

THE ROLE OF ACCOUNTING INFORMATION ASYMMETRY IN ESTABLISHING THE TRUTH BEYOND NUMBERS

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Abstract

The reliability of financial information is a prerequisite for security of assets and proper assessment for global capital market participants to assess the financial position of a company.

On the one hand, the existence of information asymmetry favors economic agents better informed that can use to their advantage the lack of information to others, on the other hand, there are situations where information asymmetry is not simply a lie or hide the truth, it is the result of a practical calculation of the buyer, who does not want to inform himself in an appropriate way because that would imply some costs that he is not willing to pay.

In this context, a natural question arises: who has an abusive practice? The lender-participant to the transaction or the producer emitter of asymmetric accounting information? This is the question that we try to answer.

Key words: *information asymmetry, financial analysis, accountant reasoning, financial fraud, prudential accounting behaviour*

INTRODUCTION

The process of globalization and economic information does not solve and cannot solve all the problems vocations, virtues, roughness and nonconformity human actions related. On the contrary, as it develops new challenges and therefore new risks assumed and new forms of confrontation imposed or facilitated by informational-type companies appear, reappear and perpetuates many asymmetries, some very new, some as old as mankind, it emphasizes their economic, cultural, social and military consequences.

In the current economic environment, many European countries are faced with the complex issue of enabling growth in fragile economies, on the one hand, and the implementation of fiscal discipline, on the other hand. Slow prolonged recession and restore growth had long-term implications not only for the workforce but also for competitiveness and businesses in the region. Companies - both large ones and small ones - are competing for credit and capital, while banks and other financial institutions are now much more cautious when making decisions on investments. As a result, this atmosphere is increasingly important for companies to be financially transparent and governments to establish a robust regulatory environment for corporate financial reporting.

1. INFORMATION ASYMMETRY AND THE INFORMATIONAL CONTENT OF ACCOUNTING FIGURES

With the start of EU membership, how entities doing business has changed is influenced by the development of multilateral relations, globalization then becoming a necessity due to the expansion and deepening ties in the most varied spheres of economic political, social and cultural rights as having implication that the problems are more global than national, demanding in turn a global settlement and harmonization more than national.

In this way it materializes and it formalizes, where appropriate, the objectives, principles, concepts, conventions, procedures and techniques for the production and usefulness of the information.

In fact, just the idea of performance and efficiency measured in terms of liquidity and profitability urges companies to seek financing in foreign markets is conditional cost of capital, the more that comes into play on this stage even "small savers".

However, it should be noted that access to capital market financing is conditional on meeting certain conditions on financial communication, remember the local accounting rules. But accounting rules in each country depend on national traditions, accounting is a social phenomenon, conditioned by strong cultural factor in the broad sense (meaning economic, social, legal, fiscal, political and even religious environment in each country).

Also, it should not be forgotten that exerts major influence on US accounting referential (Generally Accepted Accounting Principles-US GAAP) on multinationals operating in international financial markets.

Therefore, any company that wants to use to finance the US market must prepare its financial statements in accordance with US GAAP, the US accounting rules being considered by the regulatory body of the capital market (Securities Exchange Commission) a referential SEC high quality accounting, outside of which there can be no guarantee American investors.

Referring to economic and financial objectives, we consider that in the last half century (since the breakup of the monetary system at Bretton Woods) shall be given specific attention to the decision being defined literature as an act rationally coherent based on judicious interpretation of data and financial information, according to which the entity is committed resources to generate future cash and / or cash equivalents.

So consider prerequisite accounting management access to reliable financial information relevant to illustrate the financial position and economic performance of an entity through a regular synthesis and subjecting them to a financial analysis background.

2. IFRS - ACCOUNTING REFERENTIAL MANDATORY FOR EUROPE

Implementation of IFRS globally is an undeniably reality. Even if they were encountered obstacles to the implementation of this set of rules, application of IFRS occurs in more countries, either in a voluntary manner be due to the need to adapt to the demands of international markets. In numerous research studies in specialized effects of the measure are shown depending on whether *voluntary* or *mandatory* IFRS implementation.

In Soderstrom & Sun (2007)¹ opinion which notes that voluntary transition to IFRS application has the effect of improving financial communication and disclosure of financial statements of companies and reduce errors related to forecasts, facilitate cross-border capital investment and not least, increasing the quality of financial information. We say in this way that ensures comparability of financial statements and the manifestation of the effects of the existence of asymmetric information is reduced.

