Implications of International Financial Reporting Standards of Performance Indicators within a Company

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Abstract
Romania started a process to reform the accounting system, having the assistance benefit of EU countries (France, Belgian, and UK). Initial path chosen by Romania to harmonize accounting system was marked by the Accounting Law 82/1991 and subsequent amendments and regulations for its implementation reflected the tortuous road to EU accession and accumulation achieved by developing the accountancy profession. In terms of accounting regulatory level, we can say, without fail, that now Romania is perfectly in line with European requirements in financial reporting, as the country recently became a member of the European Union. Thus, Accounting regulations with European directives (approved by MPFO 1752/2005, then modified and supplemented by MPFO 2001/2006) provide reporting framework in strict correlation with the requirements of European directives in the field.

Keywords: accounting, IFRS, performance, standards

1. Performance of companies applied by IFRS

Will consider the regulations contained in several international accounting rules - IAS 38 "Intangible Property" IAS 16 "Property and equipment, IAS 36" Impairment of Assets ", IAS 2" Inventories ", IAS 23 Borrowing costs - to reflect how their application affects the level and how to measure business performance.

1.1. Intangible assets

Represents fixed asset, non fiscal, identifiable but non materialized in physical form, which are used in the production or supply of works and services, for rental to third parties or for administrative purposes. Such intangible assets are: patents, trademarks, licenses, know-how, software, goodwill.

Standard IAS 38 recommended accounting treatment of intangible items, requiring recognition when they met two cumulative conditions:[67]

- company expected to benefit from the fixed asset of economic benefits;
- can determine the realistic cost of the fixed assets.

[67] Guides collection for Understanding and Application of International Accounting Standards (32 volumes) Bucharest, CECCAR, 2004, p.52

So intangible assets are identifiable, verifiable and generate future economic benefits. If an item does not meet both conditions listed above, is not considered restraint intangible and will be made to the expenditure budget.

In addition, if the type of goodwill, brands, portfolio of customers or other similar economic generated by undertaking rule IAS 38 forbids the recording of their assets and recommended accounting for payments due this year in costs, when employment Future economic benefits that the company may benefit from an intangible may occur both in the form of additional revenue as well as savings achieved by reducing production costs. Estimated probability of those future economic benefits is based on professional reasoning, using realistic and fundamental assumptions regarding economic conditions and looming over the use of that intangible asset. Business expenditure incurred to generate future economic benefits may not lead to the creation of intangible assets as they are not fulfilled the criteria for recognition provided for in IAS 38 rule. As a result, these expenses contribute to the formation of goodwill which is not an asset; because it can not be considered as identifiable resource controlled by business and assesses the reliable. Because intangible characteristics are often difficult to determine whether a further expense maintain or increase the level of initial performance. It is difficult to assign these costs to single intangible assets, as concerns distribution usually entire business enterprise. In practice expenses generated by the original registration of the acquisition of intangible assets or after production in its own one are maintained in the profit and loss account in the composition of spending the year without using them to increase the balance intangible.

Standard IAS 38 does not apply to:

- Intangible subject of another international accounting standard. such as IAS 2 'Inventories' and IAS 11 construction contracts, covering intangible assets held by the company for sale, in the context of normal operation, IAS 12 ' Taxes on the outcome, which governs accounting, IAS 17 'Contracts location', which governs the treatment of these contracts, IAS 19 'Staff benefits', which regulates assets resulting from these benefits, IAS' group of companies, which governs the treatment of goodwill;
- Prospect of spending the resources of ores, natural gas, oil and other renewable resources like;
- Financial assets, as they are identified by standard IAS 32 'Financial instruments: presentation and information', namely: elements of treasury, equity items, contractual rights to receive from another enterprise availability or another financial asset; contractual rights to exchange with other financial instruments business (contracts that generate financial assets and liabilities, or elements equity);
- Intangible arising resulting from contracts signed with assured to insurance companies.

In terms of economic performance of the enterprise, it is not influenced, because in both situations we have to increase the balance of fixed assets depreciation and increasing costs due to increase exercise depreciation expenses. The influences than might be different from the rate structure affected: either the structure of intangible assets (intangible assets / total assets) or the structure of tangible assets (tangible assets / total assets).

1.2. Assessment of intangible assets and depreciation

Intangible assets evaluation occurs at two distinct moments in time: *at the entrance heritage through enterprise acquisition, exchange or though its own production, later during the operation.*

When coming into a heritage assessment initially intangible assets involves the following cases:[68]

- *Entrance heritage through separate acquisition*. Assessing intangible assets acquired separately restraint is at cost, which includes: purchase price, including duties and other taxes, expenditure on the exploitation of intangible assets. The extend that the supplier provide the type of trade discounts and rebates, they are deducted from the cost of acquisition, which will finally lead to a reduction in depreciation expenses and increase profits.
- *Entrance heritage though acquisition in a group of enterprises*.

