

EDITORIAL EJAFB (8)
REFLECTIONS ON THE NECESSITY OF ESTABLISHING PROVISIONS TO
REDUCE THE RISKS OF THE ENTERPRISE
EDITORIAL

The principle of prudence leaves its mark on the creation of the accounting professional, having an influence on how to treat the accounting policies of provisions and on how "happy or scarred he is" regarding their creation. Most of the time, practitioners do not get complicated with these elements that express a risk, an uncertainty. Some of them practice accounting as simplistic as possible, respecting only the mandatory procedures, avoiding being complicated by elements that are not so important, from their point of view [1]. Another part of the accounting professionals avoids making provisions from the desire to protect the public from certain internal information through which the entity is exposed to some risks. Thus the users of the accounting information only find out what they are supposed to find out. In this case the reality is distorted and the transparency of the financial data is harmed. Another reason why the constitution of provisions is bypassed is that most of them are not tax deductible.

As in our country, as in all EU countries, accounting is not yet disconnected from taxation, we observe that this aspect exerts major influences on a professional accountant's way of thinking. Everything about the tax side is strictly respected, as far as it can be, but when it comes to certain operations that are related to the free choice of the person practicing the accounting, if the company does not oblige to law, and the operations do not bring any money advantage, or certain exemptions, we better skip these operations [2].

When you say the word provision, you automatically think of a risk that can give rise to a situation at any time, which can have a negative effect on the activity of an entity. On the one hand, it is ethical to set up such provisions, because first and foremost the professional accountant takes into account the principle of prudence, which would help the company overcome more easily an adverse action that obstructs the smooth running of things [3,4,5].

On the other hand, when you are a user of accounting information and, when analysing financial statements, you notice the existence of provisions for guarantees given to clients, you are thinking about a number of factors that could influence this decision. The personnel may not be sufficiently trained and thus some errors may occur in the production of goods, a problem may also be reported in the raw material. This can be of a lower quality, which can generate certain malfunctions,

thus from the desire to save money resources from the supply phase, there is a deficit from the service department. Following the principle "better foresee, than to fight", in this case, it would be better to focus on quality management, even from the first stages of production, than to resort later to allocating a larger budget for repairs.

Other factors that could lead to malfunctions, but with a lower degree of risk, could be the storage, handling and transport part. But here it is possible to intervene more aesthetic flaws, but that can affect the sales side quite a lot, sometimes substantial reductions are needed in order to sell the respective goods.

Considering that the provisions for the guarantees are constituted by taking into account the volume of repairs from the previous year, I think that the companies should improve from one year to another the practices that result in losses corresponding to the service department, in order to reduce the value of the provisions, from one period to another. We cannot say that there are companies that do not face any risk, but it is possible that the personnel in charge of management, respectively of the decision making of an entity, are concerned with minimizing any danger, avoiding any action that can endanger the turnover, profit, business continuity or other important elements in an organization.

We consider that all these factors listed above can have a significant influence on the decision making, whether it is a major or a minor one, or whether it is important or less relevant.

Notes

[1] *** Order of Ministry of Public Finances no. 1802 / 29 December 2014 for the approval of Accounting regulations regarding the individual financial statements and consolidated financial statements - published in the Official Gazette no. 963 / 30 December 2014

[2] ***International Accounting Standards 37 — Provisions, Contingent Liabilities and Contingent

[3] ***<https://pakaccountants.com/courses/taxation/provision-income-tax/>

[4] ***<https://www.fiscalitatea.ro/constituirea-provizioanelor-pentru-garantii-de-buna-executie-ce-tratament-fiscal-aplicam-5611/>

[5]***<https://www.fedseclaw.com/2017/10/articles/trends/litigati-on-provisions-v-arbitration-provisions-in-business-contracts/>