Audit financiar, XIV, Nr. 6(138)/**2016**, *634-641*
ISSN: 1583-5812; ISSN on-line: 1844-8801

Convergence of Romanian accounting regulations with IFRS. A longitudinal analysis

Nadia ALBU,
Bucharest University of Economic Studies,
E-mail: nadia.albu@cig.ase.ro
Ioana PĂLĂRIE,
E-mail: ioana.palarie17@gmail.com

Abstract

In this paper we analyse the evolution in the level of convergence of the Romanian accounting regulations with IFRS in the last decade. We focus our study on the accounting topics covered by IAS16, IAS17, IAS41 and SIC15. We find that in 2005 the regulations exhibit a good level of convergence for property, plant and equipment, a medium level of convergence for lease accounting and divergence for accounting for the agricultural activity. The overall convergence level improved over time for all the topics analysed. These results indicate that the companies with dual reporting may incur lower costs in applying IFRS. Moreover, the national regulations offer the opportunity for a higher level of comparability in Romania of the financial statements prepared under IFRS with those prepared under national regulations. However, we underline that the institutional factors (such as the tax influence over accounting) might negatively affect the convergence of practices.

Keywords: *Convergence, IFRS, Romanian accounting regulations, longitudinal analysis.*

JEL Classification: *M41, M48.*

To cite this article:
Albu, N. and Pălărie, I. (2016), Convergence of Romanian accounting regulations with IFRS. A longitudinal analysis, Audit Financiar, vol. XIV, no. 6(138)/2016, pp. 634-641, DOI: 10.20869/AUDITF/2016/138/634

To link to this article:
http://dx.doi.org/10.20869/AUDITF/2016/138/634

Introduction

The accounting profession faced in the last two decades an increase in the spread of the International Accounting Reporting Standards (IFRS) worldwide, with consequences for preparers and auditors. More and more countries require or allow IFRS application, generally for some companies (in most cases the listed ones). Another signal of the increasing acceptance of IFRS is the convergence of many local (national or regional) accounting regulations and standards[1] with IFRS. National regulators and standard-setters might choose to converge the national accounting principles and rules with IFRS for various reasons: to signal the acceptance of IFRS, to reduce the costs of companies using both national rules and IFRS[2], to increase the comparability between the financial statements issued by companies in the same country, to help preparers and users get accustomed to IFRS or to utilize the expertize in standard-setting of the IASB[3].

The Romanian regulators followed a convergence plan with IAS/IFRS in Romania, visible in the accounting regulations issued after 1999 (King et al., 2001). We investigate the development of the Romanian accounting regulations over the past ten years in order to comment on the convergence level achieved with IFRS. We focus our study on the accounting topics covered by IAS 16 *Property, plant and equipment*, IAS 17 *Leases*, IAS 41 *Agriculture* and SIC 15 *Operating leases – Incentives*.

Understanding the evolution of the convergence process is useful for accountants and auditors. The differences between the Romanian accounting regulations and IFRS signal the difficulties in working with two sets of requirements in the case of some companies. The subsidiaries of many multinationals utilize national regulations in their statutory financial statements, but also prepare a second set on IFRS for consolidation by the parent company. Preparers have an interest in using as much as possible the same accounting policies in both sets of financial statements (Albu, Albu and Alexander, 2014). The level of convergence also signals the impediments and cost of adopting IFRS (in the case of new listings or voluntary adoption of IFRS) (Larson and Street, 2004). Moreover, the process of convergence allows the profession to evolve in an accounting environment closer to IFRS.

1. Literature review

1.1. The evolution of the Romanian accounting regulations

The recent history of the Romanian accounting regulations is characterized by several rapid changes, following in most cases foreign models and influence. This process of regulatory change in Romania has been extensively investigated in the accounting literature (for example, by Albu and Albu, 2012; Feleagă and Feleagă, 2006; Ionaşcu et al., 2007; 2014; Mustață, 2008 among others).

