



IMPLEMENTATION OF IAS 38 IN WEST REGION OF ROMANIA ECONOMIC ENTITIES

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Abstract

Romanian economic entities accounting is marked by the process of globalizing of financial markets and the need of information among creditors witch count on the robustness, transparency and comparability of financial reports in order to efficiently allocate available capital. In case of Financial Reporting, national difference prevent efficient of financial resources and in this way increasing the risk and the cost supported by investors.

In this paper we try to emphasize the role of a new and more sustainable accounting and how this community awareness takes into consideration when West Region Economic entities price their business for attracting new investors or convincing creditors? Even dough intangible assets are very important to any company, a great percentage of managers, in the area in which we conducted our study, do not have an adequate understanding of how their brand or trade mark and customer portfolio influence the value of their businesses.

The implementation of International Financial Reporting Standards plays an important role in the revival of the economy trough attracting capital and supporting markets. For obtaining this capital Romanian West-Region economic entities need investors or creditors witch make decisions relying on the information available regarding the companies and the majority of this information is presented in the financial statements.



The most concerning problems that economic entities in the West Region of Romania are facing are the access to finance, which in this times of slow recovery after a great economic and financial crisis represents the greatest threat to their future, not to mention that finding customers is always a challenge especially for small and medium size enterprises.

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Key words: IFRS, accounting, IAS 38, SME,

JEL classification: M41, O1, R1

1. INTRODUCTION

In the recent years Romania has been considered by the investors as an attractive and dynamic market. According to the European Commission the economic growth for 2015-2016 will be robust due to the increase of internal demand. Other premises for economic growth in the future years for Romania are stability in the labor market and a moderate inflation level. Economic performances of Romanian economy are based upon the increase of internal demand due to increased purchasing power, supported by global economic recovery.

Cohesion policy is grounded in the Treaty of Amsterdam, with the objective of EU strengthen economic and social cohesion. More specifically, art. 158 of the Treaty states as a precondition for cohesion in the EU harmonization process, specifying the intention to minimize disparities between developed and less-favored regions, including rural areas (Mateş, Moţ, & Domil, 2013).

Regional development policy represents a set of measures planned and promoted by central and local government authorities in partnership with various sectors to ensure economic growth, dynamic and durable by using regional and local possibilities in order to improve living conditions. The main areas that can be targeted through regional policies are: enterprise development, labor market, attracting investment, technology transfer, development of SMEs, infrastructure improvement, environmental quality, rural development, health, education and culture (Bogdan & Mateş, 2014).

West Region of Romanian has operations across the European Union and business is becoming more global. According to the latest statistical data, supplied by



Euro stat, West Region is one of the strongest economic region in Romania, with a GDP of 51, 5 percent of EU average.

Timisoara, respectively Timis County, from the West Region of Romania, is closely related to the external business environment through foreign investors who have decided to develop a new business, as well as through companies in other countries that have decided to operate in Romania. Timisoara has close business ties with Germany, the strongest economic force in Europe. Investors of the approximately 1500 companies with German capital from Timis County decided to operate in the county for several reasons, namely: positioning to the border, highly qualified workforce, strong university center developed into a variety of areas specialized on the needs of the market, the number of German speakers, wage costs and utility costs lower than in Germany.(Moraru M., Grosu V. & Bostan I., 2014).

The four counties composing the region registered increase even in the period of economic and financial crisis. The economic development of West Region is increasing whit the help of traditional bonds with Central Europe expressed in the location of the Region on the Pan-European IV and VII Corridors. West Region is a major logistics hub for product assembly and export to markets in Central Europe, but also to other markets. West Region can be very attractive for investors who want to reduce costs associated with transport and assembly of imported goods in the Asia-Pacific markets in Central and Eastern Europe.

IFRS give confidence and comfort to foreign investors needed for attracting capital in the West Region of Romania. Adopting and implementing international accounting standards in the region economic entities will have an impact on the technologies and accounting system that the economic entities use.

