ACCOUNTING PRINCIPLES IN BANKING COMPANIES - THE TRUE ACCOUNTING PICTURE

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ABSTRACT: Through this work I wanted to show the importance of accounting principles underlying accounting to achieve the fundamental objective namely to provide a true picture of both the financial condition and the results of the year. The accounting practice of a market economy can not be conceived without the use of basic principles, because we can meet accounting operations for which no rules or procedures to solve are set and their solution can be achieved only by resorting to one or more accounting principles. This shows the need for accurate knowledge and understanding of their contents. By describing issues with accounting principles and by the theoretical approach, the survey results present their particular importance in the business of credit institutions.

Keywords: accounting principles, financial statement, financial performance, auditors

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Introduction

Similar to the companies organization, the credit institutions accounting is subject to some general accounting principles and the assessment of the items in financial statements must be made in accordance with them, because the money expression is the accounting "iron rule".

"The accounting principles are conceptual elements that guide the normalize for the development of the accounting rules, based on accounting assumptions. At the same time, they come to support an accurate accounting of transactions and other events, and a true representation of the bank's financial position and performance through the summaries. The accounting

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principles are also benchmarks for auditors in their audit of the annual accounts." (The National Bank of Romania)

Proposed objectives and research methodology

Approach focused on investigating the importance of accounting principles by presenting the reference framework of the theme in both the literature and the specific national legislation. Initially economic rules of economic conduct have been studied extending the concept of assessment of property and financial relations to the assessment of the potential, the performance, the evaluation perspectives, etc. trying to give value and meaning to accounting as a system and an economical model of accounting of the financial management of the credit institution.

Arguments for the need study this type of operation were essential. The assessment of the items included in financial statements and accounts from current accounts, but also sizing each of the elements which they follow every day and periodically summarize them, must be conducted in accordance with stated accounting principles, which are in fact " economic orders".

Once the need for studying the structure of operational assets is set, each accounting principle was presented separately, stating whether there are or there are not exemptions from the application of this principle. Information on the analyzed theme was conducted by studying the national literature in the field, by analyzing both the legislation and the direct documentation in order to determine the knowledge of the practical phenomenon for determining the accounting principles, in the credit institutions operating in Romania.

The following accounting principles have been analyzed and presented:

A. Going concern principle, a principle according to which the credit institution continues to work normally without significantly reducing it or entering into a state of liquidation.

"The activity continuation requires the patrimony items valuation at both the inventory and at closure of the exercise, at the current value of each element, according to the asset utility, its condition and its market price. Expenditure and income relating to future periods are stored in the balance; they will affect the results of the future exercises. " (Oprean, 2001)

Where a credit institution administrators are aware of some elements of uncertainty linked to specific events that could lead to the inability to

continue work, they have the obligation to submit them in the annotation annexed to the annual financial statements.
Specified that no derogation from this principle as the foundation of future decisions taken on the basis of financial statements.

B. Precautionary principle, according to which the overstatement of assets and income, and the underestimation of liabilities and costs are not acceptable, taking into account the depreciation, the risks and the potential losses arising from both the current or the previous year pursuit.

Prudence means including a degree of caution in the exercise of reasoning required to make estimates required under conditions of uncertainty, so that assets and income are not overstated and liabilities and expenses are not understated.

At the credit institutions level there are exceptions from the principle of prudence in terms of market operations, when measured at the market price:

- taking into account the unachieved results for the securities transaction;
- the non-sourcing of the less-latent values for investment securities;
- considering, under certain conditions, the potential results for the term financial instruments;
- the registration, at the market price, of the foreign currency transactions.

The potential losses will be recorded on account of provisions for risks and costs thus founding provisions for risks and expenses.

Provisions are usually set u pat the end of the financial year for those assets or liabilities whose realization or payment is uncertain, or for expenses that become due in subsequent periods, such as:

- covering the risks of implementation of commitments by signature;
- facilities granted to staff;
- country risk;
- disputes, fines and penalties, damages, losses and other doubtful debts;
- other reserves (expenditure on installment capital repairs, over several periods according to the schedule, etc.).

C. Consistency (of preparation) principle according to which the “assessment methods should be applied consistently from one financial year to another." (OMFP 3055/2009)

This principle ensures comparability, in time, of the accounting information while maintaining the same standards of assessment, recording in accounting and the presentation of both the patrimony items and of the results in the financial statements while ensuring the comparability of the accounting information, data.

D. Matching principle, it cuts the credit institutions activity in time periods of 12 months, called exercises.

An exercise shall include all the revenues and the expenses related to this exercise, as they are engaged, regardless of when they are received or paid. Incomes and expenditures for that year are not passing on the results, but they are stored in the patrimony under the form of deferred incomes or expenses. Thus, interests are registered based on interests for each period, and not by the time of their receipt or payment.

For a credit institution this principle is more applicable than any other accounting principle by the existence of the following cases:

- debts related to the receivable and payable interests. Interests to be received or paid are divided according to the period for which they have been contracted at the end of the month, splitting due to the matching principle;

- discounting bills. For the discounting bills the interest will be charged by the bank during the credit for the entire period until maturity. In this respect money collected for a longer period of time arise, sums representing the *matching principle*, deferred revenues;

- rental, subscriptions to newspapers, magazines, prepayment, etc.

