ACCOUNTING PARADIGMS WHICH FAVOR HISTORICAL COST

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Abstract

Henning Kirkegaard shows that the evolution of accounting is to shift from one paradigm to another . Business continuity perspective should guide the company into the future , without confine it exclusively in the past. Accounting in its classical form , however, can not be dissociated from the historical cost evaluation .

Keywords: *paradigm, historical cost, prudence principle, postulate, business continuity.*

1. Introduction

This paper is part of accounting, aiming to show that the evolution of accounting means changing the paradigm to another . Interest in the topic is closely linked to traditional accountings in force in Europe that are based on well established principles (prudence , historical cost) whith help to provide assessment results and own funds. Axiomatization financial accounting is done by developing accounting postulates and principles. We propose to analyze postulates that favor historical cost.The reseach will be achieved through deductive analysis . About this theme was written very little, the attention on the topic is channeled on the paradigms that favor historical cost . " Accounting history enables a new approach to how we understand this , and to control and predict the future ," said Haskins since 1904[1].

Accounting axiomatization products produce change because are based on the arrangement of users of financial information and on their information evolutionary needs.

Sombart[2] considered double-entry bookkeeping as " force that transformed the feudal society in the capitalist one" . Incited by its boldness , now several authors affirm to reverse this situation: economic development has prompted the accounting . By establishing a relationship of dependency , accounting achievements still remain from this period: the generalization of double-entry accounting and emergence costing techniques . Financial capitalism was the period characterized by conservatism and tendency to present profits by "interest", usually understated values. The accounts have noted various techniques underestimate or overestimate the amount of profit. In the literature of that time appeared a "cure" prudence principle (English Conservatism principle), which currently operates in accounting plan.

Between corporate capitalism (after 20-30 years of the twentieth century) is marked primarily by: - existing global concerns to create a chart of accounts (in Continental countries, especially in Germany) - concerns about improve financial communication , given that the crisis of 1929 revealed the lack of accounting information.

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[1] Quoted by Carnegie, G. & Napier, C., *Critical and interpretive histories: insights into accounting’s present and future thought his past*, Critical Perspectives on Business and Management, vol. I, 2000.

[2] Sombart, W., *Der moderne Kapitalismus*, Duncker and Humblot, 1902.

2. General accounting paradigms and postulates

Henning Kirkegaard[3] shows that the evolution of accounting is to shift from one paradigm to another . He identifies three paradigms in accounting actually show the progress of accounting model . The first paradigm is the treasurer paradigm . This model of accounting (cash accounting) corresponds economy where payments are made exclusively in cash. The introduction of credit and sharing tools at the end of the Middle Ages led to insufficient treasury accounting model, the capitalist monetary economy generating adaptation model without changing the paradigm . The second paradigm , the accountant paradigm appeared when accounting language evolved comprising logic in that the transfer of benefit and corresponding transfer payment to be made at two different times . The third paradigm is the manager paradigm. In an uncertain environment , privilege management accounting information in making decisions , at which signifies the transition from quasi - certainty of uncertainty previzionalului achievement . This third paradigm is based methodological fusion of traditional accounting and accrual accounting (cash) double entry.

R. Schroll[4] summarizes the characteristic elements for three accounting systems as follows:

- Anglo -Saxon accounting system is built around a true image.

- German accounting system is based on performance , first of all , the legal requirements and , in particular , tax compliance (particularly those relating to income tax).

- French accounting system can be considered a " compromise" between the Anglo-Saxon and German accounting systems.

A new element is the presentation of the consolidated financial statements , in the case of groups. It were introduced four fundamental accounting concepts - continuity exploitation accrual presentation consistency (Consistency) , prudence and intensifying concerns about inflation accounting under .

In the 70s, Accounting Standards Steering Committee - ASSC was established accounting standards , an organization that aimed to replace accounting recommendations with accounting standards.

Truth accounting postulates and principles is made by their general acceptance, the result of a consensus or compromise . Some postulates or principles may create great controversy or are passed from one category to another or vice versa, due to the dynamic reality and diverging interests . Therefore , the postulates and principles of accounting may not get unanimity .

A more prominent place occupies the postulates and principles in the Anglo-Saxon accounting and their role is growing in countries in continental Europe .

