

## IMPACT OF THE PRINCIPLES OF FINANCIAL ACCOUNTING ON THE MANAGEMENT ACCOUNTING

**Daniela CREȚU**

University of Agricultural Sciences and Veterinary Medicine, Bucharest, 59 Marasti, District 1, 011464, Phone/Fax: 00 40 242 332 077; Email: danielacretu5@yahoo.com

**Corresponding author:** danielacretu5@yahoo.com

### **Abstract**

*The paper studied the impact of the financial accounting principles on the management accounting. There are similarities and differences between the financial accounting and management accounting. The differences are numerous, but in the present paper we are more interested in similarities that are very deep. Not accidentally, in other accounting systems, two types of accounting information form one functional, integrated circuit (accounting monism in U.S.A. or accounting systems of compromise between the accounting monism and dualism). Since there is not only one accounting system, but a set of accounting systems, the accounting principles are not absolute, but relative. This relativity is given by the assumed objectives of the accounting.*

**Key words:** accounting principles, expenditure and income, financial accounting, management accounting, patrimony

### **INTRODUCTION**

In the practice and theory of accounting, the dispute on accounting principles resulted in different views, often contradictory regarding the definition, application, classification and interpretation. The lack of consensus on the accounting principles and therefore their relativity led us to hypothesize that their choice, recognition and application is influenced by the objectives set by the accounting, and by the economic, political sector and by the ways of governance of the company.

We will present in this paper the complementarity of the two-tier accounting principles, with a major impact in building and disseminating accounting information corresponding to multiple accounting systems. We will show how these principles are implemented according to the objectives of the accounting and economic and political conditions and the way of governance of the company [1]. Moreover, the choice and definition of the accounting principles is considered to be the consequence and exercise of a power report. Building the accounting information in an accounting system is based on setting a (an) objective (s) and the

establishment of the accounting principles and rules. The definition, implementation and acceptance of these principles and rules gives "objectivity" to the chosen accounting system and allows to obtain a certain image accurate, clear, sincere and complete one regarding the heritage and the results of the company activity [2].

### **MATERIALS AND METHODS**

We exemplified the *principle of exercises independence* by recording in the management of an economic and financial exercise of only income and expenditure related to that exercise, as well the *principle of prudence*. We also presented issues related to the management accounting, so that it is complementary to the financial accounting in double entry and because certain contingencies are relevant to the present topic.

### **RESULTS AND DISCUSSIONS**

This section presents the similarities between the two branches of accounting that refers to that: they are mandatory, by law, using the same data, the same documents and the same

period of time; they have as common object to research the patrimony and as main objectives its efficient management and maximizing the profit; it uses accounts from the same General Accounts Plan (PCG); (when choosing the entity management, depending on its information needs and the specific circumstances of the entity).

The management accounting can be organized in one of the following three ways: by developing analytical accounts of financial accounting (grades I - VIII in PCG); by using specific accounts (class IX of accounts in PCG); by using own technical-operative evidence [3].

The accounting information should have the same qualitative features to be useful [5]: **comprehensibility** (clarity); **relevance** (pertinent), with the role and capacity of confirmation and prediction: judicious choice of optimal significance level for the accounting information, discern between what is truly important and what is not important, the opportunity and sub-unitary cost-benefit ratio play an important role to ensure its relevance; **credibility**: it is conferred by the combined influence of the characteristics of true representation, observing the principle of economic on juridical prevailing, neutrality, prudence and completeness (complete presentation of the economic reality), the optimal balance between qualitative characteristics; **comparability**: is given by the consistency of measurement and presentation of the financial effect of the same transactions and events within a company and over time for that company and for different businesses. Also, explicitly or implicitly, changing what must be changed, they are guided by the same accounting principles. Thus explicitly the legal regulations stipulate the following general principles of management accounting[7]: **1. The principle of costs separation** relating to obtain goods, works, services expenses that are not related to the acquisition, production or processing, etc.; **2. The principle of delimitation of costs in time**, which can be rewritten as the *principle of exercise independence* in financial accounting; **3. The principle of delimitation**

**of costs in space**; **4. The principle of delimitation of productive costs of those non productive ones**; **5. Delimitation of costs on finite production of the costs related to costs of production in progress.**

In order to achieve in practice these principles, in the same norm [4] it is recommended to use some rational proceedings, applied with consistency, that can assimilate integrally to the *principle of permanence of methods* in the financial accounting.

