METHOD APPLICATION OF DISCOUNTED CASH FLOW IN AN EVALUATION OF AN ENTITY OF FURNITURE INDUSTRY IN ROMANIA

Neculina CHEBAC
Danubius University, Galați, Romania
Cristina Mihaela ONICA
Dunarea de Jos University, Galați, Romania

Abstract:

Production of furniture is the most complex activity in the wood industry in Romania, is also recognized as the best performing form of exploitation of the wood in terms of value added to the size of a cubic meter of raw wood. Requirements imposed on the furniture products in terms of accuracy and finish processing have led in recent years had a profound restructuring of the management of furniture factories, supported by a remarkable progress of the whole system of machinery involved in manufacturing technologies. In order to ensure opportunities for internal and external markets through a harmonious development, furniture industry in Romania, to take account of priority trends are manifested in European and world economy in the use and recovery of wood as a primary resource materials premium, being a renewable resource. Here are some reasons why we chose to analyze and evaluate it by the method mentioned in the title, an entity in the furniture industry in Romania, evaluated from the perspective of getting the cash flow in a forecast horizon of its activity.

Key Words: *cash flow, production of furniture, furniture industry, International Standards for Assessment, the cost of borrowed capital*

JEL Classification: *M41, C52, C41*

I. Introduction

Wood processing and furniture production each have a share of about 3.0% in industrial production, and pulp and paper industry 1.2%. Can appreciated that the industries based on wood, although is a traditional sector like light industry, have in terms of demand and capacity of modernity, prospects for expansion. The only restriction comes from the requirement of sustainable development, namely to protect the forest resource. This restriction may be replaced by brandtypodimensional changing structure of production and increase the share of production of furniture against the semi finished (timber, veneers). The major role of activities based on forest resource in industrial development is argued that the growth rates were higher than those of the whole manufacturing industry, and that **production growth in the last 6 years has placed the sector on the place between 3 industries after industry, vehicles and machinery and electrical appliances.**

II. Characterization of wood industry in Romania

At present production of the 3 industries that form the industrial sector based on wood is 47% over that of 2000, which meant an average of annual increase of 6.6%. For comparison, another branch of tradition, respective light industry, barely managed to maintain the level of 2000. *Average rate recorded in the period 2001-2006 is 8.1% for industrial wood and 9.2% for the furniture industry*, compared with 6.1% in manufacturing and 5.0% on the total industry as resulting in the following table:

Table 1: Average growth for wood processing

	10 months 2007/2000 percentage change	RMA 2001-2007	RMA 2007-2010
Industry-total	34,3	5,0	5,1
Manufacturing industry	42,7	6,1	5,7
The wood processing industry	*59,2*	*8,1*	*6,5*

Pulp industry, paper and cardboard	33,9	5,0	4,8
Furniture industry	*69,3*	*9,2*	*7,9*
Total wood processing activities	46,8	7,9	7,0
Industry means of road transport	142,0	15,9	9,1
Industrial machinery and apparatus	72,2	9,5	7,4
Light industry	-0,1	0	0,3

Source: processing CNP data INS

Developments in recent years the two main branches based on wood resources - wood processing and furniture - was often contradictory, which shows, first, relatively **low degree of interdependence between them**. Years were pronounced reductions in the production of wood processing (-14.7% in 2001 and 8.6% in 2002), but with substantial increases, over the media industry, where production of furniture. In 2004 the situation was deeply reversed: the industrial production of wood has increased by 42% and the furniture was reduced by 10.3%. Since 2005, the correlation of evolutionary improved, both types of activities had significant over's.

A possible explanation is that wood processing has a production capacity over the mobile industry needs and **targeted especially to foreign demand**. Thus, **only 20% of the production of semi-finished wood is used in furniture industry**. Suggestive is that the main product of industrial wood, respective timber- with a share of production delivered to the branch about 21% - has in recent years one of the important export products (70% -90% of the production of timber was exported).