Accounting postulates are known as hypothesis, fundamental concepts , assumptions, doctrines , axioms obvious general fundamental and irreducible , that , as in mathematics , it has not to be demonstrated.

Classification of the postulates as hypothesis through observation and measurement :

1. Delimitation : entity postulate . The company is regarded as an autonomous entity from an accounting perspective , with legal personality , possessing a distinct heritage from that of its owners.

2. Delimitation time:

a. going concern assumption;

b. periodicity postulate;

c. specialization or independence exercises postulate;

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[3] Quoted by Matei, M., De la primordialitatea aparenței juridice, la reflectarea realității economice sau calea de evoluție a contabilității, teză de doctorat, 2004.

[4] Hilal Yousif Al-Saleh, Rudolf Schroll, *Evaluation of Direct Costing for Management of Industrial Enterprises*, 1990.

d. permanent methods postulate.

3. Quantification of observed facts : the postulate of the currency .

3. Accounting principles , important part of the accounting device

To receive accounting reports and to be interpreted uniformly, unitary and fair, it was developed a set of general rules that form the conceptual framework of financial accounting generally called accounting principles. These can be defined as "conventions, rules and procedures necessary to define accepted accounting practice at a time"[5].

Accounting principles and may be defined as conceptual elements, sentences, basic rules that ensure, on the one hand, development of accounting rules, and on the other hand, representation fair, clear, honest and complete enterprise evolution through financial statements.

In terms of measuring performance, resulting concept is different, and about the financial situation reflected by the balance sheet, namely funds in communism and capital in capitalism that lead to obtaining different information.

Dominant player in every economic system, shareholders in capitalism and state in communism require different fundamental concepts in accounting.

Each actor can exercise power in different ways , depending on the existing political system (see the capitalism liberal system, social-democratic or authoritarian) and modes of governance (entrepreneurial ownership, co-management , and so on).

The other stakeholders may be a factor and balances and can have an influence in building accounting information according to modes of governance.

In terms of accounting, the dominant factor and the factors and balances within a particular economic and political system requires choosing a particular accounting system, a particular type of accounting, certain accounting principles require recognition and certain bases and assessment methods. IASB in or conceptual accounting generally requires neutrality as a characteristic quality of the financial statements as "to be credible, the information contained in financial statements must be neutral . Financial statements are not neutral if, by the selection or presentation of information, influence decision making and judgment, so as to obtain a predetermined result or objective"[6].

Although the IASB requires compliance neutrality as a criterion for quality of accounting information, it can not be validated only if we refer to a particular accounting system to a certain type of accounting. Otherwise, the existence and definition of fundamental concepts in accounting differently make us appreciate that the accounting information accounting system is subjective and can not be neutral objective, but subjective. Recognition (implicit or explicit) of a dominant privileged user of accounting information, is an argument in favor of subjectivity. By allowing for multiple users of accounting information and their information needs differ, but producing a single set of financial statements, neutrality must be called into question. How about the possibility of options, choices between different methods or accounting treatments permitted within the same accounting system, we believe this is the main way that ' producer ' of information accounting exercise ' subjectivity ' for a reason, namely to promote and satisfy their interests.

The accounting , using the example of the International Accounting Standards Board regulations (IASB), consists of :

1. Accounting framework (conceptual) general;

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[5] Needles Jr., Belverd E.; Anderson, Henry R.; Caldwell, James, C.: *Principiile de bază ale contabilităţii* (traducere din limba engleză), ediţia a V-a, Editura ARC, Chişinău – Republica Moldova, 2001 p. 9.

[6] IASB (www.iasb.org) and FASB (www.fasb.org.).

2 . International accounting standards (IAS / IFRS);

3 . Interpretations of international accounting standards (IAS / IFRIC).

By their importance , accounting principles are found , directly or indirectly, explicitly or implicitly, in all areas of accounting device .

The IASB accounting is, doctrinally, eclectic because he felt his influences are many theories[7].

Also, the production of a uniform accounting information as a result of global standardization of accounting practices is supported by major international consulting companies accounting (The Big Four)[8], all derived from the Anglo -Saxon , as they own 95 % of the market world in the field. One effect of unification production accounting rules and reporting accounting information would substantially reduce the costs of these offices with training activities and specialized staff for several accounting systems to "translation" and interpretation of accounting data structures of an account system (referential) to another.