Prior research in this area suggests that while initial reforms in the 1990s were inspired by the French model, the influence of the then IAS arose around 2000. Starting in 1999, IAS were included, with some carve-outs, in the national regulations. These regulations were applicable to all large companies. However, the level of compliance with IAS in financial statements prepared in accordance with national regulations was low (World Bank, 2003). Prior studies identified the following institutional factors as creating difficulties in the adoption of IFRS and being associated with the reduced level of compliance: tax influence, reduced level of pressure from users, unprepared accounting profession and reduced level of enforcement (Larson and Street, 2004; Ionaşcu, Ionaşcu and Munteanu, 2011; Albu and Albu, 2012).

New regulations (The Order of the Minister of Public Finance number 1752/2005) were issued in 2005 in order to prepare for EU accession. While these regulations enacted the European directives, many IFRS

[1] We refer to “regulations” as being accounting principles and rules issued by a State-dominated institution (called regulator), and “standards” as being accounting principles and rules issued by a private institution (called standard-setter). Under this distinction, we use the terminology “accounting regulations” to refer to the Romanian rules included in Ministerial Orders and “accounting standards” to refer to IFRS.

[2] For example, some Member States of the European Union require for listed companies the use of national rules in the separate financial statements and IFRS in the consolidated financial statements.

[3] Assuming that IFRS represent high quality accounting standards, the convergence process allows the improvement at a low cost of the national accounting principles and rules.

influences remained. Order 3055/2009 replaced Order 1752 and came into force in 2012 providing further clarification to regulatory text and stipulating additional rules. Most of these changes were also in line with IFRS. Therefore, Romania follows a process of convergence with IFRS in its national accounting regulations. This process is still ongoing, since OMFP 1802/2014 was issued along the same line – conformity with the European Directives, but also with influences from IFRS. OMFP 1802/2014 (with subsequent changes) is applicable to all entities not listed on a regulated capital market. Listed entities on a regulated market are required to apply IFRS in accordance with OMFP 1286/2012.

1.2. Convergence measurement and analysis – an international and national perspective

Convergence of national regulations with IFRS represents a reality of international accounting during the last decades. For the countries with fewer resources for standard setting IFRS represent a good benchmark to update national regulations. Moreover, countries intending the development of local markets see in IFRS the international language of accounting. This regulatory reality is accompanied in accounting research by the investigation of the level of convergence. While the tendency is easily observable by the overview of regulations[1], only specific measures and rigorous research are able to provide the full picture of the convergence process.

Consequently, literature on accounting convergence is emerging, and various methods to measure convergence are developed and employed. Qu and Zhang (2010) identified relevant studies on methods to measure formal harmonization, including the use of Euclidian distances, Jaccard's coefficient and Spearman's coefficient. Convergence is analysed as complete convergence, substantial convergence, substantial difference and complete difference (Qu and Zhang, 2010), absence and divergence (Ding et al., 2007) or as full convergence, substantial convergence or non-convergence with IFRS (Peng and Van der Laan Smith, 2010).

[1] For example, big auditing firms and professional bodies issued reports based on comparisons between national accounting principles and rules and IFRS.

A few recent studies investigate and measure the convergence of Romanian regulations with IFRS. General analyses are realized by professional bodies or big auditing firms, but in most cases present similarities and differences and are not based on specific convergence measures. For example, CECCAR (2010) compare IFRS for SMEs and national regulations to identify similarities and differences.

Research papers employ specific methodologies to determine the level of convergence. Mustață (2008) employs Jaccard's coefficient in order to estimate the evolution of the formal convergence of Romanian regulations with IFRS until 2007. Results show that the level of convergence increases over time, and is situated at 40.2% for the period 2003-2007. In order to compute this convergence score, accounting policies for 19 elements of the financial statements are analysed. Other studies are focused on particular elements of the financial statements. Coste and Fekete (2013) analyse the convergence level of the accounting policies for intangible and property, plant and equipment under the OMFP 3055 with IAS 16 and IAS 38. The convergence level obtained using Jaccard coefficient is of 76.47% for property, plant and equipment and of 68.75% for intangible assets.

