmonization studies mainly deal with quantifying the compatibility degree between the international accounting regulations (IFRS) and different national accounting regulations (NAS). On the other hand material or de facto harmonization studies mainly analyze, quantify and interpret to what extent the foresights of the international accounting regulations (IFRS) are actually found within entities' accounting practices [15, 20, 22, 29, 42, 50]. The difference between the two types of accounting harmonization is clearly surprised on a conceptual level and emphasized by [20]. Therefore formal harmonization focuses on how accounting standards are developed while material harmonization analyzes the level of comparability and concordance proven by actual accounting practices in relation to the implementation process of accounting standards when considering national accounting systems.

Moving forward we can state that formal harmonization actually represents a first indispensable step in achieving material harmonization. Even though we accept the existence of alternative solutions and realities we believe that reaching the objective of financial reporting practices that are globally accepted requires an intermediate phase of harmonizing accounting regulations. Under these circumstances we consider that accounting harmonization represents a real process [50, 53] and seems to be essential in order to improve international comparability of financial statements, therefore increasing cash flows' mobility and reducing costs in terms of financial statements' preparation especially in the case of multinational companies [10, 12]. [45] consider that accounting harmonization assumes four essential aspects as follows:

- the influences,
- the process,
- the result, and
- the consequences.

The influences comprise those factors that have a certain impact on accounting practices' harmonization. The process assumes the assembly of steps or efforts that are developed by companies in order to reduce existent differences of accounting practices. The result refers to the level of harmony being reached at a certain moment in time. Consequences refer to subsequent effects of the harmonization process.

Beyond the above discussed elements of the accounting harmonization process we must also consider the fact that in case those aspects that are generally considered as other influences, at one moment in time, benefit of strong attributes and develop a high ability to influence the accounting harmonization process, then we can assist the manifestation of a different form of this process, known within research literature as spontaneous harmonization. A series of studies [9, 22, 25, 32, 33, 51] develop the theoretical framework and/or empirical evidences for the spontaneous harmonization tendency that was found at the level of accounting practices of the so-called global players.

It is therefore necessary to make the distinction between the two main types of harmonization that are de facto or material harmonization and de jure or formal harmonization. References with regard to the increase of the comparability degree are based on a high degree of conformity of accounting practices and afterwards on harmonizing regulations [9]. [9] also consider that formal harmonization usually generates or favors material harmonization without this representing the only solution. More precisely, material harmonization can develop without being generated through formal harmonization as its predecessor, through the so-called spontaneous harmonization.

[50] also make a clear distinction between de jure harmonization and de facto harmonization. Through harmonization of accounting regulations (de jure harmonization) they analyze to what extent accounting standards and regulations are comparable. The latter concept (de facto harmonization) mostly analyzes to what extent accounting regulations are found within companies accounting practices [43]. [52, 53] also distinguish spontaneous harmonization besides formal harmonization and material harmonization. Similar approaches [46] see formal harmonization as in fact representing harmonization of existent accounting regulations, while material harmonization referring to accounting practices that are influenced by these regulations or by forces of the market. Furthermore, spontaneous harmonization represents a subcategory or a particular form of material harmonization [44]. The approach in accordance to which material harmonization can be reached without first going through formal harmonization is also argued by [53].

Spontaneous accounting harmonization can be considered as a deviation from or alternative to the natural/classical evolution of the accounting harmonization process. Such a deviation incurs when some deficiencies characterize the process of harmonizing regulations or when the pace of this harmonization process does not correspond to financial reporting's need for comparability as expressed through accounting practices and realities. In other words we can consider that spontaneous harmonization is a reaction of response to the need for accounting harmonization coming from accounting practice. Spontaneous accounting harmonization therefore develops due to forces of the market and not to accounting regulations [44] and their harmonization.

II. Measuring the Harmonization of Accounting Systems

The area of international accounting offered a highly disputed field for research during the last decades, generating a significant number of studies with corresponding variety and importance of the obtained results. A distinct positioning and importance must be given to those studies focusing on different aspects of the international accounting harmonization process since this research field represents the major objective of research activities being developed by many accounting professionals and universities during the last 40 decades [5].

Among these we must mention:

- comparisons between the international accounting standards (IFRS) and American accounting regulations (US GAAP);
- measuring the degree of harmonization between different accounting systems;
- implementation of IFRS by some national accounting systems.

