TRUE AND FAIR VIEW – A PERFORMANCE CRITERIA OF ACCOUNTING

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Abstract: The transition to a market economy has had an radical impact on accounting, that was never "satisfied" only to archive all notes over a company, but has become the most important asset in the "game" of those involved in business world.
"True and fair view", the name under which it is known in the economic literature, contains two qualitative notions very difficult to define, the law is used to describe the standard that must reach financial reporting. Lack of precise definitions allow professional judgment call and establish a connection by using this concept.

Keywords: true and fair view, Positive Accounting Theory, creative accounting, performance.

The term of „true and fair view” is one of the most controversial accounting concepts, differences occurring as a result of visions slightly different between the Anglo-Saxon accounts and the French version. The basic difference is the fact that, for the French accounts, and in the same way as for most European countries, the picture is a true and fair view. On the other side, in accordance with the Anglo-Saxon accounting this is an accounting principle, which is considered very important in working toward this goal.

European IV Directive considers that audited annual report should look like the accurate image as regards company's assets and liabilities, financial position and profit or loss. Concept of „true and fair view” is of British origin, in accordance with Chastney. It emphasizes the fact that in order to achieve accurate image, financial reports shall be required to submit information so impartial and in such a manner as to enable the reader to understand them clearly.

Regarding the definition of this term, there are many opinions, Elkholm and Troberg, considering that even legislators accountants are not really able to explain what it means true image in accounting. As a matter of fact they, along with Wikner maintain idea when it comes to how the application of the concept of „true and fair view” varies both within EU countries and among accountants in the same country, which further underlines, the fact that there may be many different aspects of „true and fair view” shown.

Several theories, such as those of Walton, Smith and Flower describe the „true and fair view” as generally accepted accounting principles (Generally Accepted Accounting Principles - GAAP). This view is supported by Arden, stating that justice could not perform „true and fair view” without making the necessary checks and opinions accounting practices. Hence the fact that the concept of „true and fair view” is dynamic, given by the multitude of changes from the economic environment and accounting practices.

Moreover, Smith believes that the true image must be identified with reality, as confirmed by Kratz, Hanner and Wallden who believes that should give the real values of the company. Wallden adds and emphasizes the importance of the ability of "reader" to make the right decision based on the report.

Ekholm and Troberg believe that reporting „the true and fair view" must ensure compliance with impartial information regarding the essential values of the company. They consider the fact that „true and fair view" is more a dynamic than a static process, which mesh silently Alexander's opinion that it is a flexible concept and difficult to define.

Trying to define the concept, Lee believes that the „true and fair view" has become more than a term used in the art. Requires the submission of accounts in compliance with generally accepted accounting principles, using precise patterns, fulfilling "lessons" with reasonable results, but their adjustment so as not to violate the limits of accounting practices and to provide the most objective picture without significant errors, susceptible or omissions. In other words, the content and legal stipulations must be taken into consideration.

Lee, Rutherford and Walton tend to explain „true and fair view" more as a generally accepted accounting principle than considering it as a quality of its own.

Michel Capron believes that already it has been recognized that can be more accurate images of the same reality, as can be different presentations of the same object, depending on the angle from which it is viewed, light, distance, etc. So we have chosen the best presentation that respects the law and is consistent with the circumstances. In addition, having regard to that, accounting can give only one presentation of reality, problems arise when there is not representing the reality and we must consider the difference between the two and not fall into the dangerous illusion trap, as the information users which they do not have an acceptable level of accounting training.

According to Flint „true and fair view" has a high theoretical quality because it distinguished cultural dependency of accounting and financial reporting, but also that it is evolving to meet the needs and expectations of the social environment in economic growth. Flint also believes that „true and fair view" is actually an ethical and moral concept.

Basically, both those who draw up financial statements as well as the auditors but also users share a common mode of understanding of the utility of documents for the end of the year. Nobes and Parker take into account that the choice between alternative accounting practices is made by managers, confirmed by auditors and accepted by shareholders, based on compromise what is right.

Different views on the „true and fair view" can be observed due to differences in accounting vs. taxation. In Anglo-Saxon countries accounting has become detached successfully by taxation, the only reason for the synthesis of documents is to provide accurate image through financial statements and inventory in line with facts. In European countries, however, accounting is still linked to the taxation authority, the companies on the continent having a tendency to "enjoy" as many possible tax benefits to achieve annual financial statements, most often to the detriment of economic reality.

Regarding the accounting system in Romania, strongly influenced by France and just a bit of the Anglo-Saxon, is far from the requirement to aim „true and fair view".

To achieve „true and fair view" is required:

- accounting data has to be recorded immediately in order to be processed and used in a timely manner;

- accounting information has to provide an accurate, fair, complete, precise description of the of the operations and processes of the units heritage features;

- facts has to be recorded and presented in accordance with their legal and economic basis;

- synthesis information has to be useful to the users when they take economic decisions;

- the construction of the information has to be in accordance with the rules and procedures defined based on basic principles;

- good faith application of these rules and procedures based on the knowledge that accountants must have on the reality and importance of operations, events and situations;

- if in an exceptional case the application of accounting requirements proves improper, altering the „true and fair view" of the assets, the financial situation or the result, you can make exceptions from that limitation, but it has to be stating and justifying it explicitly (with impact on accounting information).

