

THE RELATIONSHIP OF THE ACCOUNTING LAW WITH THE MODERN SOCIETY AND THE PRESENT-DAY KNOWLEDGE ECONOMY

IACOB BACIU*

Abstract

The relevance of the accounting information in the knowledge of the company's patrimonial situation is not only a problem of economic theory, but also of accounting law. Beyond the norms regarding the meaning threshold and the axioms of the economic sciences there appear aspects of contractual nature. The most accurate, systematized and representative data can be obtained only from accounting. The managers and members of the Board will want to obtain by this means as much information as possible, sometimes exceeding the natural capacity of the bookkeeping. For such situations, the accounting law as border discipline will have a word to say.

Keywords: *accounting law, globalization, owner's equity, costs, IAS/IFRS*

1. Introduction

The leap into the *globalization era* is not possible without remarkable progress in the generalization of some rules and norms accepted by the accountants in different countries. Among these norms, principles and conventions, nowadays there are the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and other similar regulations. The manner, rhythm and amplitude of their extension will be monitorized by members of the Board, managers and company owners in order to know the rhythm in which their business can be developed all over the world without the discomfort of the different accounting systems. Strictly methodological, the International Accounting Standards and the other similar regulations form the *international accounting law*, which is another argument in the recognition of the accounting law as a distinct and advanced branch of law.

2. The present-day knowledge economy and the accounting law.

By means of the *accounting law* the costing and the management accounting play a more and more important part in pursuing the observance of the rules of *honest business practice*. Without such rules, the extension of trade - and especially of the international one - is inconceivable. As a matter of fact, the most efficient control instruments over the ratio between the price and the purchase cost can be found in the accounting of the economic agents. The accounting arguments are based on figures having as foundation the documents. Thus, the evaluations are accurate and the degree of the law infringement can be appreciated in figures. The use of the accounting instruments in monitorizing the market behavior is a part of the accounting law. Those documents «produced» by the accountants will be chosen, which can legally be proofs in the relations of protection of the competition. Not any accounting document - and so much the less not any accounting information - can enter the system of proofs or evidence in litigations of the kind of competition protection. In the contemporary economy the accounting law will be the legal basis for the selection of the accounting documents or information in such cases.

* Assistant, „Dimitrie Cantemir" Christian University, Bucharest (e-mail : cilezbujor@yahoo.com).

The management of the owner's equity and its specific activities, such as the inventory, supplies a rich study material for the accounting law.

The aspects of legal procedure related to the concrete performance of the inventory, the stages to be covered, the situations in which the inventory is compulsory, the turning to account of the inventory results and the effects of different concrete situations created by this activity are the moments in which the accounting law intervenes. Some chapters of the accounting law, such as the revaluation of the owner's equity, enters into direct connection with branches of law. The law of the present-day business cannot be conceived without the legislation concerning the revaluation.

The companies' working out of their own accounting policies within the framework of the present norms of international accounting law determines a set of legal relations that can be clarified only by the same accounting law.

The internal body meant to make proposals and the decision body will comply at the same time with the commercial law, that however cannot explain and solve all the aspects implied by the company accounting policies. Within the management mechanism of the modern patrimonial entities, the method of budgets enters more and more as an indispensable part.

The accounting law will regulate, in principle, the working out of budgets, their transmission and layout, perhaps their monitoring and inclusion in the system of performance and salary indices. On this stage there are interferences with the labour law and with the commercial law. The occurrence of a complex institution cannot modify the specific feature of each of the law branches that intervenes in the budgetary procedure.

3. The accounting procedures and their integration in the general system of the modern company.

The procedure aspects – by their nature – belong rather to branches of law than to accounting. The monitoring of the accounting procedures and their integration in the general procedure system of the modern company can be only part of the accounting law in its position as branch with a strong interdisciplinary character.

A component part of the contemporary accounting law is represented by the operating of the professional bodies. The relations between them and the public authorities or other civil organizations, the relations of the professional bodies with their members or with the representatives in the elected bodies including with their own technical staff are elements which belong to the interest area of this new branch of law and in which the lawyers together with the economists must sometimes give solutions. Therefore they are going to know the operating peculiarities of different types of bodies, including by relating to the international practice in similar circumstances.

The introduction of the accountant survey (audit) among the means of evidence in different legal procedures (civil, commercial, criminal a.s.o.) raises, for the judge, the problem of construction of the conclusions reported by the experts. Beyond the technical character of the survey, the court of law will relate to norms of accounting law in order to reach a fair verdict.

Within the department of human resources one of the tasks is to draw up the job description. In the case of persons with leading positions or with tasks in the financial-accounting field, this document of the labor law will relate to the accounting law.