Buculescu and Velicescu (2014) and Albu, Gîrbină and Cuzdriorean-Vladu (2011) examine the level of convergence of national regulations (OMFP 3055) with the IFRS for SMEs. Buculescu and Velicescu (2014) focus on property, plant and equipment and find a convergence level of 54.6%, with higher values of convergence for definition and recognition policies and lower values for the requirements regarding the scope and components of this category of elements. Albu, Gîrbină and Cuzdriorean-Vladu (2011) focus on inventories and find a convergence level of 51%.

Concluding, the studies investigating the convergence of Romanian regulations with IFRS indicate a good and increasing level of convergence. Differences might exist between the results of various studies because of the period covered and methodology followed to measure convergence. Existing research is usually focused on specific items and is based on the existing Romanian accounting regulations at a moment in time. A notable exception is Mustață (2008), following a longitudinal approach in analysing the convergence process. Studies investigating the convergence level, especially in a longitudinal manner, are still needed. These types of studies might be of interest for practitioners and also regulators, in order to better understand the evolution of the Romanian accounting regulations.

2. Research methodology

We conduct an in-depth ten-year longitudinal study in order to analyse the level of convergence between Romanian accounting regulations and IFRS. The ten-year frame chosen is useful to show the development over time and to establish how the Romanian accounting model changed. The analysis is conducted for the accounting policies covered by IAS 16, IAS 17, IAS 41 and SIC 15. The selection of these standards is justified by the following reasons. We focus on two of the most common and used standards (IAS 16 and IAS 17), which eventually affect all the companies. We select a standard that covers more specialised activities (IAS 41), applicable to fewer companies. Moreover, we also select an interpretation of IAS 17 – SIC 15, which analyses the treatment that has to be applied by both the lessor and the lessee for an operating leasing when incentives are encountered.

The ten-year time frame could not be followed for all the chosen standards and regulations due to the fact that for some no equivalent or similar legislation was found in Romania. The requirements included in IAS 16 and IAS 17 are analysed for the entire time frame. The accounting policies covered by IAS 41 and SIC 15 have no equivalents in OMFP 1752 and OMFP 3055, the first Order mentioning them being OMFP 1802 issued in 2014.

The first step of the analysis consists in the identification of a list of accounting policies for each standard to be matched with the requirements in the national regulations. For IAS 16 the items of comparison chosen within the study are grouped in the following way: definitions, recognition, measurement and costs, depreciation and derecognition requirements. For IAS 17 and SIC 15, we grouped the content as follows: definitions, classification, accounting treatments, sale and leaseback transactions, and SIC 15 requirements. The IAS 41 was split into: definitions, recognition, earnings and losses.

We then determine the methodology to assess convergence. We follow prior research (Albu, Gîrbină and Cuzdriorean-Vladu, 2011; Buculescu and Velicescu, 2014) and derive the following scores to be analysed:

1. Full convergence – same treatments and specifications are included in IFRS and the Romanian regulations (marked with 1)
2. Complete absence – no specifications about the treatment described within IFRS can be found within Romanian regulations (marked with 0)
3. Differences that can be found such as:
   - c.1. less detailed leading to convergence – the Romanian regulations provide less details than IFRS but the general treatment is the same (marked with 0.8)
   - c.2. over detailed leading to convergence – the Romanian regulations provide more details than IFRS but the treatment is the same (marked with 1)
   - c.3. over detailed or less detailed leading to partial divergence (marked with 0.3)
   - c.4. over detailed or less detailed leading to complete divergence (marked with 0)

The score is selected considering the implications for the national regulations. The maximum score is granted either when the regulations were the same or more detailed, assuming that even further details could help in the convergence process. The score of 0.8 is attached to the incomplete regulations by taking into account that the lack of details can create difficulty in interpreting the regulations in line with the spirit of IFRS. No points are given when national regulations do not provide any information in line with IFRS or provide guidance that leads to divergence.

There are cases where the Romanian regulations were changed after the standard was issued. We compute the score by using the average over time. Also, when partial convergence matters arise, we compute the total value by dividing the total score that could have been obtained with the number of options presented by the Romanian regulations and multiplied the result with the number of options similar to the ones presented in IFRS. Case c.3. is used only when a certain degree of divergence occurred and important differences were generated. Moreover, in cases where the Romanian regulations did not present a direct indication about the accounting treatment and the treatment applied was the one used for another group of assets but it was equivalent to the one described within IFRS, the attributed score is 0.8.