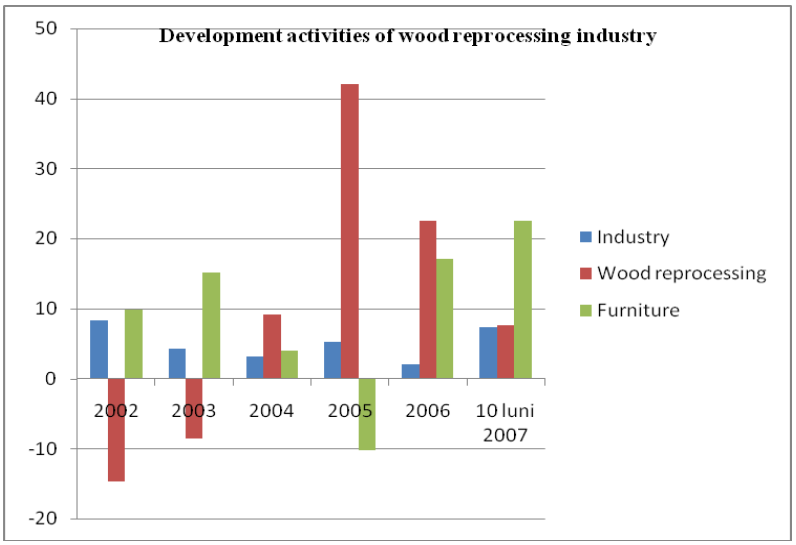

Fig. 1: Development activities of wood reprocessing industry

Export orientation is a feature of tasks, 70% of industry production of wood reprocessing industry with the destination and almost 75% of furniture production industry. The two branches contribute positively to the balance of foreign trade. Trade surplus of foreign trade related to wood products (including furniture) was 1.1 billion Euros in 2005 and almost 1 billion Euros in the first 10 months of this year. If it is added that exports increased its share of furniture exports in the two branches, which is oriented mainly to EU countries, it can be concluded that this industry is competitive and has a perspective of long-term development. The share of furniture exports in total exports of wood products increased from 51.5% in 2003 and 2004 to 54% in 2006 and 2007.

In production of furniture, products with a higher degree of processing (one cubic meter of round wood may be obtained by multiplying the processing of furniture in the amount of up to 6 times), the single

European market and our country has gained an important role, being the third supplier of extra-European mobile market.

For a global vision should be noted that a good part of the surplus produced commercially by the two industrial activities are canceled due to shortage of important imports of paper and cardboard. For example, the first 10 months of 2006 the industry "of pulp, paper and cardboard", a record deficit of 510.7 million Euros, representing 53% of trade surplus resulted from export of wood products (963.7 million). In 2007 wood products imports continued expansion. Level recorded during the first 10 months, 688 million, is already higher value on imported whole year 2006. It is however noted that a source of growth of imports has been an expansion of active processing (lohn), particularly in the production of furniture.
Integration into the EU may open new perspectives for the furniture industry in our country taking into account that the EU still holds supremacy in world production of furniture, but quickly lose competitiveness in the face of a serious offensive to Asian countries. Our country will integrate with the EU *big competitive advantage for a furniture production mainly oriented towards export and provide other countries (large furniture manufacturers such as Germany, Italy, and France) ample opportunities for cooperation to improve competitive prices.* It should be noted however that *we have a big disadvantage on the apparent labor productivity (as turnover per employee); this index is 9 times greater in the EU (2003) against our country.*
Specific for branch such as high employment per unit of product, labor productivity growth will be the main parameter reflecting the efficiency and competitiveness in this activity. **If the dynamics of production compared with the turnover, however, apparent that in 2007 this sector has been difficulties that may be risks in the future.** These difficulties relate primarily to the sales market and as one of causes that improve the efficiency and competitiveness could not fully offset the price and currency appreciation**.**

Since 2006 average annual growth in real terms of turnover - both in wood processing and the manufacture of furniture - is well below the volume of production, which implicitly means increased stock of finished goods from producers. For example in the furniture industry in turnover growth was in the first 10 months of this year by 9.3 percentage points below the dynamics of industrial production.
In the European context, the furniture industry in Romania *is known as a medium-sized industry, which in 2004 exported furniture markets in Germany, France, Netherlands, Italy, Austria, and Great Britain and is appreciated for the competitiveness of the products they achieved. According to an* **international ranking includes data from 66 countries** *producing furniture,* **our country ranks 35 place as the value of production, instead of 22 ranks as the value of exports and 40 places by value of imports**.

