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MULTINATIONALS ENTERPRISES INFLUENCE ON ACCOUNTING IN ROMANIA

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Abstract

Economic globalizations, development of international markets, have led multinational companies to develop their activities worldwide. In this context, they faced different accounting regulations of various countries. Therefore, based on the need for a common framework of accounting regulations, several bodies have started the process of creating a System of International Accounting Standards (IAS/IFRS).

The purpose of this article is to explain how multinational activities (but not only that) have influenced the process of accounting harmonization in Romania and convergence of the national accounting system to International Accounting Framework, by adopting IAS/IFRS.

INTRODUCTION

One of the greatest strengths of pressure that countries development and international trade unions is facing is the power and influence of multinational companies as part of their response to globalization. Combining foreign direct investment, technological change, international financial markets has made it possible for multinational companies to be among the leaders of the global economy.

Nowadays, multinational companies play a major role in the economies of all countries and in international economic relations, becoming a topic of increasing importance for governments and national and international regulatory bodies. Through foreign direct investment, these companies can bring substantial benefits to countries of origin and host countries by contributing to the efficient use of capital, technology and human resources between countries, playing an important role in promoting economic and social welfare.

But, multinational companies, organizing their operations beyond their national framework, may lead to abuse by concentration of economic power and to conflicts with national policy objectives. Furthermore, the complexity and the difficulty of a clear perception of their diverse structures, operations and policies can raise concerns.

Since the operations of multinational companies have expanded around the world, there have to be made efforts of cooperation between all countries, especially those developed and those in course of developing, aiming at improving international regulatory standards to minimize or resolve issues related to their work.

Multinational companies have as strength structure the following three features: control of economic activities in many countries, the ability to get the benefits of geographical differences between countries and regions in factor endowment and government policies, geographical flexibility, the ability to have resources and operation between municipalities on a global scale.

1.MULTINATIONALS: ORIGINS AND EVOLUTION

Multinationals are those companies that engage in foreign direct investment (FDI), which own and control the activities of added value in more than one country.

In general the terms "transnational" and "multinational" are used as having the same meaning. The first term was adopted by the United Nations Centre for Transnational Corporations (UNCTC) in 1974 at the request of several Latin American countries that wanted to distinguish between companies domiciled in a Latin American country which could invest in another country, to those that originate outside the region. The second term is preferred by developed countries, the business and academic community. Over time, methodological differences disappeared, so now both terms mean the same thing.

However, at an analyze level; there are differences between the two terms. For example, in academia, the term "transnational" is used to refer to "*a multinational corporation engaged in a strategy of full integration and multi-dimensional organization*." [1]

In the conception of others who use the terms as having the same meaning and believing that they refer to the same phenomenon, the only difference is that the multinational is a term used after 1980, and the transnational company is a term used before 1980.

There are also academics who argue that there is a major difference between the two terms. Among them is Carl Dassbach providing separate definitions for the two terms. Thus, a multinational enterprise is primarily geared towards different national markets or different regions. It is characterized by a decentralized administration (national or regional units that are mostly autonomous decision center mainly) a plurality of production lines (every market-oriented national or regional) and several superimposed labor divisions with superflux activities since each unit operates independently of the others.

On the other hand, a transnational company is oriented towards a global market, or at least to a foreign market covering several countries or regions. The administration is far more centralized than at multinationals, the main office having a greater direct control over the units. Moreover, transnational moves toward creating a single company with a single division of labor by eliminating redundant activities and concentrating activities in those countries (regions, markets) that provides the greatest benefits in the activity. In his opinion, the transnational company is a classic product of FORD organization but that is no longer viable in the current socio-economic conditions.

Also, the terms "contract", "corporate", "corporation", "company" or "company" tend to be synonymous, although it is recognized that each has a specific legal connotation, and the term "global" is understood specifically, referring to a company that engages in business activities in each of the major regions of the world and pursues a strategy of integrating these activities.

First definition is general and widely accepted, but must take into account the fact that in addition to working activities, a multinational company engages in a variety of cooperative ties, often unfair, such as site licensing or strategic alliances, that can give them a degree of control and influence over foreign production.

To assess the degree and extent of a multinational we take into account the following criteria:

- number and size of foreign subsidiaries or associated companies which owns or controls;
- the number of countries that engage in business activities;
- the ratio of global property and income or number of employees for foreign subsidiaries;
- the degree of internationalization of management ownership and high value activities (such as research-development = R & D).