The lawyers' position at the beginning of the 21st century as members of the local, national and universal community should not be omitted. A new type of fraud is more and more frequent and therefore it is natural that a branch of law should develop to study the basic juridical relations. Automatically appears the interest for this activity which can produce greater financial disasters than we can imagine. In Eastern Europe – and especially in Romania – the population was accustomed to the concealing of this kind of fraud. We can say that the criminal law and the coercion power of the state have reached the edge of the juridical relations regulated by the accounting law due to the special position of the guilty persons in this field.

By the norms of the accounting law and of the civil law, the owner's equity of the associations of proprietors, one of the broadest collective structure of social organization on national level, is protected. Most people live in a collective system and are integrated in this organization system. During the recent years, many cases of fraudulent management by the administration staff have occurred, with direct impact on the members' personal income. Such frauds can be explained first of all by infringements of the accounting law.

The activity within the community includes the participation in the discussion of some present-day topics in fields of general interest. Such a field is represented nowadays, for example, by sports. In Romania, in the world of sports, there have been intense disputes within certain clubs or between certain personalities. The analysis of the activity of some club leaders, the debates regarding the organization and creation of professional football clubs as public limited companies and the manner of distribution of the voting rights in them are only a few examples that draw the attention on the problems tackled by the accounting right.

Within the interdependence created between the older law branches and the accounting law lies also the definition of the entities on the level of which the accounting is organized. The terms of legal person, branch, subsidiary company, and workshop are taken over by the accounting law as well as by the bookkeeping from the classical law system. Without these exogenously defined categories, the accounting and the accounting law would lack the necessary fundamental landmarks.

4. The Generalization Of Application Of The International Accounting Standards In The Contemporary Business Environment

In the contemporary economy there are more outstanding differences in the accounting system of the states based on the common law tradition, including the USA and the U.K. and of the states based on the legal system of the Code law tradition, to which France, Germany and all the other states belong, that have adopted the code law regulation.

At present, examining the whole of the components of the accounting systems in the USA and the U.K., respectively France and Germany, important differences or only some slight differences can be noticed.

If we refer only to the taxation of the achieved income in the world of the business performed in companies, we are obliged to mention:

- the different manner of calculation and accounting of the taxation on the expected income in France and Germany resides in essence in the rather different legal tax regulation;
- another example refers to the creation of provisions for reserves.

In both above mentioned countries there are regulations in the sense that the patrimonial entities have the right to create a reserve that is legal from the viewpoint of accounting, by taking amounts of money from the profit, within the limit of a certain percentage (normally 5%). It is also stipulated that such an operation may be continued over several years, until the level of about 10% of the face value of the capital is reached (10% of the share capital in France, respectively 10% of the face value of the share capital in Germany, in general). Such takings from the profit are not reflected in the costs because they are exempted of the corporation tax. It is useful to point out that the accounting rules adopted in Japan have been initially moulded after the German accounting, as a result of an association on multiple levels between these countries in the first half of the 20-th century. Recently, in Japan an American influence in the field of accounting can be noticed, what leads to a generalization of the U.S.-G.A.A.P. system.

In spite of the American influence, that manifested itself in the area of the profession of public accounting, the Japanese accounting and financial reporting continues to follow the model of the European accounting. Thus, there have been stipulated statutory provisions that have envisaged the diminishing of the reported profit, in the sense of a harmonization with the legal provisions existing

in the U.S. or U.K. -G.A.A.P. Prudence is one of the most important concepts lying at the basis of accounting.

In a similar manner, the states in Central and South America, which were under Spanish and Portuguese influence for a long time, have accounting rules which are similar to those in force in the European countries.

Although there existed some specific differences in the field of accounting in the above mentioned countries, the conventions, principles and rules of the double-entry bookkeeping are universally applicable, and the differences related to taxation are diminished to a broad extent. The need to enhance the harmonization of the system of financial positions leads to a generalization of the I.A.S.C. standards. Especially the standards IAS 1-41 can and must become more and more reference instruments.

The internationalization of the financial markets, the stronger development of the multinational companies constitutes objective factors which lead to a more complex organization in the field of bookkeeping and especially referring to the financial positions.

The multinational companies (M.N.C.) have become a reality in the business world. Especially in the last quarter of the 20-th century, they have taken on an outstanding role in several market shares and have stimulated many activities in the national economies of different countries.