Furniture as product for long use, gathers in its construction, a high complexity and diversity of shapes, sizes, combinations of materials, accessories, giving it the durability, aesthetic quality, functionality, comfort and harmony in habitats.
Specific furniture industry in Romania, characterized by a prolonged production cycle, requires both processing equipment and appropriate finishing and storage areas for raw materials, materials technology and other auxiliary materials needed to manufacture finished products. In these circumstances the need of fixed assets and the circulating assets, requires a relatively high capital, whose amount is determined by size category of each establishment.

III. Critical success factors which influences the international competitiveness

Products quality are conditioned mainly by:

- continued research on the opportunities existing in each country;
- increasing demands in the supply of raw materials and materials;
- accurate execution of all processing;
- permanent training of staff to ensure customer satisfaction requirements.

There are companies that still have areas of repair and retouch some of the production process due to obsolete, others because of inadequate supply of raw materials and materials, inefficient organization of production and the lack of an effective system of quality control of manufacture;

Price is determined by product design complexity, size, type and combination of materials, functionality and processing technology adopted.
Product design means that a large part of the furniture manufacturers in Romania is worked after client demand and not on the market by promoting its competitive models, although there are schools of design for furniture. It also is sluggishness in adapting more rapidly to market requirements.
The functionality of the products must satisfy the conditions in your destination of a successful combination to ensure comfort with elegance and appropriate aesthetic ;
Innovation contributes to increasing the competitiveness of products through innovative designs and functions;
Materials ,used decisively influence the appearance of products, particularly those of superficies;
Punctuality in delivery of products and speed of honor commands are essential in a commercial relationship involving the management company, giving it the credibility and prestige.
Services related to marketing, design, trade, financial advice, training helps to improve trade development and business success;
Compliance with standards and regulations in force, in line with European directives;
Training of staff at the technical equipment serving technology and quality requirements of products;

IV. Opportunities "key" to improve export performance and competitiveness of the sector

Effects relevant to the business more competitive exporters of furniture can be obtained by improving the supply of components and method of manufacturing existing products. This includes:

- developing new capacities for the realization of components for furniture;
- Supply of furniture factories with components for specialize furniture manufacturers ;
- Capitalization in excess of the premises of existing, for the semi fabricated making - necessary components for furniture construction ;
- Investment in advanced technologies and equipment;
- Expanding implementation of quality certification;
- Supporting and bracing skills development of related services;

Updated cash flow analysis (DCF)

This represents a financial modeling technique based on explicit assumptions about forecasted income and expenses related to properties or businesses. Such assumptions relate to the quantity, quality, variability, timing and duration of entries and exits that are discounted to present value.
DCF evaluations, and other assessments based on income, are based on analysis of historical data and assumptions about future market conditions affecting demand, supply, income, expenses and risk potential. The aim of this method is to prescribe the best practice that evaluators should give, in the analysis DCF, based on assessments and markets ungrounded, and make the distinction between the applications of DCF analysis in these two different types of assessment tasks. Assessor must to:

- indicate the actual annual rate at which interest is calculated regularly, where debt financing or debt service (interest payment and the rate of capital) is a component of periodic cash flow forecast;
- to specify rates (rates) tax used, where appropriate;
- explain the reasoning that stayed on the basis for grant of subsidy on rent, where applicable;
- explain the use of any capital expenditure incurred in purchasing or arranging the land and buildings attached or trades assets;
- explain the basis for terminal capitalization adopted and for the update adopted rate;
- to describe the methods and assumptions inherent to the model;
- Specify the dates on which the model was developed and used.