A first topic whose importance was emphasized through the attention being paid to it within research literature refers to studying accounting harmonization in direct correlation and association with the globalization phenomenon. Some studies document that the interaction between the field of accounting and the globalization phenomenon was kind of neglected by critical research despite the potential benefits for research activities and the global economy [11, 19, 21, 23, 30]. One of the arguments brought by [21] in this regard is that globalization and its context offer real possibilities for the development of progressive and emancipating changes within the economy. Therefore if we look at accounting in association with globalization it might help us dimension the potential role and implication of accounting systems when considering current realities of an economy under globalization.

Another significant aspect that should be considered when discussing the international accounting harmonization process is that of the costs it generates for entities. There is a large variety of forms for these costs, but we must keep in mind that entities' financial efforts should be seen as long term investments and well managed investments should finally generate benefits that are higher that the corresponding efforts. The issue of dimensioning the costs of IFRS implementation also represents a highly debated topic within studies dealing with the international accounting harmonization process [7, 27]. [27] for example identify and measure the costs of harmonizing the Romanian accounting system with the European Directives and IFRS, documenting the existence of three main categories of such costs as follows:

(1) costs of personnel training,

(2) consultants' commissions and taxes, and

(3) necessary costs in order to adjust the existent informational systems [27].

Their study also argues that the benefits of accounting harmonization are mostly visible for those entities that frequently use external financing, entities benefiting from external equity and shareholders.

We must also mention that category of studies focusing on national accounting systems' need for harmonization with international accounting standards. Studies being developed in this area [31, 36, 40] have two main objectives:

(1) dimensioning and positioning the need for harmonization in relation to the dimension of the global economy and to the accounting profession's status at a certain moment in time, and

(2) quantifying the degree of a national accounting system's need for harmonization with international accounting standards [37].

We therefore consider it is possible to develop a complex system that would measure a national accounting system's harmonization process with international accounting standards by considering the following dimensions:

- the need for accounting harmonization (pre-formal harmonization);
- accounting harmonization at the level of accounting regulations (formal harmonization);
- the degree of harmonization when considering accounting practices (material harmonization); and
- the costs of implementing international accounting standards (post-material harmonization).

If all these dimensions were quantified a complete diagnosis of a national accounting system in relation to the international accounting referential.

Studies in the area of international accounting harmonization focusing on measuring accounting harmonization document the fact that different measurement systems have been used over time up until the point where making a clear distinction in nowadays research is no longer possible. We must mention that it was accounting practices which first represented the object of analysis in terms of quantifying the compatibility degree between accounting systems. It is therefore interesting to observe how material harmonization which actually represents the finish line of the accounting harmonization process was also the bloc start for research on accounting harmonization measurement.

The objective of analyzing research literature's main trends in terms of measuring accounting harmonization is also undertaken by [36, 38, 39]. [36] document that two major periods can be dimensioned in the evolution of studies on formal harmonization measurement as follows: the initial period can be placed in time beginning with 1981, until 1985 (according to the [50]); and the mature period, starting in 1996 until now. Two studies must be emphasized within the initial period [16, 41], and also five within the mature period [14, 20, 22, 29, 46]. Such a dividing would be more difficult to do for studies on material harmonization measurement due to the extremely high number of such studies.

[36] develop a separation of the existing scientific steps in the material harmonization measurement based on the influence of previous studies, documenting the following two categories:

(1) studies influenced by van der Tas's research activities in this field [2, 3, 4, 9, 17, 24, 28, 34, 44], and

(2) studies that can be considered as bringing new approaches to material harmonization measurement [1, 13, 45, 49].

Looking towards the character of these researches [36] assess that the majority has a less positive approach [29], leading them to interpreting this aspect through a high degree of critical approach, within the existent empiric research.

We will further synthesize main types of accounting harmonization measurement systems starting from the three above mentioned studies that undertook this objective. [38, 39] approach accounting harmonization measurement in general while [36] focus on material harmonization measurement.

We can observe that instruments measuring the compatibility degree of accounting practices and of different sets of accounting regulation actually record a convergent time evolution towards the common point given through measurement instruments based on similarity. Moreover, a clearer dimensioning of the accounting harmonization degree is obtained when using either association coefficients (Jaccard's Coefficients, Roger-Tanimoto Coefficient, Lance-Williams Coefficient), either correlation coefficients (Pearson Coefficient, Spearman Coefficient).