Should not be overlooked that the French version considers the true image as a ratio between sincerity and regularity. Honesty, according to professor Horomnea involves the application with professionalism and good faith of the procedures and accounting regulations, depending directly on the knowledge of reality and the importance of events and transactions, by responsible. Regularity, on the other hand, in accordance with the same opinion, requires annual financial statements obtained in compliance with the rules and practices in force, taking as a starting point, the basic principles.

The representation of the company thru accounting is, however, a relative representation. The balance sheet does not play the image of the company, as a mirror does with our image, but creates an image of it.

Accurate image is ensured and guaranteed by accounting experts or external auditors, who are called upon to certify accounting quality of the work. Accounting information must be verifiable in terms of sincerity and authenticity of documents on the basis of which takes place all accounting technology.

All that means creative accounting may be considered as having used positive accounting theory, proposed and debated for years among by R. L. Watts and J. L. Zimmerman with two papers, by which they were meant to explain in detail this vision.

We can not, however, overlook the fact that positive accounting began to "blossom" since the 1960s, with the work by Ball and Brown, Beaver, and many others (around 1968), which introduced empirical financial methods in the financial accounting. Further, the literature was based on the idea that accounting numbers provide information about the safety of the decision to invest in the stock market, but that forecast information (information perspective) can help establish relationships between stock prices and accounting numbers.

Although forecasting accounting information learned the accountant to "read" correct the accounting numbers in relation with the stock market and choose the most appropriate inventory method, it is not able to predict and explain the accounting choices.

Thus, positive accounting theory, known under the acronym of PAT (Positive Accounting Theory), involves explaining and predicting managers choices on accounting methods. At the same time, the theory wants to explore the factors that determine the choice of management regarding accounting standards and those who have the greatest influence on the image of the company.

In other words PAT explains and predicts accounting practices without taking into account the particular action, being centered on the relationship between different users of accounting information and the leading accounting firm.

PAT focuses on the relationships between different individuals within an organization or outside it, and explains how financial accounting can be used to minimize the associated costs with each contract in its own interest. Economic perspective refers to the fact that individual behavior is motivated by self-interest "satisfaction" and PAT believes that contractual arrangements will be in such a way made to align their own interests of the various parties.

PAT research has become dominated in the 1970s and 1980s, and the development of this research has far exceeded the previous ones, including the Efficient Markets Hypothesis on (EMH) and Agency Theory. EMH show that capital markets react to new information, but gave few or no explanation about what makes managers decide to use a particular accounting methods over the others. This is the gap that came to fill the PAT.

Applying Agency Theory, PAT has mainly focused on the relationship between managers and agents. PAT considers that the agents have the duty to introduce as many contracts as they can, firms being"defined" as a conglomerate of contracts between their concerns of many individuals. It is believed that there are three types of hypotheses: bonus hypothesis, assumption of debt hypothesis and the political costs hypothesis.

According to the concept of C. Deegan contractual arrangements initially have been carried out for efficiency reasons, to reduce overall agency costs which could greatly increase. Then those agents have adopted accounting methods that reflected the most effective and efficient performance of its own companies. It is considered that the rules shall introduce unnecessary costs as well as different inconvenience in the contractual arrangements, and in particular they want to reduce accounting methods, which in other circumstances would be adopted.

In contrast, R. L. Watts and J. L. Zimmerman, explained Positive accounting theory in terms of factors affecting the cash flow of a business that changes according to accounting standards. Regulations, taxes, accounting costs, political costs, management plans are factors combined in a model, showing that large firms recorded lower revenue due to changes made to the methods and accounting standards applied. Another reason for which the companies may have recourse to the change is related to how it affects additional costs.

The two researchers wanted to know what reason would cause businesses to supplement the resources to influence the setting of accounting standards. Government interventions, either direct or indirect, arising from contracts between the state and companies may affect future cash flow. Thus, large firms, which are subject to higher risk since they have a lot to lose from government interference, are "determined" to obtain income to discourage government measures. In addition, not only expects firms to "weigh" reported income, but also to modify decisions of investment in production, if the potential costs resulting from government interventions will increase.

There have been over the years numerous critics of this theory, and the most important are the following: actions of individuals are driven by self-interest, they acting in an opportunistic manner to increase their wealth, not taking into account the loyalty and morality notions, companies are considered an organization of individuals driven by self-interest, are willing to cooperate, do not consider improving accounting practices.

Same C. Deegan explains the fact that PAT assumes that the organization will follow to use mechanisms to align managers' interests with those of shareholders, most of them based on accounting results.

This current prospects are related to efficiency and opportunity. PAT efficiency is the fact that mechanisms are being implemented in correlation with the objective of minimizing future costs of the agency, shall be related to a previous analysis methods adopted, are those that put the best light on the entity's financial performance, the regulations require costs that can not be guaranteed in the concerned firms. PAT aims also opportunistic actions that can be taken once different contractual arrangements are determined, managers selecting the most appropriate method of accounting to increase their personal wealth.

We can understand how come creative accounting, which can be considered as belonging to the opportunistic perspective of PAT, and is related to the selection of accounting methods to achieve the results desired by those who draw up, without violating accounting standards in force.

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