According to international standards for the trade assessment, the eighth edition, 2007, the essence of the two methods included in the approach based on income is:

- In NCFupd method, the net cash flow is estimated for each year of explicit forecast period (5-10 years). This cash flow is converted into capital, by applying techniques updated with an update rate;
- The income capitalization method, a representative level of this is divided by a capitalization rate or multiplied by a multiplier coefficient to convert the value of property.

- Similarity between the two methods is that, if applied correctly, the results should be close. The difference between the two methods relate to the two different situations in which they apply, namely:
- NCF method act shall apply where the assessed trade will result in an explicit forecast period (5-10 years), a net cash-flow annual unequal size (even negative in a year or several years) ;
- capitalization of income method applies only where the assessed reached the stage (phase) of economic stability, characterized by:
  - rate of return of capital invested reach the average rate of return achieved in this field of activity;
  - A rate constant allocation of net profits for investments, and annual capital investment is equal to annual depreciation and net cash flow is of the net profits legally.
  - Reproducible annual income, subject to capitalization will be a constant annual flow (constant annuity) or increases by a constant annual rate indefinitely (symbolized by g)

The life of an enterprise

Refers to two distinct periods:
- explicit forecast period or the discrete in which NCF is calculated separately for each year of this period, in general, the length of this period is between 5 and 10 years;
- no explicit forecast period, which is the end of last year of the first period to infinity, in this period no longer necessary to calculate the annual NCF, but necessary to calculate the market value of the company at the end of last year of explicit forecast as the terminals value.

Explicit forecast duration of the method in DCF

Reflects the uneven development of NCF, the annual size of this indicator will be uneven because of the evolution of profits, investments, annual changes and FRN and debt service (the last item only in CFNA case);
- length of this term is not default to 5.7 or 10 years or that contained in the software used, can be 3,4,5 or more years, and until the company reaches the stage evaluated economic and financial stability, when rate of return of capital invested is equal to the cost of capital;
- development of indicators on which to calculate NCF may fall in a single stage or two stages, included in the explicit forecast period;
- if the assessment of enterprises in the merger aim, the duration of the forecast should cover the time needed for integration and manifestation of the synergistic effect of the merger;
- if the assessment of Romanian enterprises, a possible criterion for determining the length of prediction might be time to reach the level of capital cost of similar activities in EU countries;
- In case of new companies, the duration of the forecast includes the time to be extinguished production capacity designed.

Method net cash-flow updated– CFNupd

The essence of the method is explained in Recommendation No. 10 DCF analysis of the composition of the International Standards for Assessment, 2003: "Cash-flow models of the net are updated structured according to the duration of their (usually range from 5-10 years) and frequency (monthly, quarterly, annual) production of a reasonable cash flow, and a terminal value based on generally obtainable annual net income in the first year after the end of the forecast".
Under standard for assessment of the undertaking, NCFupd method, cash flow is the net estimated for each year of explicit forecast period (5-10 years). This cash flow is converted into capital, by applying techniques updated with an update rate.
This method applies only where the undertaking will generate assessed over a period of explicit forecast a net cash flow annually unequal size, because the subject assessment is *entity* during development and economic stability.
In summary form, the trade value (V0) calculated by the method NCFupd is:

$$V_0 = \sum_{p=1}^{p=n} CFNI/(1+k)^p + V\text{termin}_n/(1+k)^n$$

Where,

V_0 = trade value(amount of capital invested)
***P* =** number of years of explicit forecast period
NCFI= Net cash flow available for investors
$Vtermin_n$ = the terminal value at the end of the year.
k= update rate

Special Assumptions

Company has no ownership of assets which are not necessary operation (active redundancy), so there is no net cash flow out of operation:

- type of cash flow used is NCFI;
- explicit duration is 7 years (2008 - 2013);
- net turnover (T.O.) in 2007 (base) is 8.986.239.7 ron;
- estimates are in nominal terms;
- the 30% funded by equity and 70% through financial leasing (2008);
- cost of capital to shareholders is 20% and the nominal interest rate for financial leasing contracts is 15% (their average);
- nominal cost of capital was set at 20%;
- perpetual growth hoped of NCFI of 2013 annual at infinite: g = 5%;
- rate of income tax = 16%;
- assumptions for calculations are presented below.