In terms of doctrine, issued by the IASB accounting referential presents a framework that explains a number of accounting concepts and techniques used to obtain an accounting information enabling good financial communication in the interest of all parties (investors, employees , creditors, financial suppliers, customers, public authorities, etc.).

Current IASB conceptual framework is perfectly representative of Anglo-Saxon conception of accounting, which can be summarized by three main features :

- An orientation to become global financial markets, the market value of the company and the value of its shares ;
- An obvious approach economic value to investor utility and rationality in decision-making regarding the ratio benefit / cost of obtaining;
- A totally independent of accounting in relation to taxation.

4. Accounting paradigms that favor historical cost

Historical cost accounting is one backward, which describes the flow - stock distinction. Profit and loss is the main transport vehicle value information to shareholders and not balance sheet and statement of gains and losses on the company's performance report arbitrage market prices market suppliers and customers. Perspective of business continuity should guide the company into the future without confine it exclusively in the past.

Accounting in its classical form, however, can not be dissociated from the historical cost evaluation. It is based on a certain vision of time, which is consistent with a stable environment in which the future is considered predictable.

IASB Framework formulates for the Preparation and Presentation of Financial Statements, the accounting model based on evaluation historical cost concept and the nominal financial capital maintenance as a general model. This means using in search of models and concepts for achieving the primary objective: to provide useful information in decision making. The traditional accounting in force in Europe are based on well established principles (prudence , historical cost). Through which provides evaluation and own funds.

Historical cost is the cost of the home assessed, measured and recorded at the entrance of assets and debt creation. For assets, historical cost is the amount of cash paid or payable on the purchase or acquisition of production which enables economic good. If the debt represents the historical cost equivalents obtained in exchange for the obligation or, in certain

[7] IASB (www.iasb.org) and FASB (www.fasb.org.).

[8] Study Texts on the websites of (”The Big Four”) – Ernst & Young, PriceWaterhouseCoopers, KPMG and Deloitte & Touche Tohmatsu.

circumstances (such as income tax), the amount expected to be paid in cash or cash equivalents to extinguish liabilities in the normal course of business .

Characteristic features of historical cost are verifiability and objectivity arising from contable documents.These characteristics of historical cost result from the application of accounting principles widely used in Western practice, namely monetary nominalism and prudence. Once established , historical cost remains fixed as long as the property remains in the possession of the company . To be based on information provided by manufacturers, internal and external users must ensure that the information is accurate and based on facts and just use historical cost as the basis of measurement allows manufacturers to provide the financial statements , objective and verifiable information.

Historical cost can be defined as the " sacrifice that was agreed to bring in good company at the date of its entry ." Thus we can consider that any cost or sacrifice is accepted , an untapped opportunity for other alternative uses , shall be deducted : historical cost represents the costs incurred plus the cost associated untapped opportunities (lost revenue) .

As the play information about the value of buying on their balance sheet structures , historical cost accounting oriented enterprise toward the past . Accounting professionals agree that accounting objective should not be limited to play financial position and past performance of the enterprise . For investors, the prospects of particular importance .

There are a number of advantages and disadvantages associated with this method.

Among the advantages of the method underpinning the historical cost include: is the oldest and best known method , it is easy to understand , is an objective , can be easily verified by comparing the documents underlying records and there is a perfect correlation between the amounts balance sheet and the amounts of the cash flow statement .

5. Conclusions

IASB Framework formulates for the Preparation and Presentation of Financial Statements, the accounting model based evaluation reference recoverable historical cost concept and the nominal financial capital maintenance as a general model. The traditional accounting in force in Europe are based on well established principles (prudence , historical cost). Through which provides evaluation and own funds.

Historical cost is the cost of the home assessed, measured and recorded at the entrance of assets and debt creation. For assets , historical cost is the amount of cash paid or payable on the purchase or acquisition of production which enables economic good. Historical cost can be defined as the "sacrifice that was agreed to bring in good company at the date of its entry." Through the advantages of the method underpinning the the historical cost include: is the oldest and best known method, it is easy to understand, is an objective, can be easily verified by comparing the documents underlying records and there is a perfect correlation between the amounts balance sheet and the amounts of the cash flow statement. It is better to understand and to study the rapport between historical cost and fair value.

We consider that the method based on the historical cost is very solid over the time.

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