At the same time, it shows that in terms of the effects of applying international accounting referential, this is reflected in particular by: increasing the quality of financial reporting, transparency and comparability of financial statements (*Jermakowicz & Gornik-Tomaszewski, 2006²; Veneziani & Teodori, 2008³, citați de Albu et al., 2010⁴*).

¹ Soderstrom, N.,Sun K.J., 2007, ' IFRS adoption and accounting quality: A review', *European Accounting Review*, vol.16, nr.4, 675-702

² Jermakowicz, E.& Gornik-Tomaszewski, S.,2006 'Implementing IFRS from the perspective of EU publicly traded companies', *Journal of International Accounting, Auditing and Taxation*, 170-196.

³ Veneziani, M. & Teodori, C., 2008 'The International Accounting Standards and Italian non-listed companies: perception and economic impact. The results of an empirical survey', *31st Annual Congress of the European Accounting Association*, 23-25 April, Rotterdam, the Netherlands

⁴ Albu, N., Albu, C.N. 2012, 'International Financial Reporting Standards in an emerging economy: Lessons from Romania', *Australian Accounting Review*, vol. 22, nr. 63, pp. 341-352.

We note that most often associated with the application of IFRS is the increase of comparability and quality of financial information. However, *"although there is a widespread view that application of IFRS has generated a huge increase comparability worldwide, compared to the previous situation where each country using their own different national standards, it must find a note of caution as further progress in enhancing the comparability may be difficult to achieve [...] culture that is different from country to country, is an important factor that could hinder or interfere with promoting global comparability."* (Zeff, 2007)⁵, we learn that in the absence of a transparent structures in the event of financial reporting, quality of financial information is questionable.

Studies show that the way in the field of implementation of IFRS rules differ from country to country. Just this issue raises questions on the credibility of information provided by the implementation of IFRS separately.

We believe that the differences in the manner chosen by the implementation differs depending on the role they have factors funding system (countries financed from abroad / inside) tax system (countries connected / disconnected tax) and legal system (countries of Roman law / Customary law).

It is appropriate and necessary to remember that adhering to standards unique accounting referential brings a **number of economic benefits among them are: increased volatility in earnings, equity increased presented by companies.**

Finding a unique global account structures to ensure comparability between companies from different countries of birth controversy over the years and there have been many research towards determining and measuring the effects of it. Effects of proposed researchers in the field are varied but most of these stresses increased information quality.

As adverse effect, it is noted that *"in countries where accounting is connected to taxation, the convergence de jure, without obtaining and convergence de facto, so even if the level of regulatory convergence is achieved at the level of accounting practices there is more work"* (Gorgan, 2013)⁶.

Implementation of IFRS is the weaker part of international standards and will be unequal in the world due to differences in social, political, economic, legal, etc. (Ball, 2006)⁷. On the financial reporting will occur inevitable differences.

However, there is a major concern of investors that they will be misled by relying on the fact that there is more uniformity in practice than in reality. Such a situation uneven adoption *"diminish the benefit of uniform standards that should benefit investors, such as reducing information costs and obtain information without risk. Moreover, the uneven implementation could increase costs by burial information for investors transnational accounting inconsistencies at a deeper level and less transparent than the differences between standards"* (Gorgan, 2013)⁸.

At first, the adoption of IFRS may generate additional costs, for example costs of staff training. *"Implementation of IFRS is considered to be costly, complex and burdensome"* (Jermakowicz și Gornik-Tomaszewski, 2006)⁹.

⁵ Zeff, Stephen A., 2006, 'Political lobbying on accounting standards – national and international experience,' in: C.Nobes and R. Parker, Comparative International Accounting, 9th edn. (London: Prentice-Hall).

⁶ Gorgan, C., Gorgan, V., 2013, 'Study on disclosure in compliance with IFRS of Romanian listed companies, Proceedings of the 8th International Conference Accounting and Management Information Systems' (AMIS 2013), *Accounting and Management Information Systems*, June 12-13, Bucuresti, Editura ASE, recunoscuta CNCS, numar total de pagini 1276, pg. 705-724, ISSN 2247-6245, ISSN-L 2247-6245, 2013

⁷ Ball, Ray, Ashok, Robin and Sadka, Gil. ,2006, 'Are timeliness and conservatism due to debt or equity markets? An international test of "contracting" and "value relevance" theories of accounting'. *Manuscript, University of Chicago*.

