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**THE ACCOUNTING TRUTH BETWEEN
TRUE AND FAIR VIEW, REGULATORY AND
PROFESSIONAL JUDGMENT**

PhD thesis Summary

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INTRODUCTION

Even if we relate to ourselves or others, *we are always in search of truth*. Any entrepreneur, investor, or other interested person, wants to know the truth about a business. The companies prepare financial statements and communicate to users information, *as a faithful image*. Between these two actors, producers and “consumers” of financial-accounting information, auditors involved as a necessary link in the economic chain, to give assurance on such assertions.

Truth, accounting truth, true and fair view, regulatory, professional judgment, guaranteeing of an accurate image, behold concepts around which gravitates the chapters and subchapters of study. Through a constructively critical approach, we want to give a clearer picture of the accounting truth, recognized as the concept of *true and fair view*, as well a reflection basis for financial-accounting information users that *face issues related to credibility*.

RESEARCH MOTIVATION

The debate in terms of accounting truth and validation of accounting communication will always be a dynamic topic because of the many interpretations that can be given, as well as lack of users trust.

Following the great financial scandals, accounting performance criterion, true and fair view, has been seriously called into question. *The credibility of accounting information has never been more adversely affected and the need and requirement of certification of accounting truth, never manifested itself more stringently*.

Today, after it we have access to almost all information which define the health of an entity, *we wonder if it is possible to know all the realities that define it and what extent communicate truth to users could be trusted*. This question, timely and relevant, generating interest for study of a less trodden field.

We believe that in uncertain times, is all the more demand compliance with the reality of an entity transaction, sending accurate information to the public, the discovery and validation of the truth from the accounting documents. Only in this way can regain the confidence and relaunch investment capital holders.

METHODOLOGICAL ASPECTS OF RESEARCH

The issue research

The present economic and financial crisis period manifests itself through a significant decrease in business confidence and therefore, investments dropped considerably. The issue that interests us in this context is to see whether and to what extent the true and fair views represent truth and economic reality. In a broader approach, with philosophical and moral overtones, we propose of truth issues researching expressed by accounting.

The research purpose

The aim of scientific approach is to provide some of the answers expected by users in a single goal: to know the truth about what they offer accounting, about the pitfalls and risks of financial-accounting communication and the possibilities for checking the correctness and fidelity information. Our approach is based on the proximity of two somewhat contradictory ideas reflected in Figure 1:

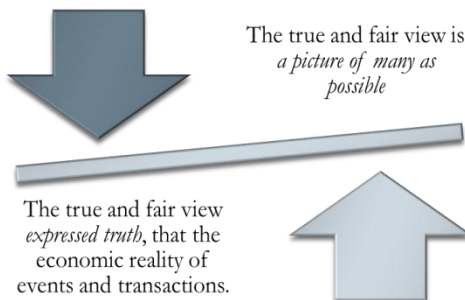


Figure 1 Basic ideas of scientific construct

Source: own projection

For this purpose, research falls within the identification preoccupations the relations that are established between *the accounting rules*, their interpretation and application by calling *the professional judgment*, as well as *truth accounting validation*. To do this, we want to achieve a theoretical and applied research to conclude *to what extent and conditions true and fair view express accounting truth, as well as whether there is credibility to users of financial-accounting information.*

Assumptions

To achieve scientific construct *us suppose that fundamental truth accountant will get if financial statements are prepared by professional accountants to apply accounting regulations and bring good faith professional judgment in accounting service performance objective, fair representation. By default, this representation is correct, in line with economic reality, which is useful and worthy of the users trust, which can be verified, however belatedly, after decision making.*

Regarding this assumption we have made a series of fourteen secondary hypotheses. To test them, we start from the same premise enunciated by Herrbach, namely “*accounting representation that accomplishes the economic reality can not be an objective description, but only a questionable view of reality which covers*”¹.

Methods and techniques

To deepen as more efficient middle issue, we have undertaken the development of a conceptual tree of ideas to help identifying, systematizing and ordering the most relevant of them. Each of them have joined the line of one of the two lines of research:

- *presentation of the manner in which financial-accounting information users can be sure about the correctness of accounting truth;*
- *presenting some opportunities and proposals intended to contribute to increasing the degree of fidelity representation of economic reality.*

Although there is no techniques that can measure exactly the degree of accounting truth (great as?), we sought to establish to *what degree succeeds* true and fair view to express the reality or to *what extent* of audit certification assures us the correctness of fair representation.

Consultation literature has provided us the basis information to understand the significance, the size and complexity of true reflection reality, as well as financial audit objectives.