Forecast Turnover

It will use the T.O. forecast stages of evolution where the entity assessed:

- in the seven years of explicit forecast period (2008 - 2013), T.O. will be a decrease in annual growth (development stage) until end of explicit forecast.
- during the forecast un explicit (from end 2013 to infinite), T.O. will grow by 4% per year, in constant (from 2013 to infinite);

Forecast capital expenditure (investment).

- purposes of capital expenditure is the investment in tangible assets and intangible needeeds to achieve forecasted to;
- capital expenditure is determined by quantifying the volume of capital investment (if the company reviewed by financial leasing) based on a percentage of their to:
- debt to be paid over a period > 1 year (financial leasing) / to (%) (2008) = 105.103,2 /8,986,239.7 x 100 = 1.16%

Forecast the annual change FRN.

Method is calculated directly on a normal share of the FRN in net TO, this share, selected as the assumption of forecasting is the usual fulcum share FRN in TO similar businesses.

Terminal value of the company:

- is called the residual value, value or final value continues.
- accordance with IAS 16 "residual value represents the net value on a company estimated that it will obtain for an asset at the end of useful life thereof, after deducting prior forecasted transaction costs."
- a possible definition for the terminal value of an enterprise is: "Terminal value represents the type of capital invested in the enterprise at the end of last year of explicit forecast period."
- terminal value assumption is the continuity of normal business operation after the determination of the period of explicit forecast.
- method for estimating of terminal the value is **Capitalization method of the net cash flow** , the appropriate method of analized trade which matures at the end of the explicit forecast (2013).
- formula to estimate the terminal value is Gordon Shapiro formula:

$$V_{termin} = NCF_{p+1} / (k - g)$$

Where,

NCF_{p+1} = net cash flow of the first year after the explicit forecast period;
k= update rate;
g= forecasted annual growth for the perpetual NCF in the un explicit forecast.

Setting the g rate :

Factors considered are:

- general economic conditions, which are good in 2013 to infinite;
- forecasted growth of the scope of the company: trade and services;
- management forecast on future revenues (revenues are increasing);
- GDP growth per branch in the past (3%);
- inflation rate in 2013 is expected to 2%.
- Formula for g calculation is:

$$g_n = g_r + f$$

where:

gn= g rate in nominal terms;
g_r = g rate in real terms;
f = inflation rate.
In trades case: $g_n = 3\% + 2\% = 5\% = g$

Set the update rate (k) or cost of capital to shareholders:

The cost of capital is named by the update rate. Used for updating net cash flow available to shareholders (NCFS), Kc reflects the profitability achieved in the recent past.
In concept point of view, the nominal upgrade (kcn) is determined as follows: kcn = real rate risk free basis (related to loans from the issue of government bonds (10%);
+ forecasted annual rate of inflation (7%);
+ risk (between 1-5%) (if the company is an average risck of 3% to a level strong enough)
$k_{cn} = 10\% + 7\% + 3\% = 20\%$ represents the update rate of equity capital.