Jaccard's Coefficients are mostly known in the form being used by [20], as follows:

$$S_{ij} = \frac{a}{a+b+c} \tag{1}$$

and

$$D_{ij} = \frac{b+c}{a+b+c} \tag{2}$$

where:

S_{ij} represents the similarity degree between the two sets of analyzed accounting regulations or practices; D_{ij} represents the degree of dissimilitude or diversity between the two sets of analyzed accounting regulations or practices; a – the number of elements which take the 1 value for both sets of regulations or practices; b – the number of elements which take the 1 value within the j set of regulations or practices and the 0 value for the i set of regulations or practices; c – the number of elements which take the 1 value within the i set of regulations or practices and the 0 value for the j set of regulations or practices.

The values that can be recorded by these coefficients go from 0 to 1, where 1 represents a maximum level of harmonization when considering the similarity coefficient. Also, the sum of the two Jaccard's Coefficients, Jaccard S_{ij} and D_{ij}, is obviously always equal to 1. Jaccard's Coefficients will further be used within the next section of this chapter in order to measure formal accounting harmonization between National Accounting Regulations and the International Financial Reporting Standard for Small and Medium-sized Entities.

As another model for measuring the consistencies between accounting systems could be considered Roger-Tanimoto coefficient. The computation formula is following:

$$R\&T = \frac{d+a}{d+a+2(b+c)} \tag{3}$$

where:

d – the number of elements which take the 0 value for both sets of regulations or practices.

Alternatively for measuring of dissimilarities could be used Lance-Williams coefficient. The computation formula is following:

$$L\&W = \frac{b+c}{2a+b+c} \tag{4}$$

In terms of the correlation coefficients, the study developed by [20] appealed to using Spearman's coefficient in order to dimension the comparability degree between a set of national accounting regulation and International Financial Reporting Standards. The corresponding computation formula is as follows:

$$\mathrm{rs} = \frac{\sum_{i=1}^{n} R(NC_i)R(IC_i) - n\left(\frac{n+1}{2}\right)^2}{\sqrt{\sum_{i=1}^{n} R(NC_i)^2 - n\left(\frac{n+1}{2}\right)^2} - \sqrt{\sum_{i=1}^{n} R(IC_i)^2 - n\left(\frac{n+1}{2}\right)^2}} \tag{5}$$

where:

n = total number of accounting methods included in the study; R(NCi) = the rank of the accounting method i within national accounting standards (NC), i = 1, ..., n; R(ICi) = the rank of the accounting method i within international accounting standards (IC), i = 1, ..., n.

Being used in the field of accounting, Spearman's coefficient can record values going from -1 to +1. The closest the value of the coefficient to +1 the higher is the harmonization degree between the considered elements.

III. Results of Performed Analysis within Selected CEE Countries

Within following text there will be discussed the level of harmonization of Czech, Estonian, Latvian and Romanian legislature with International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs).

For the compatibility calculation were used Jaccard's coefficients (for measurement of similarities and dissimilarities), Roger-Tanimoto coefficient (for measurement of similarities) and Lance-Williams coefficient (for measurement of dissimilarities).

All sets of national regulations (as well as IFRS for SMEs) we tested within 8 particular areas:

(i) intangible assets,
(ii) PPE,
(iii) investment properties,
(iv) financial leases,
(v) inventories,
(vi) financial assets and liabilities,
(vii) financial derivatives, and
(viii) financial statements.

Table 1 provides evidence about measurement of similarity level between all accounting regulations.

Results show that the most compatible systems with international referential are accounting systems of Baltic countries.

Table 1. Analysis of Similarities

		CZE	**EST**	**LAT**	**ROM**	**IFRS**
Czech Republic	JC	1.0000	0.5484	0.5625	0.4828	0.5667
	RT	1.0000	0.4510	0.4510	0.4231	0.4800
Estonia	JC	0.5484	1.0000	0.7419	0.4688	0.8214
	RT	0.4510	1.0000	0.6444	0.3704	0.7619
Latvia	JC	0.5625	0.7419	1.0000	0.5806	0.7667
	RT	0.4510	0.6444	1.0000	0.4800	0.6818
Romania	JC	0.4828	0.4688	0.5806	1.0000	0.5333
	RT	0.4231	0.3704	0.4800	1.0000	0.4510
IFRS	JC	0.5667	0.8214	0.7667	0.5333	1.0000
	RT	0.4800	0.7619	0.6818	0.4510	1.0000

Source: our analysis

Table 2 emphasizes on measurement of dissimilarity level. Results show that the less compatible systems with international referential are Romanian and Czech one.