In the last years, organizational leaders in West Region are becoming aware of brooder scope of economic and sustainable challenges, their organizations and financial consultants have tried to develop a variety of accounting, accountability and assurance practice to assist the identification and management process of the risks and opportunities sustainability appeals (Bebbington, Unerman & O'Dwyer, 2014, Malsch, 2013)

In West Region the interest for robust accounting information and financial reports for sustainable accounting and accountability have increased public awareness of collective non sustainable human activities, in all sectors of the economy, most of all the unequal development of the counties in the region economic activity (Thomson, 2014, Bebbington & Larrinaga, 2014, Hopwood, 2009)



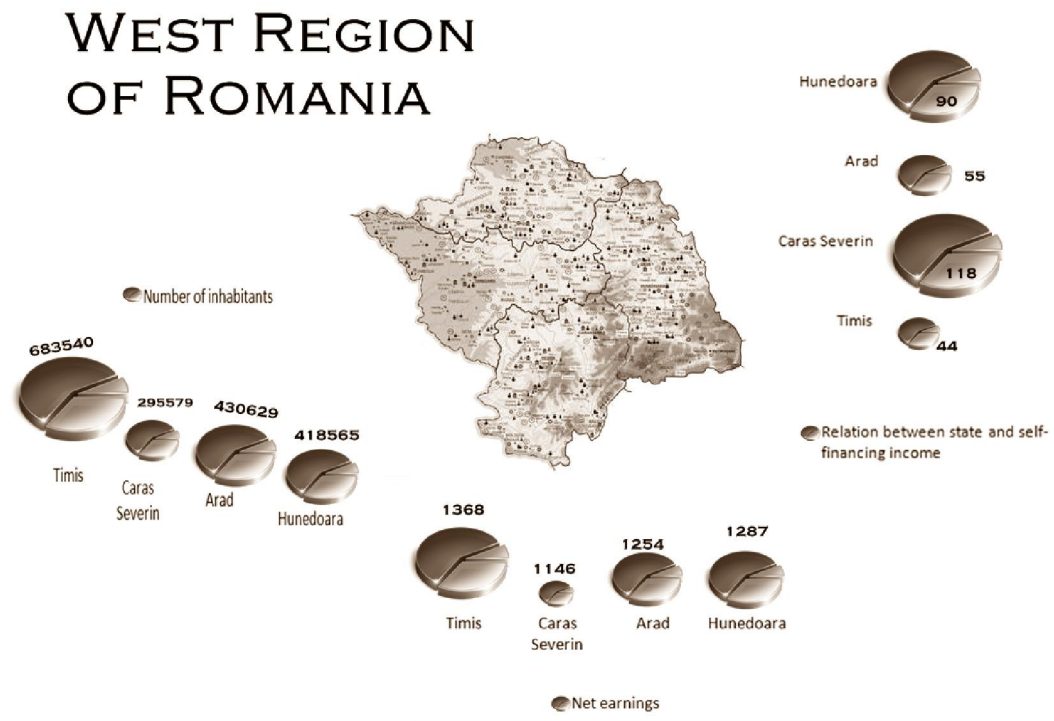
2. INFORMATION

Since the late 90s, the Western Region of Romania has experienced rapid economic growth translated into increase in earnings, productivity optimization and increase of entrepreneurial activity, West Region having one of the highest clusters of enterprises and exporters in the country.

The region is ranked second in Romania in terms of the number of firms per capita. In the western region there are over 200 companies per 100,000 inhabitants. The region is also the second highest percentage of exporters in the country - 15.7 percent.

West Region has a comparative advantage in the automotive, textile and information and communication technology (ICT) and a latent comparative advantage in food industry and tourism.