The cost of borrowed capital (k_d) :

Borrowed capital represents the lending business for a longer period of time with a fixed rate of interest set in the contract and entitled to preferential payment of reward to shareholders, which means that kd< kcn. The entity has assessed the financial leasing contracts with an interest rate of d '= 15% (their average).
Should be considered and the economy from tax on interest, which is a deductible expense:

$$k_d = d' \times (1 - s) = 15\% \times (1 - 25\%) = 11{,}25\% < k_{cn} = 15\%,$$

where:

d'= interest rate on loans contracted (in company financial leasing contracts case)
s = assessment tax on profit of enterprise

Calculating the wacc - the weighted average cost of capital

wacc= kcn x Equity capital share / permanent capital + d'x (1-s) x share of Long-term Debt and Medium / Permanent Capital
wacc=20% x 30% + 15% x (1-25%) x 70%
wacc= 13,87% ≈ 14%

Table 2: Assumptions for the forecast of net cash flow for shareholders (NCFS) (%)

	Actual 2007	2008	2009	2010	2011	2012	2013
Index increased of TO	1	1.5	1.5	1.5	1.4	1.4	1.3
Operating expenses / TO (%)	96	96	95	94	94	94	94
Depreciation / TO (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investments / TO (%) (FRN / TO)	13	13	13	13	13	13	13
FRN/TO (%)	13	10	7	6	5	4	4
Tax level / Profit (%)	16	16	16	16	16	16	16
Update rate - reflected in wacc (%)	14	14	14	14	14	14	14

Table 3: Forecast of the profit and loss account of operating (ron)

	Actual 2007	2008	2009	2010	2011	2012	2013
Normalized net TO	8.986,3	13.479,4	20.219,2	30.328,8	42.460,4	59.444,5	77.277,9
Operating expenses	8.638,8	12.940,3	19.208,2	28.509,1	39.912,7	55.877,8	72.641,2
Depreciation	31,4	51,7	80,8	121,3	169,8	237,8	309,1
Gross operating profit	319,4	487,4	930,0	1.698,4	2.377,7	3.328,9	4.327,6
Tax on profit	73,5	77,9	144,8	271,7	380,4	532,6	692,4
Operating net profit	245,8	409,4	785,2	1.426,6	1.997,3	2.796,3	3.635,2

Gross operating profits increase by the same growth rate of turnover

Table 4: Calculation of annual growth of FRN (ron)

	Actual 2007	2008	2009	2010	2011	2012	2013
Net TO	8.986,3	13.479,4	20.219,2	30.328,8	42.460,4	59.444,5	77.277,9
FRN/TO	0.13	0.10	0.07	0.06	0.05	0.04	0.04
FRN	590,8	1.347,9	1.415,3	1.819,7	2.123,0	2.377,8	3091,1
FRN Growth		179,7	674	404,4	303,3	254,8	713,3

NCFS= CFg – Ic(FRN) – FRNGrowth

V terminal= $NCFS_{2011}$ / (k - g) = 1685,5 ron / (0.14-0.03 = 12.965,3 ron

V_0= VCI = ∑CFNI present + V terminal + CFN outside operation = 15.007,1 ron

VCA= VCI - Long-term credits (leasing)=14.902,0 ron

Method based on income -the net cash flow method updated its assessed value is: 15007.1 and ron is the amount of capital invested and the amount of capital to shareholders is 8213.4 ron.

Table 5: NCFS forecast and calculating the amount of capital and shareholders' equity (ron)

		Actual 2007	**2008**	**2009**	**2010**	**2011**	**2012**
Operating net profit		409,4	785,2	1.426,6	1.997,3	2.796,3	3.635,2
Depreciation		51,7	80,8	121,3	169,8	237,8	309,1
Gross Cash-flow (CFg)	Pne +Am	4.611	8.660	15.479	21.671	30.341	39.443
Capital investments (Ic =FRN)		179,7	404,3	606,5	849,2	1,188,8	1,545,5
FRN Growth		179,7	67,4	404,4	303,3	254,8	713,3
NCFS*		101,7	394,3	537,0	1.014,6	1.590,5	1.685,5
Update factor @ = 14%		0.862	0.743	0.641	0.552	0.476	
Discounted NCFS		87,7	292,9	344,2	560,0	757,0	
Amount NCFS act		2.041,8					
Terminal value	12.965,3						
Present factor - terminal value	0,476						
Present terminal value		6.171,6					
outside exploitation NCF		0					
Amount of invested capital (V0)		15.007,1					
Long-term credits (leasing)		105,1					
Amount of capital to shareholders		**8.213,4**					
Number of social parties		100					
The value of a social party		8.213,4					

V. Conclusion

Assessment in keeping the condition of the International Standards involves Harmonization of accountancy in the world that involves a system of international rules governing the accounting of business evaluation, each adapted to specific country and companies from each country in which it applies.