Finally, we compute the overall convergence score. The score obtained for all the items analysed is divided by the total score that would have been allocated in case of complete convergence.

3. Research results

We perform content analysis of the accounting policies included in the Romanian regulations and IFRS, following the methodology described above. We obtain the following results:

Table 1. The convergence level between the Romanian accounting regulations and IFRS

IFRS	OMFP 1752	OMFP 3055	OMFP 1802
IAS 16:			
Definitions	1.00	1.00	1.00
Recognition	0.58	0.68	0.95
Measurement and costs	0.61	0.66(6)	0.85
Depreciation	0.61	0.61	0.61
Derecognition	0.95	0.95	0.95
Convergence level	**75%**	**78.13%**	**87.2%**
IAS 17 and SIC 15:			
Definitions	0.6	0.6	0.6
Classification of leases	0.45	0.65	0.65
Accounting for leases	0.29	0.76	0.76
Sale and lease-back transactions	0.93	0.93	0.93
SIC15	0	0	1
Convergence level	**45.4%**	**58.8%**	**78.8%**
IAS 41:			
Definitions	0	0	1
Recognition and measurement	0	0	0.8
Earnings and losses	0	0	0
Convergence level	**0%**	**0%**	**60%**

Source: Authors' compilation

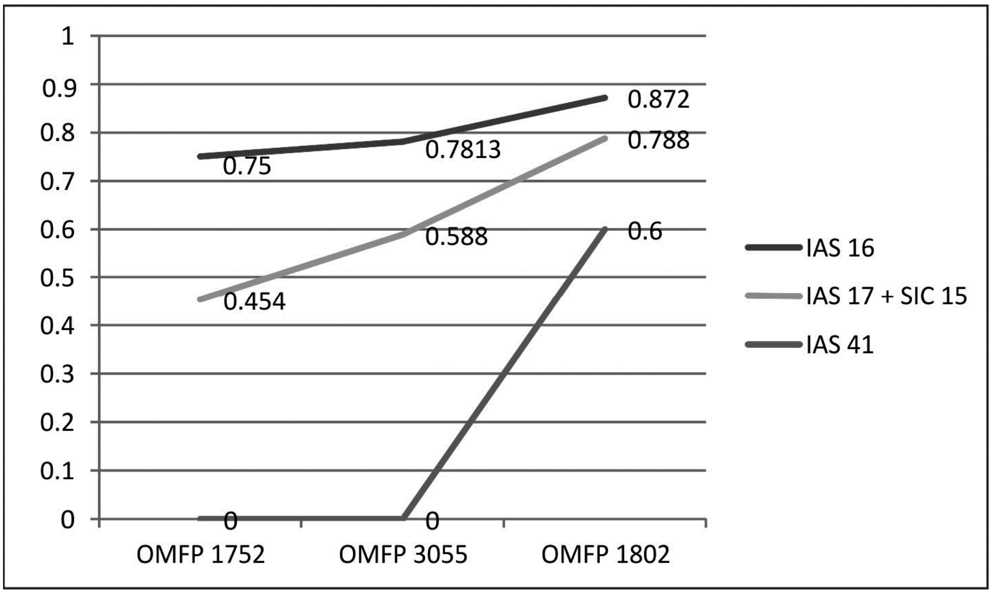
Table 1 illustrates a trend in increasing the convergence between the Romanian accounting regulations and IFRS for all the analysed items. The requirements for property, plant and equipment have a good level of convergence from 2005 (75%). This might be justified by the applicability of these requirements to all companies and also by the lack of impediments in achieving good convergence (such as predominantly fair value measurement or uncommon accounting treatments). Even if the *de jure* convergence becomes more and more clear, *de facto* convergence is less obvious in practice (Istrate, 2012).

