ACCOUNTING POLICIES AND ESTIMATES IN MUNICIPALITIES BETWEEN NORMS AND REALITY

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ABSTRACT: The conformity of the Romanian accounting system to the European and international accounting rules also implies the accounting policies as a crucial element in the development and presentation of financial statements, which must include relevant and reliable information in condition to meet the needs of various user groups in decision making. Accounting policies are circumscribed to the primary objective of accounting, that of providing a fair image of financial position and performance of reporting entities.

This paper intends to approach accounting policies in relation to national and international regulatory framework, the desirable way in which they should be present in public institutions in our country, the reality regarding the incorporation in the financial statements of accounting policies applied to local territorial administrative units, the identification of convergences and differences in the perception and practical implementation of normative theoretical framework regarding "principles, conventions, rules and practices applied by an entity in preparing and presenting financial statements".

KEY WORDS: accounting policies; accounting estimates; true and fair view; accounting options; financial statements.

JEL CLASSIFICATION: M41

1. INTRODUCTION

Dual accounting systems operate with accounting results, which situate in their center summary accounting and financial reporting documents used as information tools for third parties and to develop financial analysis needed for management.

In accordance with Romanian norms, the annexes (as pointed out by the regulatory framework for public institutions) to the financial statements are an integral part thereof and are represented by accounting policies and explanatory notes.

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The presence of these annexes/accounting policies is claimed by the accounting principles, the true and fair view and the level of materiality, by the necessity to amplify information regarding how economic and financial statements relate to socio-economic objectives pursued by each public institution.

Accounting policies find concrete forms of expression in the content of accounting norms and regulations, in the context in which they are applied in order to solve problems encountered in the economic and financial reality. They may present the same events and transactions in different ways, and thus explain why different specific accounting policies are compiled in public institutions.

The accounting policies acquire a particular importance in the context of international accounting standards. Among other things, they must include a review of the effects in the application of the professional judgment in case of major events and to be prevalent in "the third annual account" - annex.

The previously mentioned contextual background led to a "dual" approach of accounting policies. On one hand, duality implies the regulatory framework (national and international), and on the other hand, the theoretical - practical framework. As an activity segment to which accounting policies are circumscribed in the public sector, I have opted for public local government units represented by municipalities. Their organization and activity is regulated by the Law of local government no. 215/2001, republished. Municipalities are responsible for local administrative issues, that is management of public services through the authorities and agents, which thus contribute to solving public current needs, and investing with effective responsibility enables an efficient administration closer to citizens.

2. EVOLUTIONARY AND NORMATIVE HIGHLIGHTS REGARDING ACCOUNTING POLICIES IN PUBLIC INSTITUTIONS

Conceptually speaking, politics is "the science and practice of running state affairs", "tactics, behavior (cleverly) used by someone to attain purpose" (DEX).

Accounting is "the science and art of governing business", "a specialized activity of measurement, evaluation, knowledge, management and control of assets, liabilities and shareholders' equity, and the results obtained from individuals and legal business" (The accounting law no 82/1991).

Corroborating we can state that the accounting policies represent the science, practice and art of leading an entity in order to attain a goal (fair presentation) and respectively the tactics, the ability used (by technical and economic specialists) to quantify, know, manage and control the assets, liabilities and equity as well as the results of that entity.

The term of accounting policy has been recently introduced in Romanian accounting, respectively with the publication of accounting regulations harmonized with Directive IV of EEC and International Accounting Standards, approved by the Order of the Minister of Public Finance no. 403/1999.

In public institutions accounting, another "late bloomer of the normalization of the Romanian accounting" (Feleaga, 2006) or "the Cinderella of the Romanian accounting science" (Boloș, 2004) this happened (generalized) five years later, when
they opened the accruals basis of accounting by OMPF 1917/2005, which regulates the organization and management of accounting in public institutions, established on the accruals basis of accounting principles.