Normalization accounts, as shows M. Capron in his paper "Accounting perspective", there is today in most countries. Each of them has a terminology and rules that lead to a similar review of sysnthesis documents for all businesses. Technical interest is obvious: the homogeneity of the information provided facilitates comparisons over time and between enterprises and allow national accountants to conduct assemblies and macroeconomic mesoeconomic. Normalization leads to a third party guarantee users on consistency and rigor with which it was held accountancy. Principles, terminology, rules for rating, what concerns the authorization accounts are defined in different ways depending on the country ".

The internationalization process of the accounting normalization occurred initially at the regional level, such as member countries of the European Union, however, opening unprecedented Member economies to a world market and increased global mobility of capital in the global economy, have led to a new dimension of normalization accounting,the international one.

Need to harmonize international accounting relates particularly, the credibility of accounting. To be credible, "products" of accounting should be measured, evaluated on a organic base. Application of different accounting rules lead to different results, with implications for the comparability and credibility of financial information. Thus, economic environment, financial, political, legal, social and cultural variety of operating accounting systems, and causes a variety of accounting practices. This generates difficulties in communication of financial enterprises are often faced with the problem of interpretation of financial statements prepared on the basis of rules applicable in another country. An American investor who wants to buy shares in a European company will have financial information, credible, relevant and comparable to decide whether to invest in the company or others? Can be compared the financial statements of an european company with those of an American company, given the existence of different accounting practice? Against this background the need to harmonize international accounting, "a political process which aims to reduce differences in accounting practices that apply in the world so as to increase their consistency and comparability".

Anglo-Saxon inspiration is found and given to qualitative purpose of the annual financial statements, on rules base for getting up and evaluation. Historical cost becomes the main basis of valuation, and other, alternative bases of evaluation. Anglo-Saxon accounting culture starts to outline victory. Need to inform investors, supported by British and Dutch tradition of keeping physical production capacity of the company, predicts the emergence of another body involved in international accounting consistency.
Arguments that makes the assessment activities to be harmonized with the global standards of accounting practices and the use of unique exercise , are the following:

- *market needs are global* and require credibility given by of the international standards;
- use of international standards is positive for everyone, because that decreases the cost of preparing the financial statements, investors obtain financial information that have credibility; financial auditors certifying the financial unit, the companies have more access quickly and easily to the capital markets;
- countries who wish to join the European Union meet all the requirements of the single market, therefore it must aseessthe implementation of Directives IV, VII and VIII of the European Union;
- for the development of financial audit to be effective, you need an open dialogue between financial auditors and users of financial audit services in the world;
- adoption and use of international accounting standards worldwide,determins increasing investment, and businesses have such access to cheaper funding.

Stock exchange is not the main funder of capital (financing business is done mainly from bank loans) and show an inclination for secret affairs,which is contributing to a policy of communication rather weak.
The basic objective of the enterprise is not the obtaining the image of the most reliable financial position reflected in the annual accounts but the result rating of which, distributed to shareholders does not affect the interests of other parties, particularly creditors.