⁸ Gorgan, C., Gorgan, V., 2013, 'Study on disclosure in compliance with IFRS of Romanian listed companies, Proceedings of the 8th International Conference Accounting and Management Information Systems' (AMIS 2013), *Accounting and Management Information Systems*, June 12-13, Bucuresti, Editura ASE, recunoscuta CNCS, numar total de pagini 1276, pg. 705-724, ISSN 2247-6245, ISSN-L 2247-6245.

⁹ Jermakowicz, E. & Gornik-Tomaszewski, S., 2006, 'Implementing IFRS from the perspective of EU publicly traded companies', *Journal of International Accounting, Auditing and Taxation*, 170-196.

If in practice, things are not fully clarified, in theory the implementation of IFRS *should "lead to greater transparency of financial information, reduce information asymmetry and the risk and, consequently, reduce the cost of capital"* (Ionaşcu et al., 2010b)¹⁰.

The only aspect that we can be sure is that implementation of IFRS has had a particularly important role in the internationalization and expansion of economic globalization phenomenon known among international financial markets, especially emerging countries. Although the transition to IFRS accounting standards is supported by the existence of this action can bring substantial changes by the costs involved, affecting information systems, reporting, accounting treatment and preparation of the accounting profession. It is unlikely that the process will work without good coordination and planning process, supported by top management.

***"Despite the spread of globalization, political and economic influences on financial reporting practices remain local"* (Ball, 2006)¹¹. However, even if adherence to the new standards proposed by the international accounting referential unique not performed smoothly, most research noted that there is an improvement in the quality of financial information compared to the previous period.**

3. INFORMATION ASYMMETRY AND THE ACCOUNTING CONSERVATISM OF THE ADOPTED IFRS

Applying the principle of prudence in financial accounting has recently become a hotly debated topic involving conflicting views on the desirability of imposing neutrality as a desirable feature of the information disseminated by the accounting statements.

Academic research shows that financial activity involving accounting conservatism and practical studies show that regardless of the position of the International Accounting Standards Board (IASB) and academic theories, preparation of financial reports, accounting conservatism manifests professional accountants.

By 2010, the international accounting referential discussion of caution is made in the broader context of the qualitative characteristics of financial statements. Previous form of general conceptual framework of IFRS stipulate that to be useful, the information provided by financial statements must meet certain qualitative characteristics: *understandability, relevance, reliability and comparability*.

However, in 2010, although numerous studies in literature and academia felt required a conservative approach of financial situations, the IASB withdrew *the nomination of prudence* in financial reporting conceptual framework as a characteristic quality of financial information.

Moreover, Richard Barker (2015)¹², believes that accounting is inherently conservative and neutrality request financial information also leads to accounting conservatism. He argues that in general, accounting conservatism is not intentional, but is determined by the conceptual and practical reasons.

To support the information needs of users today, in May 2015, the IASB has developed a draft presented for discussion to review the conceptual framework for financial reporting, which stated that one of the objectives to be reintroducing the concept of prudence.

This time assessing the scientific approach of monetary units, the IASB proposes prudent interpretation solely as a necessity in the context of achieving neutrality *"when making judgments under conditions of uncertainty."*

¹⁰ Ionaşcu, I., Stere, M., Ionaşcu, M., 2010. 'The Impact of IFRS Adoption on the Cost of Equity Capital of Romanian Listed Companies', *Revista Audit Financiar* 1, pp. 32-36.

¹¹ Ball, Ray, Ashok, Robin and Sadka, Gil, 2006, 'Are timeliness and conservatism due to debt or equity markets? An international test of "contracting" and "value relevance" theories of accounting', Manuscript, University of Chicago.

¹² Bar ker R. 2015, 'Conservatism, prudence and the IASB's conceptual framework', *Accounting and Business Research*, vol. 45, no. 4, pp. 514 -538

It is necessary to emphasize that retains IASB definition of prudence as reflected in the balance sheet conservatism, definition given by Gerald Feltham and Ohlson James (1995), which addressed the accounting conservatism in terms of underestimating the book value of net assets.

This approach to accounting conservatism is based on country specific civil code (continental), the credit financing is an important option.

We assume therefore that the IASB preferred way of defining prudence for that International Financial Reporting Standards adopted by the European Union and many European countries have tradition in financing through lending.