The results indicate a good level of convergence for the lease requirements. This might be explained by the introduction of substance over form and lease accounting in Romania around 2000. The level of convergence increases over time, but after a careful analysis, we notice that the increase in the latest years is generated by the introduction of SIC15 into the national regulations. For the other lease requirements, the increase in convergence occurred when OMFP 3055 was issued. Moreover, although lease accounting is an example of another set of policies frequently used, we notice that the level of convergence is smaller than in the case of property, plant and equipment.

We can also notice that for IAS 41, which is a specialized standard, the Romanian regulations made a big step in the latest period, going from no specifications to an almost full incorporation of IFRS policies within its content. We speculate that besides the habit of a lack of specific requirements for the agricultural activity in the Romanian accounting regulations, the extended use of fair value measurement in IAS 41 represented a reason for the late convergence in this area. The profession and users needed time to adjust to fair value measurements.

Figure 1 presents the trend in the convergence of the national regulations with IFRS.

Figure 1. The trend in the convergence of the national regulations with IFRS



Source: Author's compilation

The increase in the convergence level with IFRS is obvious. However, we stress that these results capture the *de jure* convergence. This might have implications for the practices under the national regulations. However, given the rule-based approach, the strong linkage to taxation, the reduced experience with using fair value and also less active markets, accounting practices might not reflect the increasing level of convergence found in regulations. Additional research is needed in this area.

Conclusion

In this paper we analyse the evolution in the level of convergence of the Romanian accounting regulations with IFRS in the last decade. We focus our study on the accounting topics covered by IAS 16, IAS 17, IAS 41 and SIC 15. We find that in 2005 the regulations exhibit a good level of convergence for property, plant and equipment, a medium level of convergence for lease accounting, and divergence for accounting for the agricultural activity. The level of convergence improved over time, with values of about 80% or higher for the analysed topics, indicating that regulatory efforts have been made in order to improve convergence, but also that there is still room for improvements.

These results indicate that the companies with dual reporting might incur lower costs in applying IFRS. A high level of convergence has the potential not just to minimize the costs of companies with dual reporting, but also at this stage to encourage the development and opening of such companies and subsidiaries of multinationals, therefore influencing positively the Romanian economy and tax collections. Moreover, the national regulations offer the opportunity for a higher level of comparability in Romania of the financial statements prepared under IFRS and those prepared under the national regulations. However, we underline that the institutional factors (such as the tax influence over accounting) might negatively affect the convergence of practices.

