Accounting - a Normative Representation of Economic Reality?

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Abstract. Accounting is currently a very dynamic field at international level. Accounting information or its derivatives comprise an important segment of the information conveyed in the economic environment. Therefore, accounting is considered by some authors as the most important information source of a nation. Widening and diversifying the request for information from the scope of financial accounting is generated by modernization and restructuring economy and society development as a whole. In these circumstances, accounting has a very important role. Establishing decision based on a real, pertinent, relevant, timely information system insures a performance administration, management of the current situation, with many phenomena of crisis. Accounting involves the perception of real which is based on a conceptual system, which means that the entire accounting system is based on a set of objectives, postulates, principles, rules and regulations. When different objects are placed in different areas, the differentiation between real and ideal is only formal.

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As domain and tool of economic reality knowledge, regarding the economic resources, patrimonial separated, accounting is a true guide in directing every business; it is actually the condition for any honest transaction.

Accounting, as empirical science, aimed at understanding economic realities accomplished by human activity. As science of social reality, particularly economic, accounting tends to create its own theories, a discourse that has handy assumptions and concepts, postulates and principles, which form a reference system for accounting practice, in order to achieve an image, a representation of the object of knowledge - the economic reality of an entity. Accounting theory formation *means a conceptual model of an economic reality* which involves the simplification and representation of an object of knowledge, involves a certain way of interpretation and understanding the object, which means in fact, choosing a cognitive attitude towards the knowledge subject. The development of accounting practice was accompanied by the evolution of accounting knowledge, a development where the accounting route gradually formed into a set of information that try to explain a economic reality in a continuous change; knowledge should be placed in field of theorizing accounting, providing concepts, reasoning and understanding of accounting process. (Manolescu, 2006)

Accounting information must be real, understandable, relevant, complete, useful, consistent and verifiable. Qualitative characteristics are attributes that determine the usefulness of accounting information. To be useful, they must be relevant to decision making by users. They have such quality when they influence economic decisions of users, helping them to evaluate past, present and future events, to confirm or correct their previous evaluations[1].

Providing relevant and accurate information to different users represents the accounting knowledge of economic reality, so that it can take *decisions and elaborate strategies*.

The value of accounting information will be assessed in relation to its usefulness in decision-making process in order to ensure the expected results. The amount of information can be determined as the difference between the net benefit generated by a decision after obtaining the information and the net benefit generated by the same decision-making unaffected by the information. (Burlacu, 2009)

From this point of view, it is necessary that the *accounting information is verifiable and controllable*, the same for all users, easily understood and used, which implies the existence of formation rules of accounting information, of some conventions and normative codes. The offer of accounting information must be evenly distributed in society, but also selectively, and it involves the regulation, normalization of accounting in order to meet correctly the demand for accounting information, making possible the knowledge of the truth about the economic entity.

The normative accounting science achieves knowledge in carrying out accounting practice, accounting information and accounting knowledge, forming in a system of standards and rules, must be obeyed. Accounting rules are not an accounting science, but a subject to accounting knowledge, thus *accounting is a normative*

[1] O.M.F.P. no. 3055/2009 for approving accounting regulations with European directives (accounting regulations comply with Directive IV of the European Economic Communities), published in Official Monitor no. 766/10.11.2009, p. 6.

science, that analyzes, explains and develops the standards, providing the methodology of accounting rules. (Manolescu, 2006)

Undoubtedly, in this respect, a company's accounting practice is influenced by the objectives of economic activity, by the conditions, restrictions, influences of the society, economy, policy and legal framework. All these factors form the accounting environment that marks the truth of their accounts. The economic, political, legal and education system is influenced by the information provided by the accounting system.

At the basis of any important decision of financial accounting domain and uses of accounting policies are the quantification problems: finding, assessing and classifying problems.

The difficulties that arise from international comparisons, diversity in accounting policies and estimation techniques or the presence of several options in a country's accounting referential and also the presence of more referential in a country's accounting system may create a condition of quasi-hierarchy with serious consequences in decision-making process. (Mihalache, 2005)

Based on principles, rules and regulations, accounting leaves the possibility of choosing between more accounting and evaluation methods, which has always been a source of controversy on the construction and acceptance of accountants' truth.