We also appreciate that other principles of the financial accounting can apply, such as principle of prudence, principle of activity continuing, the principle of non set, the principle of historical cost, the principles of recording and bookkeeping, the principles of quantification (measurement and evaluation), the principles of observation, the principles of responsibility, etc..

The following examples illustrate, together or separately, two of the accounting principles set out explicitly by the Romanian accounting regulations [6]. In this way, in fact we illustrate the principles of other accounting systems, which sometimes appear differently named, grouped and systematized.

**Example:** The two cases that follow refer to the receipt of a long-term loan, or the use of provisions for risks and charges.

**Case 1.** It incurs a long-term loan in the amount of 10,000 RON, for a period of 4 years with an interest rate of 10% per year on applied to the loan balance. For simplicity, it is considered that the crediting year coincides with the economic - financial exercise, the interest payment is made at the end of each year of the loan and repayment of loan is made in one instalment at the end of the crediting period.

1. Receiving the loan, the interest calculation in year N (when the credit is received) and the interest payment:

5121 accounts to banks in lei	=	1621 long term bank credits	10.000
-------------------------------	---	-----------------------------	--------

%	=	1682 interests related to long term bank credits	4.000
666 Costs related			1.000

to interests			
471 Cost registered in advance			3.000

<b>1682 Interests related to long term bank credits</b>	=	<b>5121 Accounts in banks in lei</b>	<b>1.000</b>
---	---	--------------------------------------	--------------

The registration of interest payment (1682 = 5121 1.000 RON) is made at the end of each of the four crediting years.

It is remarked that a separation was made between the costs and the interests related to the current exercise (N), represented by account 666, and the costs with interests related to the other three exercises (N+1, N+2 și N+3), registered in account 471. Thus, only the current costs will conclude by account 121 Profit and loss, contributing to the calculation of the current exercise result (N):

<b>121 Profit and loss</b>	=	<b>666 Costs related to interests</b>	<b>1.000</b>
----------------------------	---	---------------------------------------	--------------

2. Transformation of costs registered in advance in current costs regarding the interest, registering the costs with (current) interest and concluding the account 666, in each exercise N+1, N+2 și N+3:

<b>666 Costs related to interests</b>	=	<b>471 Costs registered in advance</b>	<b>1.000</b>
---------------------------------------	---	--	--------------

<b>121 Profit and loss</b>	=	<b>666 Costs related to interests</b>	<b>1.000</b>
----------------------------	---	---------------------------------------	--------------

3. Integral repayment of credit at the end of crediting period:

<b>1621 Long term bank credits</b>	=	<b>5121 Accounts in banks in lei</b>	<b>10.000</b>
------------------------------------	---	--------------------------------------	---------------

**Case 2. A provision is made for disputes (account 151.1), observing all legal and professional conditions of recognition, respectively:** A. The entity has a current legal obligation or implicit obligation generated by a previous event (in our case, a legally concluded contract that led to this dispute, whether the dispute concerns the conclusion, performance, amendment, termination or interpretation of the contract). B. It is probably (there are more chances to achieve than not achieve) that an output which affects the economic benefits is needed to comply with the respective obligation. If the chances

are low (below 50%), no provision will be, but in the annexes to the balance sheet the fact will be described (the dispute) and why it was not expected. C. An estimation can be performed, a credible (evaluation) of the amount of the obligation. In fact, the use of provisions for risks and charges is applying two accounting principles (prudence and independence exercises) and the rule that requires the accounting information (and therefore financial reporting) to provide a clear, honest, faithful and complete entity patrimony, as it will be seen in the following example.

In our case, the entity has been sued by his supplier, asking him to pay the sum of 100,000 RON. The probability of losing this process and pay the sum is of 80%. If unsuccessful, the amount to be charged is 150,000 RON, because it includes attorneys' fees, expert fees, notary fees, legal fees and tax, damages or penalties, and so on, as appropriate.

