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Historical Cost Accounting and International Accounting Harmonization

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Abstract

The relationship between international accounting harmonization and fair value accounting is one biunivocal: fair value accounting has the effect of catalyst for international accounting harmonization generating relevant information required to the quality of fair value accounting figures. Management Accounting is focused on the historical cost. This is highlighted in the revaluation: the notes must be submitted separately for each item in the balance of nature revalued property and equipment, the following information: the value of assets at historical cost and revalued amount cumulative value adjustments; or value at the balance sheet date of the difference between the unrealized gains and historical cost accounting and the cumulative amount of the additional value adjustments.

Keywords: historical cost; harmonization; fair value; accounting;

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1. Introduction

Complete international accounting harmonization means to get a common denominator to measure, record and report business transactions, assets, liabilities and equities. Comparability is a based element in international accounting harmonization. Radebaugh, Gray and Sidney (1997) in 1997 have reported us that accounting systems evolve, reflect and reinforce the economical environment. Iqbal, Melcher and Elmallah (1997) in 1997 and then Epstein and Mirza (2000) in 2000 note that the international accounting system is a consequence of the globalization of financial markets and the international economic integration.

Financial Accounting Standards Board (FASB) wants to give internationally comparable accounting data to increase new investors markets and to finance the expansion and modernization. Barthe (1989) noted in 1989 that the goal of international accounting harmonization (IAH) is to decrease differences in accounting. Iqbal, Melcher and Elmallah (1997) in 1997 have presented international accounting harmonization as a modern objective with the reduction of differences in accounting. The relationship between international accounting harmonization and fair value accounting is one biunivocal: fair value accounting has the effect of catalyst for international accounting harmonization generating relevant information required to the quality of fair value accounting figures. Management Accounting is focused on the historical cost. The historical cost represents an accounting convention involves recording assets at their purchase or production cost. The claims and liabilities are recorded at their nominal value. The empirical evaluation of Chinese companies is applying either for real estate investments on historical cost or fair value accounting FVA and to ask a question. This is noticed in Romanian companies. The question of research topic is expressed as: According to OMPF 1802 (2014)*, are features Romanian companies using fair value accounting much different than those that use historical cost accounting? This paper is introduced in three sections: Section 1 is Introduction; Section 2 provides literature review, data assumptions and research methods and conclusions as Section 3.

2. Literature review, data assumptions and research methods

This is highlighted in the revaluation: the notes must be submitted separately for each item in the balance of nature revalued property and equipment, the following information: the value of assets at historical cost and revalued amount cumulative value adjustments; or value at the balance sheet date of the difference between the unrealized gains and historical cost accounting and the cumulative amount of the additional value adjustments.

Short-term securities are shares and other financial investments. They are accepted to trading on a regulated market and an estimated value of trading on the last day of trading, and those traded is estimated at cost less any adjustments for impairment. Long-term securities represent shares and other financial investments. They are evaluated at historical cost, without any adjustments for impairment.

The accounting policies include principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Selecting depreciation of assets; revaluation of tangible or keeping their historical cost; registration, whilst the tangible assets are entered in the conservation of amortization expenses or a corresponding adjustment to depreciation expense ascertained; choosing the method of evaluating stocks represent accounting policies.

Non-monetary items such as fixed assets, stocks, purchased with payment in foreign currency and recorded at historical cost will be appeared in the financial statements using the exchange rate at the date of the transaction.

* https://static.anaf.ro/static/10/Anaf/legislatie/OMFP_1802_2014.pdf.

The IASB has constantly militated to increase the level of international comparability of accounting figures. McKinnon and Janell (1984) in 1984; Douplik and Taylor (1985) in 1985; Nobes (1987) in 1987; Van der Tas (1988) in 1988; Tang (1994) in 1994 have indicated the growth of the level of harmonization and the level of comparability of accounting figures.

Although the pace of advancement of international accounting harmonization recorded a delay as saying Nobes (1989) in 1989; Tang (1994) in 1994; Choi and Levich (1997) in 1997 however, Wyatt (1997) has mentioned that in 1997 the number of international accounting harmonization cases have increased.

To achieve a complete international accounting harmonization it is necessary a common denominator to evaluate, record, and report business transactions, assets, liabilities, and equities. This actor is called fair value in order to get high quality comparability of accounting numbers. Barlev and Haddad (2007) in 2007 have promoted this one.

Revsine (1985) in 1985 have claimed that “the resource allocation depends on the comparison of the investment alternatives”, while Radebaugh, Gray, and Sidney (1997) in 1997 and have considered the efficiency level of national resources utilization and international wealth allocation.

The FASB (1980) in 1980 characterizes comparability as “the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena”, while consistency as “conformity from period to period with unchanging policies and procedures”.

Hendriksen, E.S. and M.F. van Breda (1992) in 1992 have noted that uniformity “implies that like events are being accounted for identically”. They said that to get uniformity it is better to have comparability. National variation in culture and the monetary unit differ from country to country. The process of exchange rate determination is controlled by National Bank.

Choi and Levich (1997) in 1997 and Radebaugh, Gray and Sidney (1997) in 1997 define “complete harmonization — IAH as a situation in which a single set of accounting standards is utilized worldwide”. This definition provides comparability of accounting information. We note that the above definition could not ensure comparability if it relies on historical cost accounting.