[68] Feleaga Nicolae and Malciu Liliana - Regulatory Practices and the Consolidation of Accounts, CECCAR, 2004, p. 85

Assessing intangible restraint is in this case the assessment was fair given the acquisition. IAS 38 rule recommend setting the fair value based on market exchange rates, and in no case based on the prices of the most recent similar transactions on the asset in question, provided they do not have produced important changes in economic conditions of the transaction data taken as reference time and determine the fair value of intangible assets.

- Entrance acquisition of assets by public subsidy. Intangible assets that can be purchased though public subsidy are operating licenses, import licensees, different access right to certain resources that are normally restricted. Their initial assessment can be done at fair value or at symbolic value, time allowed IAS 20 "Accounting and public subsidies provided information on public aid", with increased costs caused by operation of such intangible assets.
- *Entrance heritage though exchange of fixed assets*. Evaluating restraint intangible entered into an exchange with other similar intangible assets transferred or assigned another asset in the fair value of assets out of heritage enterprise is not affected.
- *Entrance heritage through its own production*. For assessing intangible assets resulting from the production in its own, standard IAS 38 recommends distinction between the stage of research and development stage, which occurs in this order in the process of completing the intangible assets.

In the stage of development intangible assets it is booked in accountancy with the condition that the enterprise can demonstrate the following:

- technical feasibility of physical assets for trading or putting into service;
- intention to complete the intangible assets production, to exploit or sell that intangible asset;
- how the intangible asset will lead to economic benefits.

It will demonstrate the existence of markets for the production of goods carried out with the intangible asset or intangible asset itself or that it will prove useful for internal intangible business.

- the capacity of an realistic assessment of costs for achieving intangible assets.
  Later intangible assets assessment, during their operation it can be done in two ways:
- at cost, minus recorded depreciation and value losses. This is the reference method of assessment as provided by IAS 38 directive.
- at revalued amount, which is identical to the fair value of intangible asset, minus depreciation recorded later, and subsequent loss of value. Fair value is determined by reference to an active market which is traded these intangible assets and revaluation should be conducted frequently to prevent the finding of significant differences between the balance sheet and fair value.

Method of amortization of intangible restraint must accurately reflect the rate of consumption of economic benefits generated by the asset. If you can identify such a method, rule IAS 38 recommends the application of straight-line depreciation. Among the methods of depreciation for intangible assets, IAS 38 rule exemplifies linear method, the digressive, method of production units and shows that only rarely could justify a method of depreciation to provide depreciation expenses lower than those derived from the straight-line application.
Depreciation expenses intangible assets are recorded in the profit and loss and expenses are part of the exercise, except when another international accounting standard allows their capitalization by adding an asset in the balance. When the company integrates the economic obtained from the exploitation of intangible assets in the production of other assets in place to record on their expenses, depreciation costs are part of the view asset accounting.

2. Influence the application of IAS 38 rule on company performance
Standard IAS 38 clearly states the two cumulative conditions that must satisfy an item to be considered intangible assets, namely its ability to make the future economic benefits and the ability to realistically assess the cost of its. If not met one of the two conditions, the item is recorded as expense in the profit and loss, and not as a fixed asset in the balance sheet.

Compliance definition intangible assets, as is standard in IAS 38 by completing distinction between intangible assets and costs exercise is very important in terms of its implications on the economic performance of the company:

- an item that does not meet the definition of intangible assets is treated as an expense and therefore exercise increased costs, diminishes company result and reduce the performance in terms of profitability, solvency capacity of self-autonomy and financial autonomy (equity / total assets).

Also, the price per share net profit (PER) to improve while maintaining a relatively constant exchange rate, usually, but the announcement of falling profits, the quotations is reduced, so it is difficult to quantify the effect of final PER gave a simultaneous reduction of profit and price action. On the other hand, the net profit per share (EPS) is influenced meaning decrease its assumption of maintaining a constant number of shares issued on the market. The dividend yield (DY) is influenced to reduce its current price if the action remains relatively constant, otherwise, if we take into account the trend found on the market exchange rate of decline in announced profits of decline, the effect of reducing simultaneous exchange rate and profit is difficult to quantify. Economic value added (EVA) is diminished, with the net result of reducing operation while maintaining a relatively constant cost of capital. While maintaining a relatively constant equity market capitalization, market value added (MVA) is subject to increase as a result of decreased volume equity which is deducted from the stock exchange capitalization of the company. On the one hand that the economic performance of the company is negatively affected by elements that do not meet the definition of tangible and intangible assets to be recorded in the profit and loss expenses, while there is a tax advantage by reducing the taxable gross profits.