Whatever his motivations, the draft presented for discussion in the chapter on fair representation, paragraph 2.18, the IASB explains:

"Prudence means that assets and income shall not be overstated and liabilities and charges shall not be understated. Also exercise prudence undervaluation of assets and liabilities and income and overstatement of expenses, because such distortions can lead to overestimation or underestimation of expenditures income in future periods."

Specific accounting theory and practice *"are generating earnings aggressive and conservative assessment ... The more aggressive methods are accounted for, it is lower quality earnings; the lower quality earnings with greater is the risk assessment; the higher the assessed risk, the lower value of the company is analyzed."*¹³

The author also proposes a classification scheme and methods of manipulating earnings, taking into account the principle of prudence in expressing financial performance:

Elements of financial statements	Aggressive treatment (Shall be referred to IFRS)	Conservative treatment
Revenue	Aggressive commitments	Installment sales or cost recovery
Stocks	FIFO- IFRS treatment	LIFO (where it is not permitted, IFRS allows)
Amortization	Linear (usually in accordance with IFRS) with higher residual value	Accelerated depreciation
Warranties or doubtful debts	High-value estimates	Little value estimates
The amortization period	Greater or decreasing	Smaller or decreasing

Table 1. Methods of handling the profits in accordance with Van Greuning concept

Source: Adapted from Van Greuning conception, H., International Financial Reporting Standards, Publishing Institute IRECSO 2007

As outlined in the Framework IASB *"prudence means the inclusion of a degree of caution in the exercise of judgments needed to make estimates required under conditions of uncertainty, such that assets and income shall not be overstated and liabilities and expenses may not be understated."* However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, nor overstatement of liabilities or expenses, because the financial statements would not be neutral and therefore would not have the quality to be credible.

¹³ Van Greuning, H., 2007, ,Standarde Internaționale de Raportare Financiară', Editura Institutul IRECSO.

From the content of the statements above, we can show that they had to serve IASC, later became the IASB in developing or revising standards and interpretations. But if we look back, standards issued by standardization bodies offering a multitude of options in financial statements and valuation of assets especially. Most often, one option was prudent and the second lowering the caution. Over time, the number of options has diminished considerably, which is a goal of the international body, manifested mainly in developing convergence products issued by US FASB (Financial Accounting Standard Board).

According to the prudence principle in accounting write-downs and losses is recorded only the value of assets, calculated as the difference between the value of inventory (current) and historical cost, not capital gains. It is known that the failure to register creates reserves latent capital gains or occult. Also reserves the occult can create and deliberate understatement of assets or income and overstatement of expenses.

Summarizing the above, we show that prudence exaggerated or attenuated one will have the effect of killing neutrality. But prudence, even the justified assumed asymmetric treatment in the valuation of assets and income on the one hand and debts and expenses, on the other hand. Prudence means keeping certain loss account and the probable gains and to keep in mind only the certain, no and potential.

This asymmetric treatment based on estimates under uncertainty, does not affect the beginning neutrality? Obviously neutrality is affected but is not considered a manner which would lead to the conclusion that the financial statements are not neutral.

In terms of provisioning in accounting, E. S. Hendriksen support the author's opinion, the precautionary principle is *"best a very mediocre to treat the existence of uncertainty in the valuation of assets, liabilities and results. At worst, it leads to a complete distortion of accounting figures. It is particularly dangerous in its effects unpredictable. Therefore, the accounting figures established with prudence correct interpretation"*

Currently, we are witnessing a reformulation of the value accounting model which consist of reconsidering the fundamental principles of valuation. Accounting system evolves from historical cost at the current value.

The judgment on the virtues of prudence in building profits and capital maintenance cannot be overlooked advantages of using fair value in financial information, namely:

- fair value measurement provides objective information which take into account market trends and the assessment methods for forecasting cash flows;
- better reflect the economic reality as appropriate fair value is a market value (market value) or a present value (**use value**);
- diminish the possibilities that managers adjust their desired profit because the assessment is based on exogenous values (as shown above: market value or present value).

In our view, promoting the use of fair value (*full fair value*) by the bodies of normalization IASB and FASB, use of fair value can contribute significantly to improving accounting information released by the Financial Statements increasing their utility for its users, but can be extremely subjective allowing manipulation by those who estimates and distortions in the financial statements. This is because fair value measurement assumes inclusion of elements resulting "virtual" generated market developments that are potential gains or losses.