A multinational company may be private or public, can come from a socialist country or with market economy, may be motivated by private or social objectives, can have a large network of activities in many countries or a single product in a single foreign country, the property can be owned and controlled by individuals/institutions from one country (Mars, Tateng) controlled national and international owned and operated (Ford, Sony, Samsung), or internationally owned and controlled (Agfa, Royal Dutch Shell).

Reaching a stage of maturity, multinationals have acquired a number of characteristics:

- the turnover of many companies exceeds the gross national product of developed countries;
- they can obtain loans on more favorable conditions than many governments;
- they adopt a centralized management and decentralization issues vital to other activities, strategy called "full management";
- they have vitality and dynamism: they grow, expand, absorb, multiply, continuously expanding their area of activity, technology and capital migrate, the activity is diversified;
- they combine the advantages of scale diversification;
- they have a "modular production" standardized components are assembled into finished products differentiated according to the characteristics of each target market.

2. ACCOUNTING FOR THE MULTINATIONAL COMPANIES

In order to assess the evolution of the financial position and performance of companies groups it should be allowed to group accounts or accounts. Consolidated accounts, that are prepared on the basis of individual accounts presented by each group company, are intended to provide financial information about the group, as if it were one entity. The preparation of consolidated accounts framework involves overcoming individual accounts of the parent, in order to build a unique group of companies belonging to a coherent economic whole. [2]

Consolidated accounts ranks first in financial communication group of companies due to the inability of individual accounts of the parent company to present an overview of the assets, liabilities, financial position and results of the group. In this regard: [3]

- in the parent company's balance sheet, shares held are carried at cost, which does not allow appreciating further development of the investment;
- in Profit and loss account, the parent company has no subsidiaries except to the extent performance that accounts for dividends

received and provision for impairment of shares;

Therefore it appears a distortion in presenting the actual performance of the subsidiary in the parent company accounts because most times, dividends are different from the results of the subsidiary. Also, it is impossible for an external user accounts to determine whether the parent company turnover falls entirely outside sales group, or in part, and operations carried out by companies within the group (most common example is the parent which sells their production to the subsidiaries, which in turn handles marketing).

- an apparently healthy financial situation of the parent may be compromised by the indebtedness of one or more companies in the group;

Consolidated accounts help avoid these drawbacks and contribute to the presentation of extremely useful information: investors (shareholders) money lenders (banks in particular), analysts and other users. [4]

- investors, current and potential, find in consolidated accounts information on the assets, liabilities, profit self-financing capacity and cash flows of the assembly constituted by the group of economic information allowing an assessment of the optimum conditions, the value of the parent;
- to fund creditors (banks), consolidated accounts allow assessment of the manner in which loans adapt to the real needs and possibilities of repayment of the Group;

For example, if the credit is given to the parent, based upon consolidated accounts it can be assessed the financial strength of the group. Conversely, if it is another company in the group, they allow assessment of the aid that it could receive it from the group, in case of bankruptcy.

- upon the information provided by consolidated accounts financial analysts can make more relevant analysis for rates of return, investment capacity, turnover etc.

Being Anglo-Saxon, consolidated accounts are constructed on the basis of economic reality over juridical appearance. Reality of a group is given by the fact the parent dominates the subsidiaries and may, at any time, to suppress the management autonomy, while; apparently, each subsidiary has separate legal personality and its own patrimony.

These considerations, added to the possibility that consolidation offers to remove anomalies of fiscal origin, offers to consolidated accounts the first place in the hierarchy of financial documents prepared for the information of shareholders and third parties.

3. ACCOUNTING REGULATIONS ON CONSOLIDATED ACCOUNTS AT EUROPEAN AND INTERNATIONAL LEVEL

At EU level, by applying the rules of the Seventh European accounting regulations of each Member State, it has been attempted to harmonize national legislation on consolidated accounts. This directive, published on June 13, 1983, bears the mark of Anglo-Saxon influence. Discussions on the consolidation, consolidation methods and consequences of consolidation were completely dominated by the doctrine and Anglo-Saxon accounting practice. [5]

The text of the Directive refers to companies that are required to present consolidated accounts, the companies included in the scope of consolidation, consolidation waiver cases, cases to eliminate certain companies in the consolidation, the methods of preparation of the consolidated accounts, the elements which should refer to the consolidated management report, consolidated accounts control, publishing consolidated accounts.

