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NATIONAL ACCOUNTSVERSUS BUSINESS ACCOUNTING: FORM AND CONTENT

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ABSTRACT

The internationally trend toward convergence of macroeconomic statistics to the System of National Accounts (SNA) standards is driven by globalization.At European level, economic governance is based on information derived from national accounts, harmonized by the European System of Accounts (ESA), the"sister" of SNAstandard behind of many macroeconomic indicators such as gross domestic product (GDP), budget deficit and public debt,current account of balance of payment. But what kind of information is necessary from the economy in order to compose the indicators? Comparability is essential for analysis and evaluation among countries and implementation of common rules has led to benefits for development.Through a simple assessment at the micro level of the Romanian economy, it is illustrated the significant role of accounting regulations on financial reporting from both perspectives, of the format and of the content, because the financial statements are inputs for the national accounts compilation and therefore basis for determining the level of development of the country and also because investors decide to enter into new markets by taking into consideration the accounting system and alsothe fiscal framework.Thus, the state's objective to stimulate economic growth, it can betargetedby harmonization of national accounting standards with the International Financial Reporting Standards, the IFRS rules for a comparable global business and also by full implementation of System of National Accounts, the SNA/ESA rules for comparable country world statistics.

Keywords: National Accounts, European System of Accounts (ESA95), Gross Domestic Product, International Financial Reporting Standards, Profit and Loss Account.

INTRODUCTION: The economy, what it means?

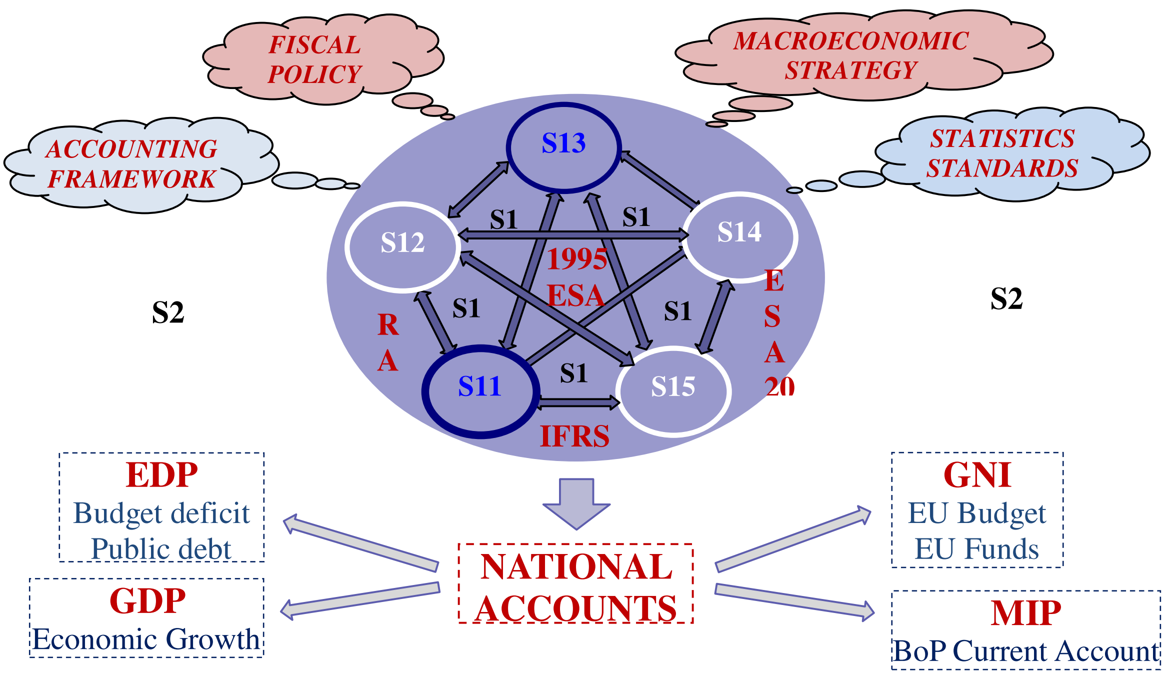
I would like to address my special thanks for their comments to Mrs. GeorgetaPetre and Mrs. Alexandra Lazar, specialists in the accounting field, which have been for me colleagues and professors!

A definition of economy is difficult to write because it is not enough space in this paper and because there are so many important economists that have allocated books for this. But, it is another related question that could find answer in this article: how the economy is measured? "Macro" economy statistics represent the aggregation of "micro" accounting activities!While these two part of economy seems to be different, macro and micro economy are interdependent and a decision taken at the level of one of these will impact also the result of the other one.