Regarding trends in the approach evaluation methods, literature occasionally mentions some alternatives, but the arguments are not convincing enough. Historical cost would provide a significantly lower degree of comparability and relevance of information; it is clearly rejected by the users.

In this direction, the future is expected to use two measurement bases:

1. *Historical cost - which is a fair value at baseline (entry);*
2. *Fair value - which is a basis for further evaluation in relation to the original (for financial reporting).*

However, deliberate reflection of conservative estimates of assets, liabilities, income or equity can be sometimes considered desirable to counteract the effects of management estimates that were perceived as overly optimistic. In this way, understatement and overstatement of assets liabilities over a period often leads to overvaluation of financial performance in future periods - a result that cannot be described as prudent or neutral.

4. PRECAUTIONARY PRINCIPLE – THE BASE OF PROFESSIONAL ACCOUNTANT REASONING IN CHOOSING ACCOUNTING POLICIES

Judgment, by its nature, is a concept that induces the idea of subjectivity and how it is understood by professional accountants may lead to proliferation of intent accounting phenomena.

Ristea & Dumitru (2012)¹⁴ on this concept states that *"where there is freedom and under must be present and judgment"*. An accounting system is based on principles and rules of IFRS which calls for the development and substantiation of accounting policies by the entity's management, but also the manifestation of reasoning professional accountants in the discharge of their mission.

Groșanu (2013)¹⁵ believes that *"judgment is the concept that is reflected in a greater or lesser in applying accrual and assessing going concern, so that in the current accountant is one that depends fundamentally on the proper application of accounting regulations the purpose of accurate representation of economic reality"*.

Șpan (2012)¹⁶ addresses issues of professional judgment in the audit scope, believing that the *"implementation unite professional judgment that starts from the principles contoured offers greater freedom auditors to implement its experience, knowledge, abilities and skills acquired throughout career while straitjacket activity in a set of strict rules prevent the prospect of a diversified approach, even interdisciplinary problem that professionals face."*

Feleagă & Malciu (2002)¹⁷ raise manifestation of professional judgment in designing and developing accounting policies of the company. They state that *"a modern accounting requires recourse to accounting policies and estimation techniques perfected and to an extent acceptable to the accounting options."* Development and substantiation of enterprise accounting policies cannot be achieved only by resorting to judgment.

Where conformity and freedom in selecting and applying accounting policies, **transparency and accountability** cannot miss. As emerges from accounting standards, transparency refers to the principle of creating an environment in which information about existing conditions, decisions and actions are accessible, visible and understandable to all market participants. Presentation of information refers to the process and methodology of providing information and policy decisions that are made public with sincerity and through a broadcast opportunity. Liability refers to the need of market participants, including the authorities, to justify their actions and policies and to assume responsibility for the decisions and their results. Where they are freedom and under must be present and the judgment. Thus, if the accounting systems based on **strict rules**, such as US GAAP sites leaves little room interpretations are professional practitioners. Moreover, in this case, the accounting

¹⁴ Ristea Mihai, Dumitru Corina G., 2012, 'Libertate si conformitate in standardele si reglemntarile contabile' Editura CECCAR, București

¹⁵ Groșanu, A., 2013, 'Contabilitatea creativă' [e-books] București: Editura Economică. Available at: <http://www.scribd.com/doc/227368439/Grosanu-Adrian-Carte-Contabilitate-creativa-ASE-2013> [Accessed 16 July 2016].

¹⁶ Popa, I., Tiron, E., Tudor, A., Șpan, G. A. 2012, 'Raționamentul profesional – factor determinant în creșterea misiunilor de asigurare', *Revista audit financiar*, Anul X, no. 86

¹⁷ Feleagă N., Malciu L., 2002, 'Politici și opțiuni contabile', Editura Economică, București.

regulations are subject to permanent changes due to environmental influences business and political environment.

IFRS accounting system type is based on principles that invite accounting policies in accordance with the standards, but the judgment of the practitioner. The principles require reasoning, and judgment is an integral part of the financial statements. It is the obligation of preparers of financial statements and of the directors to make financial management judgements.

Choosing measurement bases and concept of capital maintenance determine the accounting model used for preparing financial statements. The various accounting models have varying degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and credibility. In such circumstances, could have a significant prudence in the choice of accounting methods.

As a general conclusion, the principle of prudence in the choice of accounting methods has a special significance in the choice of accounting methods. However, it should not be ignored when making judgments selection of appropriate accounting methods.