For countries on-lined of the Anglo-Saxon perimeter, the rate outcome is not an aim in itself; target U.S. firms is to provide the most realistic picture possible of the economic situation of their own, while the British enterprises, is to provide a true and fair picture.
To achieve this objective, it is necessary for accounting information to have qualities as: comprehensible, relevant, comparable reliable and application of the principle of permanent methods exercise a strong influence on evaluations. In continental European countries (the case of Germany, Austria, Italy), in which accountancy is dependent on tax and tax on benefits is directly related to the accounting result, tax exercises a significant influence on the accountancy objective and the approaches adopted in the field of evaluation. In most cases, these countries tend to undervalue their profits in order to minimize tax, unlike the Anglo-Saxon countries, where tax accounting unbundling leads to focusing on their financial communications, in particular to meet the needs investor capital. Contrary to these previously mentioned differences between countries there are many inter-cultural and economic relations, which allowed their classification into two accounting systems: the accounting system of the continental countries (continental Europe model) and the accounting system of the Anglo-Saxon countries (the Anglo saxon).

At present, a dilemma that is troubling the professionals world: *what accounting standards are better, European international standards or U.S. standards? Comparing european with American standards detaches the idea that the EU had an important qualitative leap through the basic principles aproach of cases drawn from practice, while the remaining quarter American standards on rigid rules based on rules.*

This dilemma has been the subject of live debate in the European Convention of the International Financial Reporting Standards.
Financial Reporting Standards are global language of financial reporting and for Romania, an important even higher had a recommendation from the European Commission regarding the need for all companies listed in the European Union to draw up, by 2005, consolidated financial statements using provisions of Financial Reporting Standards. This is the most important changes to financial reporting in Europe since the adoption of European Directives in '70 years and a clear way forward for those countries, and Romania, aiming at integration into the European Union.

Application in our country of International Financial Reporting Standards (IFRS) will have the following consequences: the rationale is the basis of accounting professional; switching accounts on the basis of fair value involve obtaining more frequent information on the fair value of assets; specialist staff should be informed of the substance of the economic activities of companies for a proper application of the standards (there are fewer detailed instructions Ministry of Finance), it is possible that tax regulations do not keep up with the accounting, tax implications of certain transactions may be unclear and therefore may conflict with tax authorities.
This detaches the idea that the application of different standards, leading to different results, with implications for the interpretation of data, calculate economic and financial indicators and distorting "the accountant truth". The analysis outlined above suggests that, at least at European level, making a financial audit of how to evaluate companies in accordance with Financial Reporting Standards and IVSC would create an international market that would ensure international recognition specialists in this field.
Applying IFRS in Romanian accountancy has several implications, among which we mention:

- application of inflation accounting (IAS 29), the application will depend on inflation level in coming years, IFRS 1 Application for the first time International Financial Reporting Standards "in this regard by providing certain advantages;
- application of certain International Accounting Standards which have not previously been applied in practice;
- application of new IFRS standards;
- auditing the accounts;
- consolidation of accounts becomes mandatory from 2005.

In the opinion of experts, International Financial Reporting Standards (IFRS) should be applied as such in romanian law, on the contrary, differences arising can generate confusion, ambiguity, lack of transparency and, therefore, a distorted picture of the financial situation of the company. For example, the profit determined under accounting rules used so far will not be equivalent to that calculated under IFRS. The main differences between IFRS and OMFP 1752/2005 refers to the standard financial reporting hyperinflationary economies, it sets the financial data should be read in conjunction with inflation, to present a real situation. Romanian legislation in the field, do not forcasts, mandatory standards on the use of inflation. Therefore, companies should prepare for tax users a set of financial statements without excluding inflation, leading to reporting of results that do not properly reflect the financial situation of companies.

In our opinion, in Romania, adoption of a system of uniform financial reporting and internationally recognized (IFRS) for Romanians companies is the only way to ensure that their financial statements are reliable, and on this basis, users can take the most good decisions.
Emphasize that all actions and regulatory harmonization in accordance with Financial Reporting Standards, represents the cornerstone for assessment and romanian financial audit to be recognized at both European and worldwide. To achieve this goal, I express the idea that it is appropriate that the national authorities, but first Romanian Chamber of Auditors, ANEVAR continue to show concern and needs in collaboration with specialists from the European Union and the world, and in terms of improving ongoing operational and regulatory framework for assessing the activity of our country.

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