International accounting policy issues are addressed in IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors".

Accounting policies specify how the effects of transactions and other events are reflected by recognition, selecting measurement basis, of recognition and presentation of elements in financial statements.

To estimate means to examine qualitatively and quantitatively, determining the price or value, to assess, roughly evaluate (Romanian Explanatory Dictionary - DEX). Estimation techniques are not explicitly defined by the regulatory framework, but they have to determine, in a credible manner, the monetary amount assigned to an evaluation basis. Accurate expression of the monetary amount also involves higher costs, so that the selection of the estimate technique requires compliance constraints imposed by the cost-benefit ratio (Bunea, 2011).

The references found in the national accounting norms specific to public institutions regarding accounting policies are highly synthetic, compared with the regulations of the IPSAS 3, or, why not, with those found in the regulatory document approving the accounting regulations harmonized with European directives for other entities (OMPF 3055/2009).

Synthetically, the regulatory framework mentions the necessity to develop legal procedures by specialists in the economic and technical field, people that know the specific activity and the strategy adopted by each public institution. These procedures should include all operations conducted in a public institution from supporting paperwork to quarterly and annual financial statements. It is mentioned the need to respect the fundamental principles of the accrual basis of accounting in order to secure the financial statements information that meets the attributes of relevance and credibility (in the sense of faithful representation of the patrimonial earnings and financial position, neutrality, prudence and completeness in all major respects).

The regulatory framework or the result transposed into more relevant or reliable information with reference to the operations of public institutions constitute the circumstances in which accounting policies changes are allowed.

And that's about it...

It has been ascertained that, when it comes to policies and accounting estimates, the lack of definitions, conceptualizations have been identified and reported by Professor N. Feleașă and mentioned by R. Neag to be among the Romanian accounting inconsistencies: "the absence of a clear presentation of the used terminology, so that, both the accounts assistants and account users understand more clearly the meaning of the elements occurring in financial statements" (Neag, 2000).

According to the Accounting Law no. 82/991, republished, with subsequent amendments, the loan authorizing officers as responsible for annual financial statements should confirm that the accounting policies used for this purpose are in accordance with the applicable accounting regulations. It therefore follows that, there is an obligatory character for the development of accounting policies as well as working procedures, as a distinct segment within this framework.
Since at the basis of the accounting reform in public institutions lay the provisions of the European System of Accounts (ESA 95), and the need for a uniform accounting treatment of public accounting information requires a recourse to the International Public Sector Accounting Standard (IPSAS), we consider it appropriate to emphasize certain complementary aspects of national accounting standards.

At international level, the accounting policies applicable to public entities issue is addressed by the IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors" which is part of IAS 8 with the same name and which relates to the viability of the accruals basis of accounting.

The IPSAS 3 provides two situations regarding the application of accounting policies, namely:

- the existence of an IPSAS that specifically applies to a transaction, event or condition, when the accounting policies are determined by applying the respective standard and considering all relevant Implementation Guidance issued by the IPSASB for the standard that is related to it;

- in the absence of an IPSAS, a case in which developing and applying accounting policies fall into the management's responsibility (we specify that the effect of applying the accounting policies must result in obtaining information with qualitative attributes specified also in the national legislation).

In making the judgment, management should refer to the following (Girbina & Bunea, 2008):

- the requirements and guidance in standards dealing with similar issues;

- the definitions, recognition and measurement criteria elements generating financial position and performance described in other standards;

- the most recent pronouncements of standard-setting bodies and accepted public or private sector practices, but only to the extent that these do not conflict with the above mentioned sources.

Accounting estimates are the result of uncertainties inherent in delivering public services and other activities, lack of accuracy, precision in monetary quantification of the elements in financial statements.

In public institutions, estimates may be required estimate, of: various income taxes of contributions or other revenues; bad debts arising from uncollected taxes; inventory obsolescence; the fair value of financial assets or financial liabilities; the useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets; re-estimation of residual value, warranty obligations.