REFERENCES

1. Albu, C. and Albu, N. (2012), International financial reporting standards in an emerging economy: Lessons from Romania, *Australian Accounting Review*, vol. 22, no. 4, pp. 341-352, doi: http://dx.doi.org/10.1111/j.1835-2561.2012.00196.x.
2. Albu, C.N., Gîrbină, M.M. and Cuzdriorean-Vladu, D. (2011), How close are Romanian regulations and the IFRS for SMEs? An in-depth analysis for inventories, *Global Review of Accounting and Finance*, vol. 3, no. 2, pp. 32-41.
3. Albu, C.N., Albu, N. and Alexander, D. (2014), When global accounting standards meet the local context - Insights from an emerging economy, *Critical Perspectives on Accounting*, vol. 25, no. 6, pp. 489-510, doi: http://dx.doi.org/10.1016/j.cpa.2013.03.005
4. Buculescu, M.M. and Velicescu, B.N. (2014), An analysis of the convergence level of tangible assets (PPE) according to Romanian national accounting regulation and IFRS for SMEs, *Accounting and Management Information Systems*, vol. 13, no. 4, pp. 774-799.
5. CECCAR (2010), *Comparative study of the Romanian Accounting Regulations (OMFP 3055/2009) and the IFRS for SMEs*, Bucharest: CECCAR Publishing House.
6. Coste, A.I. and Fekete, S. (2013), Harmonization of national regulation and International Financial Reporting Standards – Particular case of noncurrent assets, *The Annals of the University of Oradea*, no. 1, pp. 1190-1197.
7. Ding, Y., Hope, O.K., Jeanjean, T. and Stolowy, H. (2007), Differences between domestic accounting standards and IAS: measurement, determinants and implications, *Journal of Accounting and Public Policy,* vol. 26, no. 1, pp. 1-38, doi: http://dx.doi.org/10.1016/j.jaccpubpol.2006.11.001.
8. Feleagă, L. and Feleagă, N. (2006), Convergenţe contabile internaţionale prin prisma aderării la Uniunea Europeană, *Economie teoretică şi aplicată,* mai 2006, pp. 37-44, [pdf] Avaliable online at: http://store.ectap.ro/articole/52.pdf [Accessed on May 6, 2016].
9. Ionaşcu, I., Ionaşcu, M., Olimid, L. and Calu, D.C. (2007), 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, pp. 169-206, doi: http://dx.doi.org/10.1080/17449480701727965.
10. Ionaşcu, I., Ionaşcu, M. and Munteanu, L. (2011), Determinants and Consequences of IFRS Adoption: Perspectives on the Romanian Institutional Factors, *Audit Financiar*, vol. 9, no. 84, pp. 33-41.
11. Ionaşcu, M., Ionaşcu, I., Săcărin, M. and Minu, M. (2014), IFRS adoption in developing countries: the case of Romania, *Accounting and Management Information Systems*, vol. 13, no. 2, pp. 311-350.
12. Istrate, C. (2012), Impact of IFRS on Romanian accounting and tax rules for fixed tangibles assets, *Accounting and Management Information Systems*, vol. 11, no. 2, pp. 243-263.
13. King, N., Beattie, A., Cristescu, A.M. and Weetman, P. (2001), Developing accounting and audit in a transition economy: The Romanian experience, *European Accounting Review,* vol. 10, no. 1, pp. 149-171, doi: http://dx.doi.org/10.1080/09638180122711.
14. Larson, R.K. and Street, D.L. (2004), Convergence with IFRS in an expanding Europe: progress and obstacles identified by large accounting firms' survey, *Journal of International Accounting, Auditing and Taxation*, vol. 13, pp. 89-119, doi: http://dx.doi.org/10.1016/j.intaccaudtax.2004.09.002.
15. Mustaţă, R.V. (2008), *Sisteme de măsurare a armonizări şi diversităţii contabile – între necesitate şi spontaneitate [Systems for the measurement of accounting harmonization and diversity – necessity or spontaneity]*, Cluj Napoca: Casa Cărţii de Ştiinţă.
16. Peng, S. and van der Laan Smith, J. (2010), Chinese GAAP and IFRS: An analysis of the convergence process, *Journal of International Accounting, Auditing and Taxation*, vol. 19, no. 1, pp. 16-34, doi: http://dx.doi.org/10.1016/j.intaccaudtax.2009.12.002.

17. Qu, X. and Zhang, G. (2010), Measuring the convergence of national accounting standards with international financial reporting standards: The application of fuzzy clustering analysis, *The International Journal of Accounting*, vol. 45, no. 3, pp. 334-355, doi: http://dx.doi.org/10.1016/j.intacc.2010.06.008.
18. Ordinul Ministrului Finanțelor Publice (OMFP) nr. 1752/2005 pentru aprobarea Reglementărilor contabile conforme cu Directivele Europene, Monitorul Oficial al României nr. 1080/30.XI.2005, Text actualizat în baza actelor normative modificatoare, publicate în Monitorul Oficial al României, pâna la 14 ianuarie 2008.
19. Ordinul Ministrului Finanțelor Publice (OMFP) nr. 3055/2009 pentru aprobarea Reglementărilor contabile conforme cu Directivele Europene, Monitorul Oficial al României nr. 766 bis/10.XI.2009.
20. Ordinul Ministrului Finanțelor Publice (OMFP) nr. 1802/2014 pentru aprobarea Reglementărilor contabile privind situaţiile financiare anuale individuale şi situaţiile financiare anuale consolidate, Monitorul Oficial al României nr. 963/30.XII.2014.
21. Ordinul Ministrului Finanțelor Publice (OMFP) nr. 1286/2012 pentru aprobarea Reglementărilor contabile conforme cu Standardele internaționale de raportare financiară, aplicabile societăților comerciale ale căror valori mobiliare sunt admise la tranzacționare pe o piață reglementată, Monitorul Oficial al României nr. 687/4.X.2012.