5. The bookkeeping depends on the type of economic system to which it belongs.

The bookkeeping is a component part of the economic sciences and, at the same time, a remarkable technique improved lately in order to be more and more useful for business and people. The accounting is anchored in the knowledge economy. The political economy supplies the bookkeeping, as well as the other economic disciplines, with the basic conceptual "infrastructure". The accounting, - although it has a great functional autonomy – will however depend on the type of economic system to which it belongs. In the era of globalization we come across opinions and arguments in favour or against the globalization. Consequently, there will be viewpoints to anchor the accounting in this tendency or to point out its development in the isolationist national context. Some economists will study the possibility to adapt the accounting to the great challenges of the transparent business in any place of the earth so that worldwide business should be encouraged. Others will find errors or inherent elements of incompatibility between the international accounting framework and the national economic realities.

For any of these cases, the need to use judgment is essential. The analyst must use judgment when performing ratio analysis. A key issue is whether a ratio for a firm is within a reasonable range for an industry, with this range being determined by the analyst. Although financial ratios are used to help assess the growth potential and risk of a business they cannot be used alone to directly value a company or determine its creditworthiness. The entire operation of the business must be examined, and the external economic and industry setting in which is operating must be considered when interpreting financial ratios.

The financial analyst who is interested in assessing the value of creditworthiness of any entity is required to estimate its future cash flows, assess and risk associated with those estimates, and determine the proper discount rate that should be applied to those estimates. The objective of the financial statements is to provide information which is useful to users in making economic decisions. However, the financial statements do not contain all the information that an individual user might need to perform all of the above tasks, because they largely portray the effects of past events and do not necessarily provide nonfinancial entity (its income and cash flows), as well as its current financial condition (assets and liabilities) that are useful in assessing future prospects and risks. The financial analysis must be capable of using the financial statements in conjunction with other information in order to reach valid investment conclusions.

The notes to financial statements should be issued according to the accounting law and are an integral part of the IFRS financial reporting process. They provide important detailed disclosures required by IFRS, as well as other information provided voluntarily by management.

6. Conclusions.

The bookkeeping plays an important part in the management of the modern patrimonial entities. This contribution can be noticed on several levels.

In the modern management system, the *budgets* are frequently used for planning, monitoring and control of the activity as well as for the establishment of some easily measurable parameters. In the substantiation, working out and monitoring of the budgets, there are used, first of all, data from the bookkeeping. The main “referential” mark for the indices in the budgets is the financial management accounting of the patrimonial entity.

In the current activity of the modern company, sometimes there must be made *evaluations* and revaluations of owner’s equity or of the performed business. For such evaluations and revaluations, the data from the accounting are used, even if other sources are used as well.

A concept of the modern management is that of management by means of costs. In order to calculate the costs of the patrimonial entity, most of the data are taken over from the financial accounting. The cost calculation is itself a part of the activity in the management accounting.

The development of the patrimonial entities, as well as the drawing of additional financial resources from the banking system or from the capital market, suppose – in principle – the working out of feasibility studies or of business plans. For these documents of the guidance of the future activity much information is needed that can be found only in the accounting.

The manager’s or administrator’s instrument board is another leading instrument proposed by the contemporary business science. Within this instrument board, a great part of the information comes from the accounting. Some are recorded as such on the board, while others undergo some processings. The accounting remains, however, a significant supplier of such information.

References

- Hattingh C. P., *Financial Accounting Course – One Page Summaries*, (Randburg: PC Finance Research CC);
- Levis, R. and D. Pendrill, *Advanced Financial Accounting*, 40th ed. (London, Pitman Publishing);
- Vorster, Q., M. Koen, and C. Koornhof, *Descriptive Accounting*, 5th ed. (Durban, Butterworths. 2000);
- Lepădatu Gheorghe, *Standarde, teorii si sisteme de conducere a contabilitatii pe plan mondial*, (Ed. PRO UNIVERSITARIA, București, 2010);
- Belverde E. Needles, Jr. și colab., *Principiile de bază ale contabilității*, ed. a V-a, (Ed. Arc. București, 2001);
- Liliana Feleagă (Malciu), Niculae Feleagă *Contabilitatea financiară – o abordare europeană și internațională*, vol. 1-II, (Ed. InfoMega, București, 2005);
- Gheorghe Lepădatu și colaboratori *Drept contabil*, (Ed. Tribuna Economică, București, 1998);
- *Legea № 82/1991 – Legea contabilității cu modificările la zi*;
- *OMFP № 3055/2009, pentru aprobarea reglementărilor contabile conforme cu Directivele europene*,
- *Standarde Internaționale de Raportare Financiară, (IFRS)TM – incluzând Standardele Internaționale de Contabilitate (IAS)TM și interpretările lor la 01.1.2007*. (Ed. CECCAR, București, 2007);
- *Wiley IFRS, Interpretarea și aplicarea Standardelor Internaționale de Contabilitate și Raportare Financiară* (Drept de autor, 2005, Jonh Wiley, & Sons, Inc.), (BMT Publishing House, București 2005).