Presentation of budget debts (doubtful clients) and not only, where there is a probability not to collect the total debts, the realizable value is achieved by adjusting the input value with the loss of value determined by estimating the degree of non-recovery debts.

The evaluation of stocks is done at the moment when the balance sheet is at the lowest of their cost and the net realizable value (the estimated selling price could be obtained in the ordinary course of business, except the estimated costs of completion and the costs of sale).
The reference accounting treatment required by IPSAS 11 "Construction Contracts" is the method of accounting for their advance work, and for its application the entity either uses the estimation of the degree of advancement of construction works or depending on the percentage of expenses incurred in relation to the total cost, either by physical measurement of work done in reality.

In order to determine the input cost of an asset, in some situations, one resorts to the initial estimated costs of dismantling, removing and restoring the property, according to IPSAS 17 "Property, plant, and equipment".

To determine the accumulated amortization, several accounting estimates are used: the useful life (this estimate is a matter of professional judgment, being determined according to the period over which an asset is expected to be available for use), the residual value (is the net amount that a public entity, financed on account of their resources, expects to obtain from the disposal of an asset at the end of its useful life, after deducting the estimated costs of disposal).

In the case of financial leasing (IPSAS 13 "Leases"), the lessee and therefore his lease should be recorded in the lessee's liability at the lowest between the fair value and the present value of the minimum lease payments. In applying these policies, several estimates are used and they relate to: the purchase option, residual value, quarterly fees, default interest rate, useful life, etc.

Applying an impairment test may result in the carrying amount of an asset exceeding its recoverable amount, a case in which it is ascertained that there is an economic depreciation of the resource from which it is expected future economic benefits or service potential.

The recoverable amount is the higher of the net fair value/net realizable value and its utility value (the discounting value obtained by estimating the future expected value of treasury cash flows from continuing use of an asset and its cession at the end of its useful life).

The net fair value results in an irrevocable sale agreement, or it is given either by the market price of the asset or by the most recent transaction price. The estimation of the utility value is achieved by estimating future treasury cash inflows and outflows arising from the continued use of the asset and its final output and from applying the appropriate discount rate to these future treasury cash flows.

The provision that is presented in the financial statements must be given by the best estimate of the necessary costs to extinguish the present obligation at the date of the balance. When the value-time effect of the money is significant, the provision constitutes the present value of the estimated expenditures required to extinguish the obligation (IPSAS 19 "Provisions, Contingent Liabilities and Contingent Assets"). To estimate these costs, the experience of similar transactions and, in some cases, the views of independent experts are to be taken into consideration.

A change in debt can arise as a result of: the change in value of the resources required to settle the debt or the time of settlement, the discount rate change and the passage of time.

Estimates may require revisions when the circumstances they were based on change, they have no connection with previous periods.
The effect of the change is recognized by inclusion in surplus or deficit in the respective period if future periods are not affected, in this situation being necessary a prospective recognition by the inclusion in the surplus or deficit in future periods. The hypothesis of the absence of the effect on future periods due to the inability to estimate should be noted in the explanatory notes.

Effects arising from changes in accounting policies are subject to the presentation given the nature of changes in accounting policy, the reasons why applying the new policy improves the relevance and reliability of information, value adjustments for the elements of current and subsequent financial statements. The failure of retroactive application entails a necessary presentation of the circumstances leading to this situation, describing the manner and date of change when the accounting policy was applied.

A feature of accounting information is comparability, which "subordinates" the users' informing regarding the accounting policies used in preparing financial statements, any amendments thereto and the effects of the changes (Feleaga & Feleaga, 2007). Attaining comparability (not uniformity) means to identify the discrepancy between the accounting policies for transactions and other similar events used by the same public entity from one period to another, as well as by other various public entities.