Table 2. Analysis of Dissimilarities

		CZE	**EST**	**LAT**	**ROM**	**IFRS**
Czech Republic	JC	0.0000	0.4516	0.4375	0.5172	0.4333
	LW	0.0000	0.2917	0.2800	0.3488	0.2766
Estonia	JC	0.4516	0.0000	0.2581	0.5313	0.1786
	LW	0.2917	0.0000	0.1481	0.3617	0.0980
Latvia	JC	0.4375	0.2581	0.0000	0.4194	0.2333
	LW	0.2800	0.1481	0.0000	0.2653	0.1321
Romania	JC	0.5172	0.5313	0.4194	0.0000	0.4667
	LW	0.3488	0.3617	0.2653	0.0000	0.3043
IFRS	JC	0.4333	0.1786	0.2333	0.4667	0.0000
	LW	0.2766	0.0980	0.1321	0.3043	0.0000

Source: our analysis

Tables 3 – 6 focus on the analysis of local accounting systems with IFRS for SMEs for all eight analyzed areas of financial reporting showing the most and less harmonized parts of accounting legislature within all national standards.

Table 3. Measurement of Similarities and Dissimilarities in Particular Areas (Czech Republic versus IFRS for SMEs)

	CZE/IFRS	
	S_{ij}	D_{ij}
1 Intangibles	1.0000	0.0000
2 PPE	1.0000	0.0000
3 Investment Property	0.3333	0.6667
4 Financial Lease	0.0000	1.0000
5 Inventories	1.0000	0.0000
6 Financial Assets and Liabilities	0.8000	0.2000
7 Financial Derivatives	0.5000	0.5000
8 Financial Statements	0.5000	0.5000
TOTAL	0.5667	0.4333

Source: our analysis

Czech accounting is based on historical costs approach with strong application of prudence principle [48]. According to the results there could be seen the major differences in reporting of investment properties (Czech accounting treatment do not use fair value approach), and financial leases. The total inconsistency in reporting of financial leases is given by the fact, that under IFRS approach is used “substance-over-form” rule, thus under Czech legislation has the leading power the legal (and not economic) point of view [35].

To summarize the current stage of accounting legislature, there shall be stated following “open chapters”:

- absolute lack of definition of basic items of financial statements
    - there does not exist any definition of assets, liabilities, equity, expenses or revenues
- application of “substance-over-form” rule when reporting the financial leases
- introduction of effective interest rate and amortized costs as a possible measurement base
- wider spread of fair value approach [8]
    - depends on the liquidity and transparency of markets

Table 4. Measurement of Similarities and Dissimilarities in Particular Areas (Estonia versus IFRS for SMEs)

	EST/IFRS	
	S_{ij}	D_{ij}
1 Intangibles	1.0000	0.0000
2 PPE	1.0000	0.0000
3 Investment Property	0.6667	0.3333
4 Financial Lease	1.0000	0.0000
5 Inventories	1.0000	0.0000
6 Financial Assets and Liabilities	0.6667	0.3333
7 Financial Derivatives	0.5000	0.5000
8 Financial Statements	1.0000	0.0000
TOTAL	**0.8214**	**0.1786**

Source: our analysis

The Estonian GAAP consists of EASB guidelines and does not include all areas of accounting or includes only in brief. In areas which are not covered by the regulations of Estonian GAAP, the IFRS treatment is recommended, but is not mandatory. Since the commencement of the Accounting Act 2003 the Estonian GAAP should be generally in line with IFRSs. In some ways the Estonian GAAP has less disclosure than the IFRSs because it is allowed for SMEs. Therefore, large companies are expected to choose the full IFRS option while other companies may use the set of Estonian accounting guidelines as their accounting framework. The guidelines are only recommendations of the EASB [47]. The Estonian GAAP exists only in 18 guidelines from which 17 are in force.

As already mentioned before, according to the results of performed analysis, Estonian accounting system is considered as a most harmonized one with IFRS for SMEs. Estonian regulation is even the only one requiring the preparation of Statement of Comprehensive Income as it is required by IFRSs as well as IFRS for SMEs.