5. CREATIVE ACCOUNTING - ALLY OR ENEMY OF ACCURATE IMAGE?

Financial reporting imposes costs, so it is important that they be justified by the benefits of the information published.

But despite the increasing importance of the summaries in decision-making and larger activity developed by bodies of normalization, account information fails to discharge only partially aim to provide an image closer to reality on property and business entity. At the beginning of the XXI century, the quality and reliability of financial information presented in the main accounting documents summary were questioned by the economic crisis generalized manifested globally and financial scandals recorded at the level of large companies (Enron, Parmalat, etc.). These are based on either the discovery of fakes, or of techniques to conceal the real situation, phenomena known as creative accounting.

The first mention of creative accounting was made now more than half a century and belongs to the parent of accounting, Luca Paciolo¹⁸ in his famous thesis, *Summa di arithmetica, geometria, et proportionate proportionalita*.

In the last forty years, creative accounting has been the subject of numerous articles and papers, different authors trying to provide a definition for this notion. For example, Lainez & Callao¹⁹ creative accounting considered as use of the facilities (these are existing options, subjectivity and gaps in the rules) provided by accounting legislation to present financial statements that reflect a desired image and not an objective reality.

According to another opinion²⁰ "accountants can use their specialized knowledge to manipulate the figures published in the annual accounts of the company."

The complex belongs definition of creative accounting but Nasser²¹, according to which creative accounting is:

"1) the process by which, given the existence of gaps in the rules, when handling accounting figures and taking advantage of the flexibility it chooses those practices measurement and disclosure enabling the transformation of the summaries of what they should be in managers want;

¹⁸ Balaciu, Diana; Vladu, Alina Beatrice, 2010, 'Creative accounting – players and their gains and loses', *Analele Universitatii din Oradea*. Fascicula Stiinte Economice, tom XIX, nr. 2, decembrie 2010, p. 813

¹⁹ Láinez, Jose; Callao, Susana, 1999, 'Contabilidad creativa', *Editorial Civitas*, Madrid, p. 20

²⁰ Blake, John; Bond, Robert; Amat, Oriol; Oliveras, Ester, 2000, 'The ethics of creative accounting - some Spanish evidence', in *"Business Ethics A European Review"*, vol. 9, nr. 3, p. 138

²¹ Naser, Kamal, 1993, 'Creative financial accounting: its nature and use', Prentice Hall, Hemel Hempstead, p.59.

2) the process by which such transactions are structured way allowing production desired accounting result."

In conclusion, creative accounting refers to the accounting practices deriving from accounting standard usages, characterized by certain techniques more or less complex. Creative accounting, the ultimate goal being the change by the manufacturers of accounting information in the desired financial position and performance of the entity reflected in the financial statements.

6. THE EFFECTS OF USING CREATIVE ACCOUNTING TECHNIQUES ON INFORMATION PROVIDED BY FINANCIAL STATEMENTS

In accounting literature²² are identified numerous effects that the use creative accounting techniques can have on the presentation of information in the annual accounts:

- *Change in value and expense structure.* Accounting rules leave some room for maneuver to quantify the costs that belong to an exercise. For example, certain active only indicates the maximum number of years to be written off. A lasting more or less cushioning size affect the result. Similarly, provisions can be analyzed and the possibility of activation charges;
- *Change in value and revenue structure.* In some cases, it may hasten or delay revenue recognition by applying the precautionary principle and the principle of connecting expenses to revenue;
- *Change in assets.* Flexibility in the terms and provisions depreciation calculation creates the possibility of an increase or decrease net asset value. Stocks also may be valued using different methods and, therefore, their value can be different, with corresponding effects on the profit and loss. Those changes affect current and non-current asset size and indicators calculated on the basis thereof;
- *Changes in the structure and equity.* Changing the size of revenues and expenses affect earnings and, consequently, the size of reserves. Changes thus all rates and equity value calculated on this basis;
- *Changing the value of debt.* In some countries, accounting rules allow regularization of certain debts, such as those relating to retirement, a timeframe. As a result, a company interested in increasing the result will proceed with the distribution of debt over a maximum period permitted;
- *The reclassification of assets or liabilities.* Sometimes, there may be doubts regarding the classification of an item in one category or another. Appropriate titles, depending on whether the company shall be entered in non-current assets or current assets, which affect the rates calculated on their behalf;
- *Handling the information presented in the Appendix.* There are parts in the appendix may include more or less information. Lack of information may affect decisions relevant external users;

In our opinion, that the accounting information to be credible and quality must reduce the opportunities for creative accounting. Therefore, setters should eliminate the accounting standards accounting alternatives which allow the same transaction in different ways.