The adopted policy should maintain the qualitative characteristics of relevance and credibility, so the need for comparability should not mean uniformity or reluctance to introduce improved accounting policies.

In the event that for solving a problem there are several accounting policies (as they are conceptualized - bases, conventions, principles etc. or estimation techniques), it creates the possibility to choose - accounting options. Among the options allowed by the legislation, one must choose those that best fit their branch of industry and generate the best report in order to obtain a true and fair view and fundament decisions. Therefore, accounting policies are the result of the accounting choices in useful decisions in order to achieve the objectives of public entities.

In selecting accounting policies, long-term vision becomes necessary, respectively long-term effects of accounting options. The situation regarding the financial position, respectively the financial performance, constitute support documents for the materialization of accounting policies.

We may conclude that the accounting policies rest on an option, and the presentation of the financial position and performance depends on the choice of accounting treatments that are to be applied by the public institution.

3. HOW TO DEVELOP ACCOUNTING POLICIES

A pragmatic approach to accounting policies could begin with their structuring into general accounting policies and specific accounting policies (Duşescu, 2003).

*General accounting policies* relate to basic issues of financial reporting organization (policies on organizing, analyzing, and processing explanatory documents, recognition, classification, evaluation, the level of materiality, internal audit policies etc.)
Within these, specifications are brought regarding the following aspects:

- financial statements in accordance with the active legal provisions (OMPF 1917/2005) as well as other provisions relating to a particular field of activity (eg. at local government level - local government law, norms of closing budget at year-end, the local council decisions etc.);
- considering all significant transactions;
- the monetary unit in which financial statements are prepared and how to convert debts, liabilities and liquid assets denominated in foreign currencies;
- the principles, conventions and rules that were imposed in order to recognize elements of financial statements, including criteria for assessing the quality of accounting information;
- the level of materiality represented in financial statements (in the sense that for the elements of great importance it should be "assigned a separate position" (Duțescu, 2003), as well as the level of materiality for the assets impairment, are subject to the accounting findings.

Specific accounting policies regard financial reporting and refer to the particularities of the attributable categories assigned to specific accounting structures (assets, liabilities, equity, revenues, expenses, results), as follows:

1. Assets: recognition criteria (probability of generating future economic benefits and reliable evaluation); determine the usefulness by decision makers including in special situations such as donations, exchange of assets, transfer, etc.; classification in the financial statements (in relation to the degree of liquidity), evaluation (at each of the four evaluation moments, including the capitalization or not of the costs of borrowed capital for the realization of assets with a long manufacturing cycle).

   Capitalization may start when: the expenses for that particular asset are made, when the borrowing costs are generated; the activities necessary to prepare the asset for its intended use or for sale unfold (Hagiu, 2010).

   Capitalization is suspended during long periods of delay in construction work (as an example due to unforeseen administrative bottlenecks) or during long periods of interruption in the productive activity (caused by strikes).

   Also related to assets, accounting policies regard: (i) their depreciation (irreversible or following significant changes to internal and external conditions associated with the operation of the asset), (ii) re-evaluation of fixed assets and a presentation of the generated effects (through re-evaluation the balance sheet items are affected (total assets and total equity) with influence on the decisions taken by users of financial statements) as well as (iii) contingent assets (possible, probable assets);

2. Liabilities: recognition (the probability of an output of resources embodying future economic benefits and reliable measuring) classification (in relation to the degree of chargeability: current and non-current), evaluation, including the updating of debt when the difference between the input and the updated output of future cash or the necessary resources to settle the debt exceeds a certain level of materiality, considered to be significant, contingent liabilities (possible obligations that need to be confirmed or current liabilities that do not comply cumulatively with the conditions for recognizing liabilities);
3. Equity: details of structural components, including sources of retained earnings;

4. Expenditure and revenue in advance, as adjustment structures, required by the principle of independence of financial years;