Table 5. Measurement of Similarities and Dissimilarities in Particular Areas (Latvia versus IFRS for SMEs)

	LAT/IFRS	
	S_{ij}	D_{ij}
1 Intangibles	0.6667	0.3333
2 PPE	0.6667	0.3333
3 Investment Property	0.6667	0.3333
4 Financial Lease	0.6667	0.3333
5 Inventories	1.0000	0.0000
6 Financial Assets and Liabilities	0.8000	0.2000
7 Financial Derivatives	0.7500	0.2500
8 Financial Statements	0.8333	0.1667
TOTAL	**0.7667**	**0.2333**

Source: our analysis

The measurement and recognition principles in Latvian accounting standards are based on IFRSs and are their simplified summary. Therefore LAS generally are written in simpler language, require less disclosure than IFRSs and sometimes provide simplified methods as they are primarily designed for application by small and medium sized entities. Some areas LAS don't covered at all. Unlike other Baltic States, namely, Estonia and Lithuania, where almost the entire list of national standards came into force some years ago, there have been adopted just 11 Latvian national accounting standards. It means that the most important loadstone isn't a difference between national regulation and IFRSs, but the lack of detailed national regulation. The normative regulation (laws and regulations issued by the Cabinet of Ministers) are too general and superficial. In practice in areas which are not covered by LAS and national accounting laws, the IFRS treatment is voluntary applied.

LAS 1 "Framework for Preparation of Financial Statements" is very similar to the IASB Framework for the preparation and presentation of financial statements. However, it does not define main users of financial reporting. The important difference between IAS 1 "Presentation of Financial Statements" and Law on Annual Accounts is that the former does not prescribe the format of a balance sheet and the order in which balance sheet items need to be presented. According to the Law on Annual Accounts, it is compulsory that assets and liabilities are grouped into long term investments and current assets, long term liabilities and short term liabilities. Whereas according to IAS 1, there is also a possibility to apply exception when the presentation of items in a balance sheet is based on liquidity providing information that is reliable and more relevant. It is not foreseen in the law to use other name such as Statement of Financial Position or other for the Balance sheet. IAS 1 requires presenting Statement on Comprehensive Income, but the Law on Annual Accounts – Profit or Loss Account.

LAS 2 "Cash Flow Statement" defines model forms of Cash Flow Statements for direct and indirect treatment. The model forms include separate lines for cash flows from extraordinary activities. The main difference between LAS 2 and IAS 7 "Statement of Cash Flows" is that under LAS 2 completion of the cash flow form under indirect treatment should be started from the profit (loss) before extraordinary items, not from the profit before taxation.

Unlike Standard IAS 19, the LAS 8 "Provisions, Contingent Liabilities and Contingent Assets" does not provide a detailed description of pension provisions and other post-employment benefits as the accounting for these areas is significant only for a small number of entities in Latvia. IAS 19 requires the disclosure of more detailed information in the notes to the financial statements than LAS 8 does.

The accounting policies set out in the guideline LAS 10 "Leases" regarding the accounting for leases are in compliance with the accounting policies set out in IAS 17, except for the requirements for the disclosures in notes. The requirements of IAS 17 for the disclosures in the notes are more detailed in comparison with LAS 10.

The accounting policies prescribed in the LAS 11 "Inventories" are in accordance with the accounting policies prescribed in IAS 2. The requirements of IAS 2 set for disclosures in the notes differ in details from the requirements of LAS 11.

The accounting policies prescribed by the Law on Annual Accounts for financial instruments are generally in compliance with the accounting policies prescribed in IAS 39, although IAS 39 provides a more thorough description of several accounting areas of financial instruments. IAS 32 and IAS 39 require more disclosures in notes than Latvian national accounting regulation does. The Law on Annual Accounts defines neither financial assets and financial liabilities, nor available-for-sale financial assets and held-to-maturity investments. Instead it contains a cross-reference to terms used in IFRSs.

Latvian accounting regulation could be also considered as a one of the most harmonized with IFRS for SMEs. There could be seen just slight differences when reporting fixed assets.

Table 6. Measurement of Similarities and Dissimilarities in Particular Areas (Romania versus IFRS for SMEs)

	ROM/IFRS	
	S_{ij}	D_{ij}
1 Intangibles	1.0000	0.0000
2 PPE	0.3333	0.6667
3 Investment Property	0.3333	0.6667
4 Financial Lease	0.2500	0.7500
5 Inventories	0.7500	0.2500
6 Financial Assets and Liabilities	0.4000	0.6000
7 Financial Derivatives	1.0000	0.0000
8 Financial Statements	0.5000	0.5000
TOTAL	**0.5333**	**0.4667**

Source: our analysis

In Romania it is the Order of the Minister of Public Finance no. 3.055/2009, November, modified in 2010, December (further referred as OMFP 3055), which currently foresees accounting principles and rules to be applied in recognizing, measuring, derecognizing and presenting the elements of annual financial statements. We will further synthesis these provisions based on OMFP 3055 as well as on a comparative study of the Romanian Accounting Regulations and the International Financial Reporting Standard for Small and Medium-sized Entities that was developed through the Body of Expert and Licensed Accountants of Romania (CECCAR).