"By applying this principle, each financial year is personalized, compared with the past and future ones, meaning the revenues and the expenses recorded in the current financial year, but targeting the next financial year, make up debts and claims of the current financial year to the next one." (Briciu, 2006)

E. Principle of separate valuation of components of asset and liability items

Under this principle, assets or parts of debts should be evaluated separately, given the specificity of each patrimony component, which entails a specific method of evaluation and not a single method, valid for all the patrimony components. Romanian accounting within this principle is new; it was first introduced in 2001 along with the approval of the accounting regulations harmonized with Directive IV of the European Economic Community and the International Accounting Standards.

F. Inviolable principle of balance consists of the fact that the opening balance sheet of the financial year must correspond with the closing balance of the previous year, from which it logically flows, as a consequence of the continuous flow of both the economic activity and the financial - accounting information. Any change in the opening balance sheet is an unlawful and void interference including in the closing balance, there is an organic connection of identity, causality and chronology between the two balances,

"By applying this principle we ensure the correct information of the users of the accounting information for the effects of changing accounting methods or the correction of the fundamental errors which must result from the financial statements of the financial year ended, not hidden in the starting financial situation, in the current fiscal year.” (Briciu, 2006)

G. Offsetting is the principle according to which assets and liabilities, revenues and expenses must be assessed and recorded in accounting, but separately, "any compensation between the assets and the debts, or between the items of income and expenses being prohibited.” (OMFP 3055/2009)

During the current activities, the credit institutions make transactions that do not generate revenues. The results of such transactions are presented, when this presentation reflects the economic substance of the transaction or event, by offsetting any income with related expenses arising from the same transaction. For example:

- gains and losses on disposal of fixed assets, including financial investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the assets and of the related selling expenses;
- costs that are reimbursed under a contract with a third party (e.g. a sublease contract) are offset against the related reimbursement;
- extraordinary items may be submitted after deducting tax and minority interest by maintaining the gross amounts in notes.

H. Substance over form, according to which the information submitted should reflect the economic reality of events and transactions and not merely their legal form. The basic principle is that transactions and other events must be recorded and presented in accordance with their substance and economic reality not by their legal form.

The explicit definition of this principle was necessary because "the practical aspects of application of the national quantity accounting principles generates a relationship between the economic reality and the legal appearance." (Pop, 2002)

I. Materiality, or the materiality principle is that principle of the accounting method according to which data and accounting information contained in the documents must include all the financial-economic operations, providing an honest, clear, accurate and complete description of the economic-financial operations that have already occurred or which will influence the future developments.

Under this principle, "any element that has a significant value should be presented separately in the financial statements. Items with less significant values that have the same nature or similar functions will be aggregated, i tis not necessary to present them separately." (Pop, 2002)

"We consider significant that data which may affect both the decisions and the judgments of the external users." (Dedu and Enciu, 2009)

"Based on this principle annotations are prepared, the professional accountant must provide users only with that information that has a materiality likely to influence their financial position, performance and changes in financial position of the company and their future decisions. So, both the presentation of too aggregated data which the external users consider unintelligible and the disclosures of the ones that are too detailed should be avoided." (Briciu, 2006)

J. Historical cost principle is the principle which dictates that the historical value of an asset or liability entered into patrimony and which was originally registered should be maintained. This principle involves exemptions regarding the currency transactions, the securities transactions and the forward financial instruments because they are subject to periodic revaluation at the market price.

As the historical cost is a value that comes from the past, from the date of purchase of assets and liabilities of an entity, being a verifiable value, it is considered an objective cost. In addition, using a value which comes from the past, from the date of the transaction, as the accounting registration value, it is based on the company's sustainability, so the historical cost is a value associated with going concern principle.

The historical cost is defined and verifiable. Once established, it remains at the same value as long as the property remains in the possession of the bank. To be able to rely on information provided by manufacturers, both the internal and the external users should ensure that the information is accurate and based on facts. Or, it is just the use of the historical cost as the basis for measurement, that allows manufacturers to provide, in their financial statements objective and verifiable data.

Relying on the historical cost involves both advantages and disadvantages for the bank:

- advantages: simplicity of calculation, ensuring comparability of data across time and space, ensuring an efficient control on transactions in the accounts;

- disadvantages (occurring in terms of inflation) undervaluation of property, stocks, underestimating the cost of materials and depreciations.

K. Monetary quantification principle wishes to express, in a monetary form, the recorded accounting transactions. The base currency is the national currency, the leu, but depending on the specific of the operation involved, there are other foreign currencies, too. In addition to the annual statements made in national currency, institutions may publish annual financial statements in euro, converted using the exchange rates in force at the balance sheet date.

Conclusions

Studying the literature for both the accounting principles and the relevant national regulations allowed us to identify the diversity of opinions on the importance of accounting principles for the accounting departments of the credit institutions. We recognize and respect the importance of characteristics related to the application of these accounting principles and the strong character of the objective reasoning professional staff specialized in applying the accounting principles. In the reports and in the financial statements it is not about queuing these principles, but it is about explaining the way in which phenomena and economic events are framed compared to the above mentioned principles that are actually rules, even constraints.

For those items whose value is uncertain, but which are to be included in the financial statements, the best estimated must be made in accounting. For this purpose it is necessary to review some of their value to reflect events after the closing of the financial year, changes in circumstances or acquisition of new information, whenever those values are significant. The effect of such changes must be included within the same balance sheet items, respectively in the income statement (profit or loss), where the initial accounting estimates has been reflected.

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