Figure 1 West Region of Romania





Source: National Institute of Statistics (INS Ramania)

Every industrial cluster has specific constraints and elements that will shape the future and increase intelligent specialization therefore implementation of IFRS within the region economic entities and especially IAS 38 represents a key aspect for a sustainable development within West Region.

The automotive sector should diversify to activities with higher added value and promote the international value chain. Textile sector should build skills and capabilities that allow companies to design and produce their own brands. Other challenge is optimizing agro marketing of local products and forming connections with major distribution chains. In ICT, the challenge is to extend the existing series of activities and overall production capacity. In tourism, ownership at a high political and institutional coordination is essential for the full capacity potential and existing values.

All economic areas presented above represent the engine of regional development of the western region therefore we believe that implementation of international accounting standards is important to the region economic entity managers in order to attract capital through a transparent and robust organization of economic activity. A major problem in the adoption and implementation of accounting standards is the IAS 38 standard which refers to intangible assets.

Intangible assets represent identifiable nonmonetary assets without physical substance. In order to meet the definition of an intangible asset, expenditure on an item must be separately identifiable in order to distinguish it from goodwill. An asset meets the identify viability criteria when is capable of being separated from the entity and sold, transferred, licensed or rented or/and it arises from contractual or other legal rights. (Mirza, Holt, 2011).

Because an intangible assets is without physical substance it means we cannot see or touch the asset therefore many managers of economic entities in West Region don't take into account these types of assets especially goodwill. Because they do not recognize the intangible assets within their own economic entities they are not aware of the future economic benefits these types of assets generate for the company.

2.1 Results and discussions

We conducted a survey regarding the importance of IFRS and IAS 38 for sustainable development in West Region of Romania. The main part of the respondents consisted of SME's because they represent 95, 8% of the West Region's total number of entities.

West Region of Romania is part of Microregion Four (West and South-West regions) and includes four counties: Timis, Arad, Caras-Severin and Hunedoara.



The survey was conducted on a total of 230 economic entities in the West Region of Romania (122 in urban area and 108 in rural area) about the importance of IFRS and IAS 38, conducted in the spring of 2014.

The structure of the economical entities analyzed in our survey, based on their activity is presented in the table below:

Table 1 Economical entities based on their activity

Activity	Number of SME's	
	Urban	Rural
Industry	37	15
Agriculture	7	42
Transport	18	7
Services	25	20
Tourism	25	21
Other activities	10	3
TOTAL	122 (53,3%)	108 (46.5%)

Source: projection made by authors

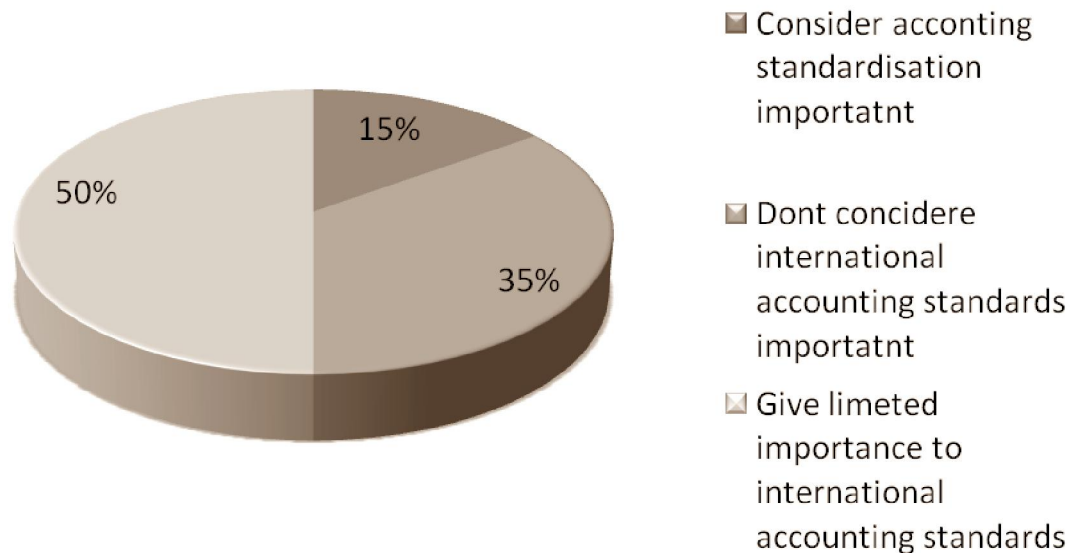
We consider that our objective was to determine the degree of understanding international accounting standards among managers and the importance accounting information within the company.