According to the results of performed analysis, Romanian accounting legislature is less harmonized with IFRS for SMEs. Differences can be seen especially in the area of tangible assets. Romanian legislation is one offering as a possible derecognition formula for purchased inventories LIFO.

Like under majority of accounting regulation also in Romania investment properties do not form a special reporting group and are considered as a part of PPE.

IV. Conclusion

Adoption of IFRS for SMEs could be vital for true-and-fair view and for the higher comparability of accounting information in globalized world. The crucial necessity will be the wider spread of IFRS for SMEs knowledge. Generally, IFRS for SMEs is based on different concept than continental accounting regulation, so it'll be not only about the training of new accounting regulation, but about the training of the different accounting thinking and different approach for posting of accounting transaction. There will be also necessary to provide regular information for professional accountants about the evolution and changes in IFRS for SMEs and the long-life training.

As a possible limit for the current adoption of IFRS for SMEs could be considered the lack of motivation as the clients of professional accountants prefer rather than true-and-fair view the best solution of accounting operation from the tax point of view, due to the close connection of national accounting systems to tax regulation.

Acknowledgment

This paper is one of the research outputs of the project P403/11/0002 registered at Czech Science Foundation (GAČR) and project POSDRU/89/1.5/S/59184 "Performance and excellence in postdoctoral research within the field of economic sciences in Romania", Babeş-Bolyai University, Cluj-Napoca being a partner within the project.

References

[1] S. Aisbitt, Assessing the Effect of the Transition to IFRS on Equity: The Case of the FTSE 100, *Accounting in Europe*, Vol. 3, No. 1, 2006, pp. 117-133.

[2] S. Aisbitt, Measurement of harmony of financial reporting within and between countries, the case of the Nordic countries, *European Accounting Review*, Vol. 10, No. 1, 2001, pp. 51–72.

[3] S. Archer, P. Delvaille, and S. McLeay, A statistical model of international accounting harmonization, *Abacus*, Vol. 32, No. 1, 1996, pp. 1–29.

[4] S. Archer, P. Delvaille, and S. McLeay, The measurement of harmonization and the comparability of financial statement items, within-country and between-country effects, *Accounting and Business Research*, Vol. 25, No. 98, 1995, pp. 67–80.

[5] C.R. Baker, and E.M. Barbu, Trends in research on international accounting harmonization, *International Journal of Accounting*, No. 42, 2007, pp. 272-304.

[6] B. Barlev, and J.R. Haddad, Harmonization, Comparability and Fair Value Accounting, *Journal of Accounting, Auditing & Finance*, Vol. 22, No. 3, 2007, pp. 493-509.

[7] G.J. Benson, M. Bromwich, R.E. Litan, and A. Wagenhofer, *Worldwide financial reporting – The development and future of accounting standards*, New York: Oxford University Press, 2006.

[8] C.G. Bonaci, D. Matis, and J. Strouha., Crisis of fair value measurement? Some defense of the best of all bad measurement bases, *WSEAS Transactions on Business and Economics*, Vol. 7, No. 2, 2010, pp. 114-125.

[9] L. Canibano, and A. Mora, Evaluating the statistical significance of de facto accounting harmonization: A study of European global players, *European Accounting Review*, Vol. 9, No. 3, 2000, pp. 349–369.

[10] A. Carey, Harmonization: Europe moves forward, *Accountancy*, March, 1990, pp. 92−93.

[11] P. Chand, and M. White, A critique of the influence of globalization and convergence of accounting standards in Fiji, *Critical Perspectives on Accounting*, No. 18, 2007, pp. 605–622.

[12] F.D.S. Choi, and G.G. Mueller, *International Accounting. 2nd edition*, Prentice Hall International, 1992.

[13] P. Delvaille, G. Ebbers, and C. Saccon, International Financial Reporting Convergence: Evidence from Three Continental European Countries, *Accounting in Europe*, Vol. 2, No. 1, 2005, pp. 137–164.