On the other hand, improved economic performance has reflected the added value through market and the rate PER is very important for listed companies, as practice has shown that the stock exchange announcement of increases in this indicator entail increases of this indicator by improving operations and stock default of equity market capitalization.

- An item that meets the definition of intangible assets is recorded as fixed in the balance sheet, causing the increase of the share of this category of assets in total balance sheet and increasing expenses for depreciation, so spending the year in profit and loss.

In terms of economic performance affected by the increase in budget expenditures shall be maintained for the previously analyzed elements that do not meet the definition of tangible assets, with the amendment that these influences have a lower annual impact, because the depreciation expenses are divided over the use of assets intangible assets.

3. Standard IAS 16 'tangible assets' and the performance

Standard IAS 16 establishes the accounting treatment of tangible assets. Assets under the IASB's conceptual framework, is controlled by the enterprise resources, resulting from past transactions and generate future economic benefits for the enterprise, commensurate to the cash flows that may occur in one of the following situations: the use of that asset in the production process or service, use of assets for a debt redemption; changing asset for another asset; distribution assets to the owners. *Setting a value depreciation of tangible assets in terms of an estimated residual value, this exceeds the value remaining influence of the economic performance by reducing operating expenses and increasing profits exercise*. The economic value added (EVA) will be influenced to reduce its maintenance provided relatively constant turnover and cost of capital, while the market value added (MVA) will incur a corresponding increase in equity reduction due year profit decrease, subject to maintaining a relatively constant equity market capitalization.

The PER (price on the net profit per share) is increased, and simultaneously dividend yield (DY) and net profit per share are influenced decrease their meaning. In terms of solvency and profitability, economic performance of the enterprise is influenced so:

- the overall solvency (equity / total liabilities) is unfavorable influence, to reduce its volume decrease due to equity in the composition of which shall increase profits while total liabilities same total asset composition in which the balance more tangible;
- the commercial profitability indicator (year results / turnover) and economic indicator of profitability (year result / total assets) decrease in first year by reducing the outcome, and if the second concert of the effect of reducing the outcome of the year while with total assets increasing value as a result of raising the balance of tangible assets.
- Financial indicator of profitability (net profit / equity or net profit / permanent capital) does not bear influence, because the decrease of net profit is reflected both in the numerator, and in the denominator.

While previously examined influences on the performance were unfavorable, the degree of indebtedness of the company (total debt / total assets) have a favorable evolution in the sense that it diminishes, while maintaining relatively constant debt, as volume increases with total assets tangible increase in the balance.

Reduced equity entails increasing the added value of the market (MVA). In terms of profitability and solvency influences on economic performance of the company is as follows:

- the solvency will diminish because of the effect of falling concert equity volume and increasing the total liabilities.
- economic indicator of profitability is influenced decrease its meaning, due to increased total liabilities, equivalent to total assets;
- the financial profitability is increasing influence on its meaning as a result of the decrease equity.

The degree of indebtedness of the enterprise is influenced meaning decrease its value on account of increasing total liabilities. Decreased while the ability of the self, because of volume reduction equity, while maintaining constant liabilities. Formation of excess provisions are intended to artificially increase costs and reduce the tax burden, while providing increased reserves for future income crisis.

4. Standard IAS 36 'Impairment of Assets' and the performance

IAS 36 directive is governing the accounting treatment applied to depreciation of assets, for the registration of their accounts should not exceed their recoverable through use or sale. If the asset's recoverable amount is lower than the record of the accounts, that the depreciated asset, and must record the loss of value. Utility value of an asset is the value of current flows next treasury generated by the continuous use of assets and estimated in the currency that will be generated. Treasury future flows are expected taking into account both the current situation and future assets as economic conditions change, and an update rate that reflects the risks specific assets respectively, for a maximum period of 5 years, unless enterprise can justify a longer period.[69] Time horizon of 5 years is considered to limit the reliability of financial forecasting, which can move only when the enterprise can demonstrate, based on past experience, the ability to realistic estimates of cash flows. Update rate of cash flows does not contain the tax outcome, but reflects the risks specific assets that generate those flows. If the update specifies a particular asset can not be obtained directly from the market, the company may consider estimating the rate update the average cost of the capital, the marginal lending rate of the risk, country risk, exchange rate and price risk. Please note that the upgrade should not be considered to reflect the dimensions of risk cash flows future, to avoid duplication of the same influence factors. Update rate thus obtained does not depend on the financial structure of the company and no way of financing the acquisition of assets.[70] Update rate is usually single, but when the risk of variation from one period to another is likely to influence the utility, the company can use different update rates, tailored to each period.