CHAPTER I: About European System of National Accounts…

National Accounts reflect from statistical point of view the overall economy. In the context of globalization, the need for harmonization of standards is imminent. The European System of Accounts (ESA) is the model used "to calculate" the national economy, to determine the main macroeconomic aggregatesby which a country is analyzed, evaluated and compared with another one and also is framework for determination of European Union macroeconomic indicators. The Figure no.1 illustrate the five sector of economy according to ESA 1995 edition, the statistical standard that will be replaced by ESA 2010 edition starting with September 2014.

Figure no.1: A view of economy from national accounts perspective



LEGEND

S1: Domestic Economy **IFRS: International Financial Reporting Standards**
S11: **Non-financial corporation** **RAS: Romanian Accounting Standards**
S12: Financial institutions MIP: Macroeconomic Imbalance Procedure
S13: Government sector GNI: Gross National Income
S14: HouseholdsBoP: Balance of Payment
S15: Non-profit institution serving householdsEDP: Excessive Deficit Procedure
S2: Rest of the world **GDP: Gross Domestic Product**
ESA: European System of Accounts(ESA95/ESA2010)

The main data sources used to elaborate national accounts of each sector are the financial statements. All five sectors have transactions between them and also with non-resident actors, called the rest of the world. ESA95 is not only a system of flows and stocksclassification of the economic actions taken by the institutional units as part of the sectors, but also a set of rules of registration all of these as evaluation principle, time of recording, sector delineation and links between financial and non-financial accounts. The balance sheet of the economy is the final purpose of ESA95 system.

The Government Sector (ESA95 code: S13) gives the Government Finance Statistics indicators and is the part of national accounts more analyzed, evaluated and investigated, because of the Maastricht fiscal criterion.But, from my experience, this sector accounts even it is complicated to elaborate, it is the diamond of the national accounts. The fiscal policy objectives are targeted by Government acting on all sectors. The challenge is to implement full ESA2010 as frame of the public accounting.

The sector that provide the highest contribution to GDP formation is the Non-financial Corporation Sector (ESA95 code: S11), because of the Gross Value Added resulted from the activities of production. The data related to the output and the intermediate consumption are extracted from the indicators available in the reporting of the Profit and Loss Account, centralized by Ministry of Public Finance of Romania, as institution responsible for collecting financial statements of the economic agents.

CHAPTERII: Accounting rules: Nationalversus International

In Romania, the Accounting Law no. 82/1991, republished, with its subsequent amendments regulate the accounting framework of activities in Romania. The financial statements and annual reports elaboration and data submission to the Ministry of Public Finance are stipulated into theMinister of Public Finance Ordinances no. 3055/2009 and 1286/2012. The first document isknown as theRomanian Accounting Standards, simply called RAS, which isconsistent with the related European Directives and the second document regulates the transition to accounting rules in accordance with International Financial Reporting Standards (IFRS) as adopted by EU, rules that have to be followed by companies whose shares are listed on a regulated market and for which IFRS are compulsory since 2012 according to the Minister of Public Finance Ordinanceno. 881/2012.

IFRS bring changes only in the form of presenting the financial statement and the economic activity or IFRS come also with a new evaluation system and new procedures? When changes of rules and accounting standards are imposed, any company analyzes the situation first in terms of implementation costs and then from the perspective of future benefits. The companiesin Romania are wondering if they will have to pay more taxes as a result of new rules... Does accounting regulations can influence the results? How will affect the efficiency and performance indicators of the company? Even since 2006, the law leaves the possibility of listed companies to use IFRS, they are not rushed to implement this set of principles for the mandatory annual reporting. Whether it was the lack of new accounting software or the lack ofstaff experts in IFRS accounting, we speak then about extra costs for the company and because IFRS were recommended, but not mandatory, therefore the companies do not proceedto the analysis of the benefits.

In this paper, I intend to analyze the impact of IFRS on accounting companies, in terms of financial position and performance, in order to determine if the newbusiness accounting rulescould influence also the national accounts indicators, namely the Gross Domestic Product(GDP) orthe Government Finance Statistics (GFS). Therefore, there were selected seven Romanian companies whose shares are listed and representative indicators were extracted from the annual financial statements of both kind of reports, RAS and IFRS.These companies have been chosen for two reasons, firstly because availability of data of listed companies on the website of BVB and on the internet page of the companies, that have compiledboth RAS and IFRS reports in the yearthey switched to accounting and reporting under IFRS and secondly, because these companies are from industry branch, which provide the greatest Gross Value Added to GDP and because their importanceas volume of activity and nationwide results. The data sources arethe financial statements, annual reports and notes published on the websites of MoP, of BVB and of the companies included in the analysis, namely ROMGAZ TRANSGAZ, OMV PETROM, ALRO, CONPET, TRANSELECTRICA, NUCLEARELECTRICA.