1. Provision creation (to a degree of certainty of 80%):

<b>6812 Operating costs related to provisions</b>	=	<b>1511 Provisions for disputes</b>	<b>120.000</b>
---	---	-------------------------------------	----------------

Thus, this is the principle of prudence: it increases the costs in advance as soon as it acknowledged the chance of probability of a negative event will generate an outflow of resources.

2. If trail was not unsuccessful until the end of exercise N, the provision is cancelled on 31.12.N by passing it to incomes:

<b>1511 Provisions for disputes</b>	=	<b>7812 Incomes from provisions</b>	<b>120.000</b>
-------------------------------------	---	-------------------------------------	----------------

Moving on incomes may be partial, with the amount not paid yet (where, however, a part of the amount has been paid), the balance remaining on costs. In this way, it is the principle of the exercise independence and of rule to provide a clear, honest, faithful and full image of the patrimony in the sense that the management of N exercise will not be encumbered by some non-existent expenditure, and therefore can not be attributed to this exercise.

3. However, because the risk of losing the trail exists also in exercise N+1, prudently the exercise is repeated on 1.01. N+1:

<b>6812 Operating Costs related to provisions</b>	=	<b>1511 Provisions for disputes</b>	<b>120.000</b>
---	---	-------------------------------------	----------------

4. If, by the revaluation of provision or modification of the operational situation, it must update its value, the appropriate records are made (6812 = 1511 for increase and 1511 = 7812 for decrease of the provision amount, with the respective sums).

5. When it is estimated that some or all expenditure required to settle a provision will be reimbursed by a third party, the reimbursement should be recognized only when it is certain that reimbursement will be received if the company honours its obligation (principle of prudence) [6]. Reimbursement should be considered a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. From an accounting perspective, the company will record a provision for the full amount of the debt:

<b>6812 Operating costs related to provisions</b>	=	<b>1511 Provisions for disputes</b>	<b>120.000</b>
---	---	-------------------------------------	----------------

When the company is sure that the reimbursement will be received, an asset will be recognized:

<b>5121 Accounts in banks in lei</b>	=	<b>7XXX Incomes from provisions reimbursement</b>	<b>120.000</b>
--------------------------------------	---	---	----------------

And simultaneously, the provision made is cancelled partially or totally, if applicable:

<b>1511 Provisions for disputes</b>	=	<b>7812 Incomes from provisions</b>	<b>120.000</b>
-------------------------------------	---	-------------------------------------	----------------

## CONCLUSIONS

The future belongs to the perennial values and accounting principles that they represent. Only this way fair competition is ensured among firms, a uniform interpretation of the accounting information.

As proposals: 1. Equalize or at least harmonization at international level of the concepts of axioms, postulates, principles or rules as principles in financial accounting

system; 2. Development of some clearer and more transparent rules in terms of accounting principles that govern by indicating explicitly the principle/accounting principles underlying, indicating the limits, the circumstances and nuances of understanding and application, in order not to be required further interpretation guides; 3. Application by accounting professionals, in a more uniform manner of the accounting principles and standards, with rigorous argument of the exemptions generated by personal „creativity”.

## REFERENCES

- [1]\*\*OMFP 3055/2009, on the approval of accounting rules according to the European directives, The Official Gazette no. 766/10.nov.2009
- [2]\*\*OMFP 1286/2012, on the approval of the accounting rules according to the International Standards of financial reporting, The Official gazette no. 678/04.oct.2012
- [3]\*\*Law 82/1991 – Law of accounting (republished 18.06.2008 and update 22.04.2011)
- [4] \*\*\*, OMFP no 1912/2010 for the approval of the Predictions on some measures related to the organization and administration of *management* accounting, the Romanian Official Gazette, part I, no. 23/12.01.20011.
- [5]Pierre F., Besançon E., Valorisation d’entreprise et théorie financière, Ed. D’Organisation, Paris, 2011, p. 181
- [6]Tournier J.C., Tournier J.B.,2010, Evaluation d’entreprise, Troisième édition, Ed. D’Organisation, Paris, p. 139
- [7] Stan S., 2011, Evaluation of unlisted companies necotate, Editor Tribuna Economică, București, p. 97