5. Standard IAS 2 'Inventories' and the performance

Rule IAS 2 accounting rules governing treatment of stocks listed in the heritage, as the principle of historical cost. In practical terms, this rule establishes accounting categories of expenditure falling stocks in calculating the cost and recommends methods of evaluating them.

IAS 2 rules allow influencing the performance of the following ways:

- *Using a method of evaluating stocks FIFO or LIFO* determined during periods of price increases underestimation respectively overvaluation consumption expenditure stocks, which brings with it, if any, disadvantages and tax advantages.
- Choosing the method of valuation of stocks affects the performance of the company. We believe that this is the most important influence on the application of rule IAS 2 has made the performance of the enterprise.
- *Separation costs direct indirect and general distinction between production costs and general administrative* is subjective, since it depends on the nature of the work, but also the quality of accounting organization and operation of honesty in accounting.
- *Subjective assessment of the value of indirect fixed costs which are inserted into the cost of stocks.*

[69] Feleaga Nicolae and Malciu Liliana- Recognition, evaluation and assessment in international accounting, CECCAR , 2004, p. 78

[70] Garbina Madalina and Bunea Stefan, Summaries, Case Studies and Tests on The Application of Grid IFRS / IAS vol. I-II , CECCAR, 2005, p. 45

- There and in this case can deformation performance recorded at cost efficiency through cost assessment over stocks. As with previous effect is a reduction in unit profit margin and reduced artificially fixed indirect costs.
- *maintaining the minimum necessary provisions*, where coverage is sought as a result of greater financial year or, conversely, *abundant use of provisions* to reduce the outcome and decrease the tax on profit from the application of a 'professional reasoning' overly cautious, that highlights fears about the possibility of selling some stocks to move slowly or in connection with the possibility trading at prices above costs. Of those presented previously observed that a high level of financial performance of the enterprise can not cohabitation with low levels of tax burdens, so that regardless of the possibilities of conceal results which have made the election itself. In other words, reflecting the financial performance of the high costs inherent tax.

6. Standard IAS 23 'borrowing costs' and the performance

Standard IAS 23 states that the cost of the loan to cover both interest and other expenses incurred in the payment of the employee credit. IAS 23 rules allow temporary practice influencing performance by reporting the financial performance of a larger expressed through a result of increased exercise, decrease the volume of expenditure. Standard IAS 23 requires a declaration by enterprises in the financial information prepared on the method of counting the cost of borrowing, the costs capitalized with loans during the year and the average interest rate used to determine the capitalized expenses, subject to compliance with these prescriptions, the approved can easily find the net result of the real by subtracting from reported a net result of the capitalized expenses.[71] Even assuming selling assets, capitalized costs on loans come to be reflected in all the expenses of the results. In the final year of net result to fall, reaching the actual time, all efforts of his dissimulation had only intended to delay and to issue echelon during the depreciation of assets placed in expenditure in excess value of the asset. In time it will create the illusion that the cost incurred easy credit sought. In time, however, when the annual depreciation costs will not be dimmed if the activity is indeed solid, the net result will fall relevant. Therefore, the solution of excessive capitalization of costs related to the alleged cost of borrowing is only beneficial for the enterprise in order to overcome a crisis strictly limited in time. Capitalization in excess of expenses related to the alleged cost of borrowing is not only under certain conditions related to the existence of at least one asset that is or is purchased on the credit, because IAS 23 requires full cessation of capitalization at the time that is suspended the production of assets, or it is completed. We previously demonstrated that the net result of increasing year by capitalization in excess of expenses related to artificial cost loans are only a temporary effect, for a certain period, varying according to the duration of the depreciation of assets or the appearance at some point the decision of selling. But the directive IAS 23 requires that the loans are intended for the production or acquisition of assets or for marketing, so that land features mentioned above do not satisfy the rule. Thus, it becomes clear that manipulation of the IAS 23 rule may not have definitive effect.

Conclusions

Development of capital markets and their efficiency depends on public confidence in transparent accounting information which must be accompanied and by clear assumption of responsibility on the financial statements, especially since, by financial scandals that have rocked many of the world countries, recipients confidence of financial statements in their financial reporting and their auditing was affected considerably.

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