[14] Y. Ding, O.K. Hope, T. Jeanjean, and H. Stolowy, Differences between domestic accounting standards and IAS: Measurement, determinants and implications, *Journal of Accounting and Public Policy*, Vol. 26, No. 1, 2007, pp. 1–38.

[15] Y. Ding, H. Stolowy, and M. Tenenhaus, Shopping around for accounting practices: the financial statement presentation of French groups, *Abacus*, Vol. 39, No. 1, 2003, pp. 42–65.

[16] T.S. Doupnik, Evidence of international harmonization of financial reporting, *The International Journal of Accounting*, Fall, 1987, pp. 47–67.

[17] E.N. Emenyonu, and S.J. Gray, EC accounting harmonization, an empirical study of measurement practices in France, Germany and UK, *Accounting and Business Research*, Vol. 23, No. 89, 1992, pp. 49–58.

[18] B.J. Epstein, and B.B. Mirza, *IAS–Interpretation and Application of International Accounting Standards 2000*, New York, NY: John Wiley & Sons, 2000.

[19] J. Everett, D. Neu, and A.S. Raham, Accounting and the global fight against corruption, *Accounting, Organizations and Society*, No. 32, 2007, pp. 513-542.

[20] A. Fontes, L.L. Rodrigues, and G. Craig, Measuring convergence of National Accounting Standards with International Financial Reporting Standards, *Accounting Forum*, Vol. 29, No. 4, 2005, pp. 415–436.

[21] S. Gallhofer, and J. Haslam, The accounting–globalisation interrelation: An overview with some reflections on the neglected dimension of emancipatory potentiality, *Critical Perspectives on Accounting*, Vol. 17, No. 7, 2006, pp. 903–934.

[22] P. Garrido, A. Leon, and A. Zorio, Measurement of formal harmonization progress: The IASC experience, *International Journal of Accounting*, No. 37, 2002, pp. 1-26.

[23] C. Graham, and D. Neu, Accounting for globalization, *Accounting Forum*, Vol. 27, No. 4, 2003, pp. 449–471.

[24] D. Herrmann, and W. Thomas, Harmonization of accounting measurement practices in the European Community, *Accounting and Business Research*, Vol. 25, No. 100, 1995, pp. 253–265.

[25] S. Huddart, and J.S. Hughes, *Disclosure requirements and stock exchange listing choice in an international context*, working paper, 1997.

[26] M.Z. Iqbal, T.U. Melcher, and A.A. Elmallah, *International Accounting - A Global Perspective*, Mason, OH: South-Western College Publishing, 1997.

[27] I. Ionaşcu, M. Ionaşcu, L. Olimid, and D.A. Calu, An Empirical Evaluation of the Costs of Harmonizing Romanian Accounting with International Regulations (EU Directives and IAS/IFRS), *Accounting in Europe*, Vol. 4, No. 2, 2007, pp. 169–206.

[28] V. Krisement, An approach for measuring the degree of comparability of financial accounting information, *European Accounting Review*, Vol. 6, No. 3, 1997, pp. 465–485.

[29] R.K. Larson, and S.Y. Kenny, The harmonization of International Accounting Standards: Progress in the 1990s?, *Multinational Business Review*, Spring, 1999, pp. 1-12.

[30] G. Lehman, Perspectives on language, accountability and critical accounting: An interpretative perspective, *Critical Perspectives on Accounting*, No. 17, 2006, pp. 755-779.

[31] D. Matiş, S. Achim, and R. Mustaţă, *The Impact of Globalization on Regulation and Accounting Systems, In: The Impact of European Integration on the National Economy*, Editura Risoprint, Cluj Napoca, 2005, pp. 287-306.

[32] G.K. Meek, C. Roberts, and S.J. Gray, Factors influencing voluntary annual reports disclosures by US, UK and continental European multinational corporations, *Journal of International Business Studies*, Vol. 26, No. 3, 1995, pp. 555–572.

[33] G.K. Meek, and S.J. Gray, Globalization of stock markets and foreign listing requirements: voluntary disclosures by continental European companies listed on the London stock exchange, *Journal of International Business Studies*, 1989, pp. 315–336.

[34] R. Morris, and R. Parker, International measures of accounting policy: comparative statistical properties, *Accounting and Business Research*, Vol. 29, No. 1, 1998, pp. 73–86.