5. Expenses and income - criteria against which their recognition is done (for expenses - reducing economic benefits and reliable measuring, assumed by the increasing income together with the economic benefits determined by reference to the transfer of risks and rewards associated with ownership of the assets, by the fact that there is no longer in full control and the sold asset cannot be effectively managed, the accounting recognition method (the percentage of completion or completion of work), establishing the risk of failure in debt collection and setting up the impairment adjustments, with a corrective role;

6. How to proceed when the entity conducts operations for which there has not been scheduled accounting treatments in accounting policies (e.g. recognition of transactions and events under the applicable accounting regulations, as well as the completion, subsequent approval of the accounting policies applied in these cases, but no later than the annual financial statements);

7. Mentioning that the regulations and accounting treatment contained in the accounting policies must comply with the national legislation as a whole.

The structuring of accounting policies can be presented as follows (Adapted from Manolescu & Roman, 2009):

Table 1. Structuring accounting policies, according to accounting regulations

<table>
<thead>
<tr>
<th>Accounting policies regarding</th>
<th>Tangible and intangible assets</th>
<th>Financial assets</th>
<th>Stocks</th>
<th>Cash flows</th>
<th>Revenue recognition</th>
<th>Other operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- evaluation bases on initial recognition</td>
<td>- the evaluation of financial instruments,</td>
<td>- recognition and measurement</td>
<td>- breakdown by activities</td>
<td>- considering the source, respectively the goods sale, provision of services, dependent on determining the stage of completion, use of assets by third parties, the gain or loss of the currency exchange, etc.</td>
<td>- recognition and measurement of short-term employee benefits</td>
</tr>
<tr>
<td></td>
<td>- residual value</td>
<td>- the structure, evaluation and recognition of the financial investment cost</td>
<td>- determining the cost of inventories,</td>
<td>- method of determining the situation</td>
<td></td>
<td>- recognition and measurement of investment properties</td>
</tr>
<tr>
<td></td>
<td>- depreciation/amortisation value</td>
<td></td>
<td>- depreciation</td>
<td>- registration of foreign currency cash flows etc.</td>
<td></td>
<td>- recognition and measurement of events after the balance sheet, the biological assets</td>
</tr>
</tbody>
</table>
Flexibility is manifested in one accounting treatment or another, and its selection a particularly important factor in presenting the financial position and performance.

As regards from the presentation of the accounting policies we note the following: there is no unified presentation in the specialized literature, but rather a complementary presentation with multiple overlap pings;

- there is a slight tendency towards confusion between policies and estimates in accounting;

- accounting regulations have taken a series of accounting policies found in international standards, especially those concerning the application for intangible assets revaluation model, considering residual value, of the two methods of recognizing revenues and expenditures for construction contracts (stage completion of the contract or percentage of completion), a distinct highlighting of investment property as well as assets for long-term growth of capital value, abandoning the LIFO method for the evaluation of short-term investments and current material assets out of the commissioning entity or to the consumer etc.

With all the freedom offered by the accounting treatments and alternatives, in applying accounting policies, aggression should be avoided since it can result in a number of circumstances such as (Manea, 2006): capitalization of development costs even where there is no evident feasibility, the "omission" in the accounting record of the decreased fair values of re-evaluated assets, failure to re-evaluate the entire class of assets, capitalization of interest costs even though capitalization criteria are not met (IPSAS 5 "Borrowing Costs, paragraph 31), respectively:

- interest expenses do not refer to a qualifying asset (asset that necessarily takes a substantial period of time to be prepared for its intended use);
- continuous capitalization of the interest even in the periods when work is interrupted;
- in determining the value of expenses with capitalized interest costs, the income earned from temporary placement of unused amounts was not taken into account;
- the recoverable amount of the asset was exceeded.

Naturally, in such cases, further analysis is needed in order to avoid an unfair image of the position and financial performance of the public institution.

4. WHAT IS THE REALITY?

To answer this question we appealed to the accounting policies developed in local government units. Thus, compared with the theoretical and regulatory framework previously presented, a number of differences have arisen and we them present below.