In our opinion, because of the countless problems small economic entities in the region are facing in the last years due to the economic and financial crisis more than 85 per cent of the respondents don't consider accounting standardization as an important aspect of their activity.

Only 15 % of the economic entities analyzed in our survey consider that standardization of the financial statements is the key solution to sustainable development.



Figure 2. The importance accorded by managers to IFRS



Source: projection made by authors

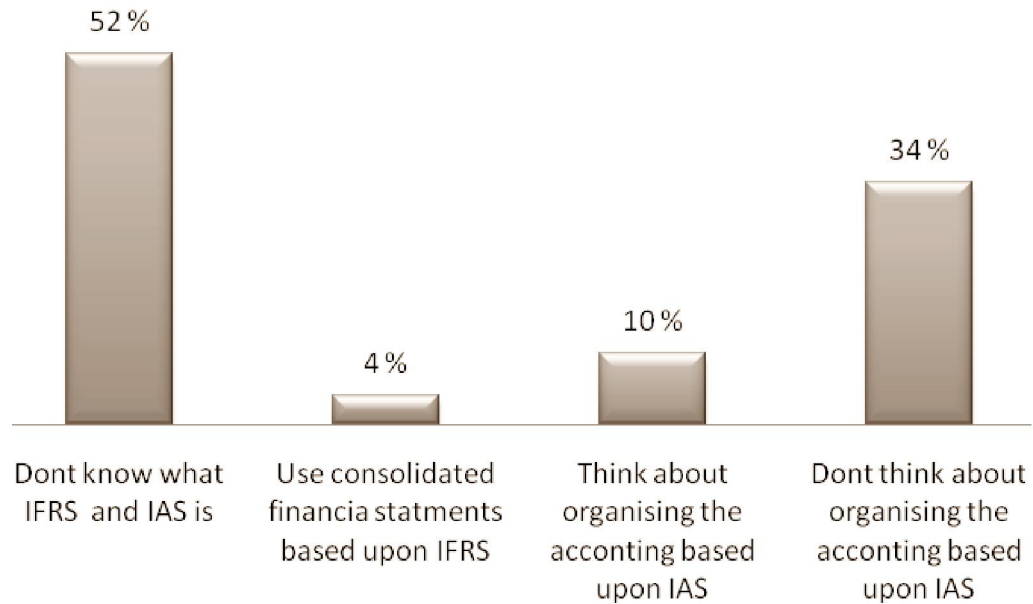
We were interested also to find how the complex process of adopting international accounting standard takes place in the economic entities in the region analyzed by discovering how many adopted IFRS. We have to mention that in Romania only listed companies are required to present consolidated financial statements based upon IFRS.

Due to the fact that small businesses (SME) are not stimulated to take into consideration the possibility of adopting IFRS, more than half of the respondents did not even know what IFRS and IAS stands for. On the other hand 10 % think about implementing it in the next period, 34% do not consider that adopting international standards brings any benefit to their economic entity.

In our survey we discovered an increased level of uncertainty among firms in West Region of Romania about adopting IFRS.