To analyze the implementation of IFRS, both at the country and company level, the minuses and pluses resultshave to be revealed. Increased comparability and transparency of financial information, harmonization of internal and external reporting under IFRS, creating a common accounting language or reducing information asymmetry are the benefits of uniformly application of IFRS at national level. Experts from KPMG have argued that expansion of international economic relations and the cross-border capital movements require accounting systems that could ensure through the summary financial statements (Balance Sheet, Profit and Loss Account, Cash Flow and Own Funds Reports and Notes) comparability between different countries. Another important step towards improving the financial reporting framework in Romania could be done allowing also to other companies the adoption of IFRS as single baseof annual reporting. Subsidiaries of foreign companies already report financial statements in two formats, one for government institutions according to RAS and one for foreign shareholders, according to IFRS. Companies prepare financial statements according to IFRS, mainly because they are required by banks or shareholders.

Traditional financial indicators reflect the historical performance of companies having limited relevance in predicting their future evolution. Accounting profit provides information on the company's ability to control costs and to obtain higher revenue than expenses. The rates of return that gives comparability across time and space, there are useful in assessing the company's capital or assets efficiency, but their content information is limited to the historical results. According IAS 1, fair presentation of financial position, performance and cash flows requires the use of relevant, reliable, comparable and clear information, in order that the reports can be easy understood by any reader, whether it be an economist or not.Foreign investors may consult the financial statement of listed companies in a way they are used to see it and they can compare the relevant indicators oflisted companies on different international stock exchange and the fact that they are accompanied by the opinion of an independent auditor increases trust on business partners.

CHAPTERIII:Financial Reports Form affectsStructureand Result

Comparing indicators on financial position, cash flows and financial performance in both presentation of the financial statements, namely RAS and IFRS, the followingsentences could be writen:
- the base for determination of the corporate income tax is higher in the case of IFRS,the standard referring to accounting profit as shown in the financial reports, while in the case of RAS, the base for calculating the CIT is the fiscal profits; therefore income tax could be different in case of IFRS application, because it includes the deferred tax, element in addition to those of the RAS; therefore budgetary revenues could be influenced;
- accounting estimations may lead to different results, depreciation and valuation of assets being an area where professional judgment and experience of the expert who elaborate the IFRSreports are essential keys. The comprehensive income as central element of the company's performance may be lower than net profit when applying RAS, because the comprehensive income includes gains and losses which are not typically included in the Profit and Loss Statement. Current accounting model for calculating the performance of a company allows that a number of gains and losses to be not included in the calculation of profit or loss for the period, but to be recognized directly in equity. Although, in principle, all items of income and expense of a period shall be included in profit or loss account, certain standards IAS/IFRS require that some gains and losses (such as revaluation surplus and some foreign exchange differences, gains and losses from available for sale financial assets and related amounts of current tax and deferred tax) to be recognized directly as changes in equity. But, financial reporting provides this information to shareholders, in the statement of comprehensive income, which gathers data on profit of the year and other information about changes in their wealth;
- rates of return (economic, financial) and leverage show better results in case of accounting under IFRS, which favors listed companies on the capital market scene.

But according to current methodology of national accounts elaboration, especially of GDP, only income and expenditure of respective exerciseare taken into accountto determine Gross Value Added (GVA), which appeared to be lower in the analysis of IFRS approach. Therefore ... the companies reports that apply IFRS may conduct to adecreased GVA and by extension, lower GDP. There are also some exceptions, when the company overestimate performance for capital market purposes, then GVA result will be higher, but a good investor will check also the Own Funds Statement.

Literature showed that the results recorded by companies at the micro level influence macroeconomic aggregates, but equally the accounting regulations that impose certain rules for registration, evaluation and estimations can lead to different final results.

CONCLUSION:Business Accounting influences National Accounts

Government could stimulate economic growth through harmonization of national accounting standards with the International Financial Reporting Standards, the IFRS rules for a comparable global business, acting then at micro level of economy and also by full implementation of European System of National Accounts, rules for comparable country world statistics, acting then at macro level of economy.

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