Official accounting „truth” is first defined starting from a normative referential, it must be according to the rules. Then it is „composed” of accountants, that is the accounts officers, within the limitations set by this referential under the restriction of sincerity and of fidelity. He is guaranteed by the intervention of auditors and the quality of practices depends on this truth. (Colas, 2009)

Often it is found that the published accounting information is questionable in terms of feature relevance, because, in order to provide a true situation for helping policy makers, the accountants apply a professional reasoning, making decisions for using one other treatment for achieving better information. The produced information can have a general feature, since the court plays a very important role in accounting. The objectivity of a professional accountant may be affected in different situations, as they cannot be fully defined and described.

The records provide information that have already undergone some treatment or restatements, and not raw information. It all depends on the use, interpretation and the meaning of accounting principles. Given the fact that the rules and principles cannot provide everything, while leaving room to maneuver for enterprises to account certain transactions or certain economic phenomena; they make possible the existence of some limits of presenting certain accounting phenomena and these limits would not lead to the loss of the relevancy of information by delaying them nor the loss of credibility, by a too fast presentation, cost-benefit report and finding a balance between quality features.[1]

Therefore it is assessed that the reality of accounting knowledge is a reality constructed by human activity, accounting knowledge *provides a representation of a built universe*, recognized representation and accepted by human subjects, its logical consistency should ensure intelligibility. (Manolescu, 2006).

The practice of accounting for cash accounting information can be obtained more real or pure, where there are highlighted specific aspects of the cash accounts: cash in bank accounts, bank checks and other banking effects. Regarding the rest of the records, there is only interpretation, although they are shown on a plan sheet. Often there may be some hesitation, even if it is used a plane sheet, and thus the necessity of selecting a type of accounting, this aspect would be impossible to exclude.

According to some economic, political, legal, fiscal, social, but also epistemological references, the economic facts are selected by accounting, therefore it does not record all the reality. As a way of knowledge, accounting is a neutral to the object and to reality; it *constructs the accounting reality* throughout the accounting cycle, from collecting data on primary documents to preparing synthesis data. Accounting is not reality, *it is a reduction, by selecting and schematizing through formalizing reality*, an interpretation of it. It can be said about accounting that it provides a *built model* of a pluri-valence economic reality, which can be known from different perspectives, building a cognitive matrix of reality, helping to build a specific economic universe. Accounting is *a human construction*, a way to capture the economic reality, a means and a path of knowledge. (Manolescu, 2006)

In so far as to establish the most appropriate information, there are judgments for each case, one cannot say that accounting is an exact science.

[1] IASB, International Financial Reporting Standards (IFRS). Official rules issued on January 1, 2009, General framework for the Preparation and Presentation of Financial Statements paragraph 43-46. Translation conducted by CECCAR. Bucharest: CECCAR.

The concept of fair presentation, of British origin, submits the accounting principles to some rational and intelligent judgments, allowing the exemption for increasing the usefulness of financial statements for users by improving the quality of decisions that depend largely on the quality of information. And if we consider that once the financial statements do not include any information that may give the reader an erroneous view of the firm's position, an accurate picture is achieved, we cannot but agree with the possibility of a total lack of errors at the level of transmitted information. In the case of an accrual accounting, accounting exactness is complex and bears the imprint of subjective interpretations. In this case the error is inevitable.

Accounting is getting farer from the rigid rules and principles of application, aspiring to greater flexibility, aiming at satisfying all users, defining authentically the reflection of the true situation of a company.

Exemption may be practiced only within the limits of its significance i.e. to the extent that its application is likely to give another idea and to change the decision of the user.