Despite this progress through the European directive, it did not permit a complete harmonization of building techniques because it contains numerous options, such as: accounting treatment of goodwill, optional proportional integration, and because of the gradual development and implementation of the Directives in the Member States, as shown in Table no. 1:

Table no. 1 Moments in adopting Directive VII by the EU member states

Country	Date of introduction of the seventh Directive into national law of the Member States
Denmark	1990
United Kingdom	1989
France	1985
Netherlands	1988
Luxembourg	1988
Belgium	1990
Germany	1985
Greece	1987
Ireland	1992
Portugal	1991
Spain	1989
Italy	1991

Thus, one can easily understand how a directive may be, to some extent, obsolete, when it begins to be applied, and how it can ignore the new operations that occur between the time of publication and implementation.

Established in 1973, the International Accounting Standards Committee (IASC/IASB) aimed to develop and international accounting standards set to be followed in preparing and presenting financial statements, and the acceptance and application of these rules internationally. [6]

After the standard, IAS 3 "Consolidated Financial Statements", later abandoned, IASC has published more rules aiming at directly the consolidation of accounts:

Table no. 2 Standards developed by the IASC/IASB

Accounting rules	Consolidating elements treated
IAS 21 — The Effects of Changes in Foreign Exchange Rates	• converting foreign subsidiaries accounts
IAS 22 — Business Combinations	• clusters by purchase accounting and pooling of interests accounting treatment to determine the difference in purchase
IAS 27 — Consolidated and Separate Financial Statements	• the consolidation, the global integration method
IAS 28 — Investments in Associates and Joint Ventures	• consolidation by the equity method
IAS 29 — Financial Reporting in Hyperinflationary Economies”	• conversion of accounts of subsidiaries located in countries with high inflation
IAS 31 — Interests In Joint Ventures	• consolidation by proportional integration method

Because prevents transparency of financial statements, accounting practices international diversity may be an obstacle to business finance. To remedy this impediment, most stock exchanges, except the U.S., have favored adoption of standards developed by the IASC, relieving additional information companies whose financial statements are prepared under these rules. In fact, currently financial statements based on IASC standards have become a prerequisite for groups that want to obtain finance from the international financial markets.

4. ACCOUNTING REGULATIONS ON THE ACTIVITIES OF MULTINATIONALS IN ROMANIA

The development of Accounting System in Romania had as main objective the harmonization of legislation with EU directives in the field in order to meet the requirements of adaptation to the European Union and the International Accounting Standards alignment, condition imposed by economic globalization, capital market development and activity of multinationals. [7]

Adopting *the Seventh Directive of the European Union* aimed mainly to uniform regulation on the Community rules and practices for the preparation and presentation of consolidated accounts. Directive VII of the Council coordinates the legislation on consolidated accounts (at group level) and defines the circumstances in which consolidated accounts are to be drawn. [8]

Regulations in accordance with the Seventh Directive of the European Union largely assimilated its provisions applicable to groups of companies developing their business in Romania. Generic group, according to the national and European regulations, comprise of companies consists of the parent company and its subsidiaries. In principle, the Group reports consolidated financial statements, with the main objective faithfully informing users about the financial position and results of the Group entities, considered as a whole.

Since fiscal year 2012, companies whose securities are traded on a regulated market shall prepare financial statements in accordance with International Financial Reporting Standards ("IFRS"). In Romania, the application of IAS/IFRS relates to public interest entities, including legal entities belonging to a group of companies and enter the building, using International Financial Reporting Standards.

CONCLUSIONS

Globalization of the world economy has resulted and was, at the same time, a catalyst for the development and operation of multinational companies. Since subsidiaries and branches operate in different countries, they are subject to the accounting regulations of the respective countries, making it difficult to obtain globally comparable data. Thus, it appears the need to harmonize the accounting systems of the world countries, increasing the possibility of taking investment decisions.

It appears that, despite the efforts of international bodies, there are still significant differences between accounting rules and practices in the field of various European countries leading to increased spending in multinational companies.

Moving to global standards consists in adoption of a common language by cross-border companies and multinationals. All market players need transparent financial reporting, consistent, comparable and complete to make solid economic decisions. Implementation of IFRS is a complex process that brings fundamental changes in the accounting reporting process and has a significant impact on the financial data and internal information systems requires restructuring. This implementation can influence almost all the functions of a company, from financial reporting systems, internal control mechanisms, the tax, treasury, remuneration management, to the cash flow management and legal status.

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