Figure 3. Adoption of IFRS in economic entities in West Region of Romania

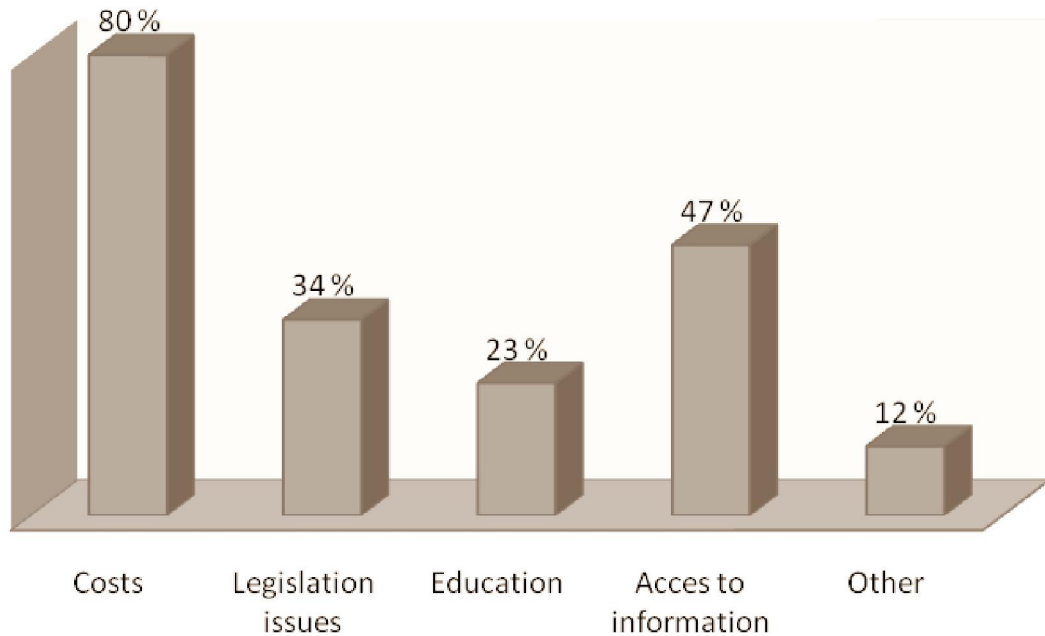


Source: projection made by authors

In West Region of Romania many of the managers consider that accounting has only a fiscal component therefore don not take into account adopting IFRS. Other major issue in the adoption of international accounting standards is the costs generated by this process. Many of the region economic entity managers gear that the costs of adopting IFRS will be greater than the benefits.



Figure 4 Main obstacles in adopting IFRS



Source: projection made by author

In our opinion legislation in Romania and excessive taxing are some of the reasons which prevent adoption of IFRS among small firms. This idea is shared by 34 % of the respondents participating in our survey.

West region economic entities accounting is marked by the process of globalizing of financial markets and the need of information among creditors witch count on the robustness, transparency and comparability of financial reports in order to efficiently allocate available capital. In case of Financial Reporting, difference between Romanian and International legislation prevent efficient allocation of financial resources and in this way increasing the risk and the cost supported by investors.

Difference between national accounting standards and IFRS can led to inaccurate depreciation calculation. West Region economic entities represent more than 13 per cent of all economic entities in Romania and they operate in a constant changing environment. From the viewpoint of sustainable development, IFRS play a fundamental part in



redirecting the economy to more sustainable patterns of production and consumption by an efficient allocation of financial resources.

In our study we tried to emphasize the role of a new and more sustainable accounting and how this community awareness takes into consideration when West Region Economic entities price their business for attracting new investors or convincing creditors? Even though intangible assets are very important to any company, a great percentage of managers, in the area in which we conducted our study, do not have an adequate understanding of how their brand or trade mark and customer portfolio influence the value of their businesses.

Intangible assets don't take all of space in the company balance sheet within West region economic entities.