Significance is not an absolute term. For a wide range of users of financial statements, documents are used for specific objectives. Therefore, the relative importance is according to users. The ones that set up the financial statements are required to mobilize their efforts in order to provide a true picture, according to its objectivity and each user will compose or evaluate in relation the provided information, the image that it is considered to be as more satisfactory. (Mihalache, 2005)

Although it is difficult to achieve this objective, the truth, in the sense of fair presentation, has the potential and the obligation of synthesis accounting documents (balance sheet, income statement and explanatory notes) in order to provide true and fair information (correct) on the patrimony of the financial situation and the results of an enterprise. One such fact is both a truth *of reflection* and *of construction* that is a direct truth of observing the reality (photographing) and truth of direct processing input information provided by observation. *Reflection truth* is in fact the relationship between object and its representation. In the requirements of a true image it should be noted the observation and the reproduction of the object. Thus, the justified documents which provide input information for the construction of truth must contain true and accurate data, therefore the subject that makes them must be in good faith. In order to legitimize this requirement, it must verify the documents, among its objective being the reality and the recorded data. *Truth construction* concerns the fact that accounting information is produced on a recipe, the one of principles and procedures (accounting standards) as a reference. In these circumstances, the reflecting data of the reality is raw material, which turns into the product by processing information in a position to render a true and fair view of the company. This image is subject to rules as assumptions, options and agreements observation, measurement and real referral. *The balance on financial position, profit and loss account* or *cash flow statement* and *notes or annex to the balance sheet* that contain information supplementing the first three, are the four major important clichés that present the true image. (Ristea et al., 2003)

There are two important results in terms of true image interpretation:

1) The **Anglo-Saxon** origin, which is accepted in countries where accounting was disconnected from tax and shows preference to reflect economic reality. A feature of this system is to obtain accounting information without taking into account the tax rules, regulations of accounting documents based on general accounting principles. Financial administration role is restricted upon accounting practice, with no interference into published accounts and the accounts of investors. It is noted, in this case, the Dutch and the Anglo-Saxon accounting system.

2) The **mainland**, in countries where *fiscal goals* were and are met on the basis of financial accounting. Reflecting the economic reality of accounting was not a requirement to implement the 4th directive by companies that work in these countries. The specific of accounting system is connected to taxes that are taken into account in terms of tax regulations in order to obtain accounting information. Accordingly, law stipulations texts on accounting rules and national regulations are more difficult to change. Game rules are determined by tax, whereas financial administration, as a user of accounting information has a crucial role. In this area it is required by the code of trade and by the general plan of accounts, the German-French system.

Only in the conditions where the accounts are issued by fiscal constraints we consider that true image may be relevant.

It can be argued that accounting is a requirement of objectivity. Objectivity is not seen within the meaning of “accurate representation of the real world”, but in the sense of technical objectivity, i.e. the correct application of rules under different accounting principles. In accounting system, as any information system, the truth is based on good faith (honesty), audited regularly to a more or less specific request of the users. (Dimitriu, 2007)

The fact that the true image can be manipulated[1] or that in practice it proves to be an incomplete truth, it does not invalidate its reality. (Ristea et al., 2006)

Therefore accounting representation cannot be and will never be totally objective. (Colas, 2009)

If we ask ourselves “is there one accounting truth? the answer would be definitely negative, but still we can answer that accounting provides each player in economic and social life the truth that it needs. (Mihalache, 2005)

Conclusions

The statements based on accounting data should provide a fair picture of reality. But accounting involves perceiving the real, based on a conceptual system that consists of objectives, postulates, principles, rules and regulations. Meanwhile, the area of accounting research is restricted due to statements made without taking into account the qualitative, human or environmental features.

Requiring financial statements to portray the full reality about the position and financial performance would involve the use of assessments and estimates that may be wrong sometimes.

The representation of economic reality through accounting is the result of professional skill.

The true picture cannot be identified with a facsimile of economic reality, but it is represented by the image that you can rely on, that you can count on in determining economic decisions.

Although it is always sought, discussed and researched, the accounting truth about an economic entity is not accessible from all points of view.

Finally, since the normalization cannot be and it is never perfect, we may say that a normative representation of economic reality cannot achieve accounting, at least not entirely. The provided accounting data are perfectible, as in any other domain, therefore accounting is determined by many factors.

[1] See WorldCom financial scandals, Enron, Vivendi, Parmalat, etc.

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