In most cases accounting policies issued by municipalities aimed at specifying the official document presenting the assets under their management - financial statements, followed by the synthetic mentioning of:

- components of financial statements;
- accounting principles that have been considered for evaluating the elements of the financial statements;
- the currency in which accounting was done;
- without mentioning which are the accounting policies, users are informed that they take into consideration "providing relevant information in decision making, a fair presentation of heritage results and the financial position held";
- the general rule applied to monetary resources management and respectively "the pay of current obligations to employees within the law, the public debt following ongoing contractual obligations";
- the management of tangible and intangible fixed assets;
- the method of depreciation/amortization of tangible and intangible assets (although the regulatory framework provides a single applicable method - the linear method) and inventory evaluation method of stocks out of the entity;
- frequency of inventory performance for assets and liabilities, their evaluation (in a very generalized presentation).

Taking into consideration the centralized accounting in public institutions, the accounting policies also contain references regarding the preparation of financial statements by superior budget managers. Assurances are given that all statements have been prepared and tested on synthetic and analytical balances which constitute into annexes to "reports of public institutions" (although current accounting rules use the term of "financial statements" to describe the official document presenting the situation of the patrimony under the administration of public institutions, the practitioners still use old terminology, that of accounting reports).

We have identified circumstances in which accounting policies are reduced to the mere mention of accounting regulations and general accounting principles that have been taken into consideration while preparing financial statements.

Other municipalities present the fact that the institution has developed accounting principles, and that they comply with the accruals basis of accounting principles, ensure the provision of relevant information for economic decision making and determining financial position. Thus, the account assistants state that, they offer information regarding past transactions that resulted in proceeds and payments, but also about future resources and future payment obligations respectively. We receive insurances for the existence of supporting documents, the existence of a document route approved by the authorizing officer, the accounting form used, general terms regarding property evaluation, re-evaluation and depreciation/amortization method used, how to recognize the debts and liabilities in foreign currency.

The factual documentation also revealed the contents of accounting policies under the form of an excerpt from the accounting law, without any customizations made for the concerned institution.

5. CONCLUSIONS

Regardless of the greater or lesser impact on the position and financial performance, accounting policies must be selected and applied in a manner leading to the achievement of the fundamental objective of accounting, respectively financial statements that reflect the true and fair view of the reporting public institution.
Accounting policies cannot be standardized as these should be prepared according to the specific activity of each public institution. Thus if we consider the multitude of public institutions and the diversity of activities undertaken we would need to find justification for the differences encountered in the preparation and presentation of accounting policies. The outlook of decision makers is different, the structure of the elements comprising the position of the financial statement and the financial performance is different and therefore the accounting policies cannot be the same.

From analyzing the manner of regulation and application of accounting policies and estimates, we have found that the national regulations are quite stingy in offering conceptualizations for the two factors of influence on the ultimate goal of accounting; staying behind with the regulations regarding accounting policies applicable to public institution entities compared to those concerning the entities where performance is measured in profit or with international accounting standards in terms of legitimacy, their justification within the annexes to the financial statements (a problematic aspect to justify a specific accounting option) and why not providing examples of good practice; lack of accounting estimates in public institutions including municipalities with everything they imply, etc.

In terms of relevance we note that above the accounting profession, provider of public services, still looms the profound mismatch risk that the changes which public institutions accounting encountered (amongst other things) in recent years. Although present in financial reporting, the mission of the policies and accounting estimates can hardly be perceived among the multitude of changes that attract a certain fear of change, in the exercise of professional judgment and which generates an unnecessary approach under the risk of being regarded as unlawful.

Applying accounting policies causes a high degree of relevance of financial information, which induces an improved foundation of decisions by policy makers. We are yet to overcome the anxiety of transition from strict legal rules to flexibility which promotes professional reasoning in accounting.

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