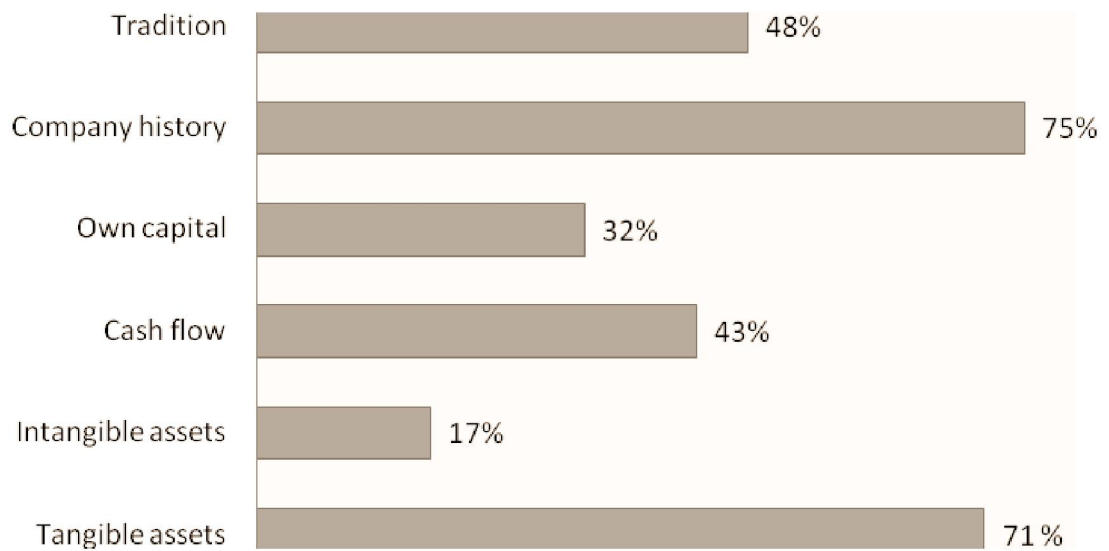
It is very interesting to see that even though many respondents consider that the company history and the matter in which a company respects the production tradition or the tradition of the area in which it operates, a large number of respondents are not aware that intangible assets include goodwill.

Goodwill for small and medium sized firms in Romania West region is almost inexistent and can rarely be seen included in the balance sheet. This information can be interpreted that when it comes to pricing their own business many of the managers of small and medium sized entities in West Region of Romania rely only on tangible assets and cash flow.

By adopting and implementing IAS 38 in a company we consider that managers in this region will have the tools necessary to identify when it is appropriate to capitalize a cost of creating an intangible asset (internally generated).



Figure 5. Key elements in pricing a business in West Region of Romania



Source: projection made by author

Trough adopting IFRS an economic entity can capitalize development expenditures, purchased goodwill and purchased intangibles therefore increasing research and development investments which represent the main advantage in sustainable development in a region.

2.2 Conclusions

By choosing to adopt IAS 38 trough the adoption of IFRS many West Region economic entities may engage in R&D activities and can capitalize the cost of research and development so that they can have an asset in the balance sheet rather than an expense and a cost. In accordance to accounting practice, research activity is always an expense but IAS 38 allows the capitalization of development costs. For West Region of Romania



economic entities this can translate into future economic benefits and can inform managers about the viability of the research cost. Adoption of international accounting standards helps the managers to measure properly and reliability a variety of costs. Based upon IAS 38 regulations an economic entity in West Region may chose a cost model, so it can determine the useful economic life of an asset, can determine any residual value and amortized when reedy to use, or a revaluation model, which will record the asset at a fair value at the evaluation date. (in the case of no active market the cost should be used).

For West Region economic entities, the adoption of IAS 38 can provide a unique identity of the company and trough this identity maybe easier access to capital and markets.

The value a economic entity in West Region of Romania needs to spend to gain and retain new customers can be reduced if the entity has a asset such as a powerful name or a great traditional recipe.

For a sustainable development within West region of Romania, economic entities must use intangible assets for their power to support an economic entity in its potential to develop.

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