[35] L. Mullerová, M. Paseková, J. Strouhal, A. Deaconu, B. Knapová, and D. Dvořáková, Auditing of SMEs: Issues Caused by International Financial Reporting (From Czech Perspective), *International Journal of Mathematical Models and Methods in Applied Sciences*, Vol. 5, No. 3, 2011, pp. 517-524.

[36] R.V. Mustaţă, and D. Matis, Systems for material harmonization measurement within the changing global accounting environment: a review, *Journal of Organisational Transformation and Social Change*, Vol. 7, No. 1, 2010, pp. 47-87.

[37] R.V. Mustaţă, and D. Matis, Measurement of need for harmonization between national accounting standards and international financial reporting standards, *Journal of International Business and Economics*, Vol. 7, No. 3, 2007, pp. 23-46.

[38] R.V. Mustaţă, C.G. Bonaci, D. Matis, and J. Strouhal, Using econometric tools for accounting harmonization measurement, International *Journal of Mathematical Models and Methods in Applied Sciences*, Vol. 5, No. 2, 2011, pp. 316–323.

[39] R.V. Mustaţă, D. Matis, C.G. Bonaci, and J. Strouhal, *Econometric Tools Used in Measuring Accounting Harmonization: a Necessity Imposed through Globalization*, In: Selected Topics in Economy and Management Transformation, Vol. II, 2010, pp. 670-676.

[40] R.V. Mustaţă, D. Matis, and G. Bodea, The impact of globalization on regulations and accounting systems. Dimensioning and quantification, *Journal of International Business and Economics*, Vol. 5, No. 1, 2006, pp. 118-129.

[41] R.D. Nair, and W.G. Frank, The harmonization of international accounting standards: 1973–1979, *The International Journal of Accounting*, Vol. 17, No. 1, 1981, pp. 61–77.

[42] C. Nobes, On accounting classification and the international harmonization debate, *Accounting, Organizations and Society*, No. 29, 2004, pp. 189–200.

[43] R.H. Parker, Harmonizing the Notes in the UK and France: A Case Study in De Jure Harmonization, *European Accounting Review*, Vol. 5, No. 2, 1996.

[44] R.H. Parker, and R.D. Morris, The influence of US GAAP on the harmony of accounting measurement policies of large companies in the UK and Australia, *Abacus*, Vol. 37, No. 3, 2001, pp. 297–328.

[45] A. Rahman, H. Perera, and S. Ganesh, Accounting practice harmony, accounting regulation and firm characteristics, *Abacus*, Vol. 38, No. 1, 2002, pp. 46−77.

[46] A.R. Rahman, H. Perera, and G. Tower, Accounting Harmonization between Australia and New Zealand: Towards a Regulatory Union, *International Journal of Accounting*, Vol. 29, No. 3, 1996, pp. 316-333.

[47] J. Strouhal, and K. Kallaste, Accounting professional education schemes: Case of Czech Republic and Estonia, *WSEAS Transactions on Communications*, Vol. 9, No. 8, 2010, pp. 485-494.

[48] J. Strouhal, L. Mullerová, Z. Cardová, and M. Paseková, National and international financial reporting rules: Testing the compatibility of Czech reporting from the SMEs perspective, *WSEAS Transactions on Business and Economics*, Vol. 6, No. 12, 2009, pp. 620-629.

[49] A. Tarca, International convergence of accounting practices: Choosing between IAS and US GAAP, *Journal of International Financial Management and Accounting*, Vol. 15, No. 1, 2004, pp. 60–75.

[50] J.S.W. Tay, and R.H. Parker, Measuring international harmonization and standardization, *Abacus*, No. 26, March, 1990, pp. 71–88.

[51] M. Taylor-Zarzeski, Spontaneous harmonization effects of culture and market forces on accounting disclosure practices, *Accounting Horizons*, Vol. 10, No. 1, 1996, pp. 18–37.

[52] L.G. van der Tas, Evidence of EC financial reporting practice harmonization: The case of deferred taxation, *European Accounting Review*, Vol. 1, No. 1, 1992, pp. 69–104.

[53] L.G. van der Tas, Measuring harmonization of financial reporting practice, *Accounting and Business Research*, Vol. 18, No. 70, 1988, pp. 157–169.

[54] R.S.O. Wallace, Survival strategies of global organization: The case of the International Accounting Standards Committee, *Accounting Horizons*, June, 1990, pp. 1–22.