In Romania, it is used the definition “IAH is a dual reporting system under which financial statements are prepared and presented in accordance with national and international accounting standards”. That is why fair value accounting is used together with historical cost accounting. In Romania, the majority of companies are not listed at Bucharest Stock Exchange. This definition allows companies to have exchange from different countries and to participate in the financial markets. Historical cost accounting is based on the accounting functions: recognition and measurement.

FASB (1984) describes in 1984 that “property, plant, and equipment and most inventories are reported at their historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations. Liabilities that involve obligations to provide goods or services to customers are generally reported at historical proceeds”.

Hendriksen and van Breda (1992) suggest in 1992 that “there is an agreement regarding the fact that during periods of price-level changes” when it is used historical cost accounting.

Held, McGrew, Goldblatt, and Perraton (1999) show in 1999 that differences in national culture and legal, tax, and accounting systems are natural obstacles to IAH. We promote that Romanian companies not listed at Bucharest Stock Exchange use the historical cost accounting. As we note, a common denominator that is very useful to enlighten comparability is fair value. But in Romania, such changes can intensify during inflationary periods, because of differences in the elasticity of the supply of and need for the various products and services. We obtain a research from BVB (Bursa de Valori Bucuresti) Bucharest Stock Exchange at 3/11/2016 We remark that 40% of companies listed on BVB

are investment funds and properties. More than 50% of Romanian companies are using historical cost. BET Index Composition* 3/11/2016

Table 1. BET Index Composition 3/11/2016

Symbol	Company	Shares	Ref. price	FF	FR	FC	Weight (%)
<u>TLV</u>	BANCA TRANSILVANIA S.A.	3,026,003,679	2.4300	0.90	0.863000	1.000000	21.45
<u>FP</u>	FONDUL PROPRIETATEA	11,193,423,051	0.7450	1.00	0.625000	1.000000	19.57
<u>SNP</u>	OMV PETROM S.A.	56,644,108,335	0.2550	0.30	1.000000	1.000000	16.27
<u>SNG</u>	S.N.G.N. ROMGAZ S.A.	385,422,400	26.8500	0.30	1.000000	1.000000	11.66
<u>BRD</u>	BRD - GROUPE SOCIETE GENERALE S.A.	696,901,518	10.5800	0.40	1.000000	1.000000	11.08
<u>EL</u>	ELECTRICA SA	345,939,929	12.3000	0.50	1.000000	1.000000	7.99
<u>TGN</u>	S.N.T.G.N. TRANSGAZ S.A.	11,773,844	266.0000	0.50	1.000000	1.000000	5.88
<u>TEL</u>	C.N.T.E.E. TRANSELECTRICA	73,303,142	29.5500	0.50	1.000000	1.000000	4.07
<u>SNN</u>	S.N. NUCLEARELECTRICA S.A.	301,221,041	5.4900	0.20	1.000000	1.000000	1.24
<u>BVB</u>	BURSA DE VALORI BUCURESTI SA	7,674,198	27.2000	1.00	1.000000	1.000000	0.78
FF =	FR = Representation Factor	FC = Price Correction Factor			FL = Liquidity Factor		
Free							
Float							
Factor							

Index capitalization: 26,626,283,028.62 RON
Index Divisor: 4,029,956.1575

3. Conclusions

We conclude that the fair value of assets is computed from the evidence of market data through an assessment by authorized appraisers, according to law. The fair value of tangible assets is calculated based on their market value, based on information that we would use market participants in setting asset price. The fair value is set up by reference to one of the following:

- a) Market value, for those financial instruments for which a reliable market easily identify.
- b) A value resulting from models and generally accepted valuation techniques for financial instruments that cannot easily identify a reliable market, so these models and valuation techniques to ensure a reasonable approximation of market value.

Then entities will use information regarding the combined assets to evaluate the fair value of biological assets. For example, the fair value of vacant land and land improvements may be decreased from the fair value of the combined assets to calculate fair value of biological assets. If a financial instrument is evaluated at fair value, any change in value, favorable or unfavorable, is contained in the income statement, except next to such a change is directly in equity. If financial instruments are evaluated at fair value, this is appeared and justified in the notes to the consolidated financial statements. The goal of international accounting harmonization (IAH) is to decrease differences in accounting. The international accounting harmonization as a modern objective with the reduction of differences in accounting.

* <http://www.bvb.ro/FinanciarInstruments/Indices/IndicesProfiles.aspx?i=BET>

The relationship between international accounting harmonization and fair value accounting is one biunivocal: fair value accounting has the effect of catalyst for international accounting harmonization generating relevant information required to the quality of fair value accounting figures. Management Accounting is focused on the historical cost. The historical cost represents an accounting convention involves recording assets at their purchase or production cost. The claims and liabilities are recorded at their nominal value. Long-term securities as shares and other financial investments are evaluated at historical cost, without any adjustments for impairment.

Selecting depreciation of assets; revaluation of tangible or keeping their historical cost; registration, whilst the tangible assets are entered in the conservation of amortization expenses or a corresponding adjustment to depreciation expense ascertained; choosing the method of evaluating stocks represent accounting policies. Also, we get that non-monetary items such as fixed assets, stocks, purchased with payment in foreign currency and recorded at historical cost will be appeared in the financial statements using the exchange rate at the date of the transaction. Using a research from BVB (Bursa de Valori Bucuresti) Bucharest Stock Exchange at 3/11/2016, we note that 40% of companies listed on BVB are investment funds and properties. Over 50% of Romanian companies use historical cost.

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