In the same sense, it is necessary to limit the possibility of estimates. These measures will reduce the scope for what cosmetic "legal". On the other hand, it is not enough to improve the accounting framework. It is important to ensure the independence of the accounting profession and supervisory bodies and the judiciary to ensure compliance with legislation.

²² Amat, Oriol; Perramon, Jordi; Oliveras, Ester, *Op. cit.*; Feleagă, Nicolae; Malciu, Liliana, 2002, 'Politici si optiuni contabile (Fair accounting versus Bad accounting)', *Editura Economică*, Bucuresti, p.390-393; Raffournier, Bernard, *Op. cit.*, p.79; Mulford, Charles; Comiskey, Eugene, *The Financial Numbers Game: Detecting Creative Accounting Practices*, John Wiley and Sons, New York, 2002, p. 78-145.

The auditors must take a clear and firm stance when there are signs of creativity. To prevent the development of creative accounting should be given greater weight to the principle of permanent accounting methods, which *"is a railing and, if followed effectively prevents slipping."*

Regarding the issue of differences in international accounting, it is necessary for regulators and professional accountancy bodies to accelerate the adoption as soon as possible nationwide to International Financial Reporting Standards, at least by companies above a certain size and not only by the listed companies.

7. CONCLUSIONS

Users expect the company's financial statements to provide reliable, objective, relevant and to be comparable with other companies nationally and internationally.

Say whatever purpose, whether it concerns only the accounting information, the information included in the audited financial statements or that include such non-accounting information *disclosure*²³ their is a way of removing information asymmetry between managers and the other party engaged in various contracts with a company: shareholders, creditors, suppliers, customers and employees, etc.

When asked *"is there a real accounting truth?"*, and can be answered in Pirandello's style *"Each with its truth."* Consequently, as a stake for different protagonists social truth faithfully rendered image on the financial position and performance should be sought depending on the interests of producers and users of information.

Accounting truth cannot be provided to users than the result of a compromise between the expectations and demands, and to manufacturers, a relationship between sincerity and regularity (compliance with the principles and fundamental rules).

Creative accounting involves the undertaking advantage of existing gaps in the rules and their flexibility in order to distort the information published, the company management with the possibility that, depending on the interests pursued either to "flatten" the result or to provide a favorable image on it.

Although there is a clear difference between creative accounting and deliberate violation of the law (fraud), both phenomena occur in conditions of financial difficulties of enterprises and are based on the intention to deceive. Consequently, even if the use of creative accounting is not always illegal, it shows that managers are under financial pressure, and to seek solutions without question of compliance with ethical standards.

Seen as a virus, financial fraud can take many forms, committed against or for the company, from simple theft committed by an employee, up to schemes powerful reporting abuse and corruption which led to the famous financial scandals, high scale that shook the world economy.

Most often these frauds are being or have the consent of those charged with governance, and the main fraud schemes relate to: achieving revenue fictitious to present investors a favorable outcome. Clearance accounts trade receivable and sales shifted to distortion the level turnover, concealing expenses or liabilities to increase the level of income, classification of benefits in the field are operational and losses in the financing, overstatement of assets to compensate for some shortcomings or to highlight certain values latent and omission or falsification of information significant.

In these circumstances, we consider as absolutely necessary - especially in the current stage of the conflict evident between the IRS and taxpayers - resume this theme and introduction (in the content of future methodological norms to be adopted in application of tax laws) of clear criteria and explicit, meaning the tax qualification of transactions / activities as without substance and economic content or subjected to abusive practices. Everything, obviously, after a public debate in the true sense of the

²³ Mihai, S., 2008, 'Impactul standardelor internaționale de contabilitate asupra eficienței sistemului de raportare financiară în România' În I.Ionașcu, Internaționalizarea contabilității-Evoluții și consecințe în mediul românesc, pp.92-111, București, Editura ASE

word and not just form, so that it may identify technical issues in the best position to mitigate the current volatility, discrepancies and normative asymmetries and lead to establishing consistent criteria and explicit, whose effective application does not create an uneven practice, from one case to another, on the classification of transactions as artificial or without economic substance.

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