To verify the theoretical support, we used empirical research by compiling a study case and presenting as a proposal of tools those users can test accounting truth.

¹ Herrbach, O., Approche positive et approche interprétative de la recherche en comptabilité financière, in Dumontier, P. and Teller, R. (coord.), *Faire de la recherche en comptabilité financière*, Paris: Vuibert, 2001, p. 23.

We appealed to *qualitative and quantitative methods, determining financial indicators by rates method, deductive and inductive reasoning, comparisons, correlations, synthesis, conceptual development, etc.* We consider useful visual expression of ideas, which is why we used the “*language of figures, tables, and graphs*”.

As sources of information we used scientific articles, treatises and books, legislation, interpretations and applying the rules guidelines, analyzes and studies, press releases, financial statements, information published by Bucharest Stock Exchange, rankings by magazines specialized economic and state institutions, interpretations of financial analysts, reports of monitoring agencies and testing firm, etc.

Expected outcomes

We expect to confirm the assumption that the true image expresses the accounting truth (economic reality) and that users have sufficient reason to trust her. Fear of users that are being fooled is the, in most cases, obsessions born of the general lack of confidence *caused by a society less and less moral and honest*. True and fair view, although it may not be an expression of absolute truth accounting, presents useful for decision making.

As long as, regardless of the field, process knowledge can not delimit the absolute truth, it is logical and reasonable to not have such expectation nor within accounting. Moreover, we must admit that sometimes are so many truths, each individual with his truth.

A possible conclusion of the research, inferred on the logical way, is that accounting truth transmitted through the financial statements, even validated by the financial audit, is a facet of truth and true and fair view shown is actually *a true and fair view, from many possible*.

PAPER STRUCTURE

The thesis is developed in five chapters. Research aimed at theoretical analysis of accounting as a social and organizational perspective, in order to identify, promote and steer those accounting practices ensures accounting truth as faithful representation of economic reality.

Chapters follow a logical sequence that allows tackling progressively from the fundamental debates and nuances, finishing with study case and comments, related to the opinions expressed in the theoretical part.

Thus, **Chapter 1** provides an incursion and a critical approach which seeks to establish the general framework of the problem. Our approach starts with issues truth from biblical, philosophical and epistemological, focusing on specific accounting truth - true and fair view. Also, we are talking about financial-accounting communication and inherent information risk.

Chapter 2 deepens the concept of true and fair view issues that *are meant to determine to what extent accounting performance objective, the true and fair view, can be implemented or not*. At the same time, we aim to identify improvement opportunities that will allow us to formulate proposals point to the end, of that assign added domain knowledge.

In **Chapter 3** we search the letter of international and national rules and regulations that refer to structure, preparation and publishing financial statements, providing a summary of the main conceptual frameworks and focused elements enroll fair representation objective.

Chapter 4, very important in content for researched issue, develops the aspects without which we could not achieve the purpose of research. Through it, it provides a basis for reflection to analyze the problems of credibility and legitimacy of the truth communicated through entity financial statements. This important task and full responsibility is a financial audit.

Although we could not establish a hierarchy based on the importance of each chapter to achieve the goal, we still consider the latter chapter, **Chapter 5**, to support and demonstrate own fundamental views and those of other authors from the literature and to verify the hypothesis fundamental that we left. For this, we carried out an empirical study.

At the end of the paper we present a summary of the results of the research approach for each case determined at baseline. Draw conclusions and proposals, recall limits research and draw future research.

The list of references consulted, the figures, tables and graphs, and a series of annexes, constitutes the terminating work.

THE EMPIRICAL STUDY

The applied part of the research, completing the theoretical chapters, was done by using *the study case* and analysis of empirical evidence. This approach focuses on five insolvent companies in Romania and aims to issuing a conclusion on the financial statements fidelity reflect reality and expressing economic truth.

We believe that the insolvency and possible bankruptcy is the best proof that these entities have faced and are facing real financial problems. This should be apparent from the analysis of accounting documents. If you find this accordance, means that the annual financial statements have been prepared in compliance with the principle of true and fair view and accounting truth, respecting economic reality. Otherwise, it is a proof of breach of principles and accounting standards, and hide the truth behind embellish figures.

We arrive at this finding by analyzing the main financial performance indicators over a period of three years (2009 - 2011), for each company selected, using the rates, which allows for comparisons over time. We expect that calculated indicators, based on information of the annual financial statements, to reflect the risk of insolvency of companies.

In this regard, we found two leaderboards entitled “Top 10 insolvencies in 2012” in Romania, after we checked this information from many sources and we used the development of a proper standing includes the largest 26 companies insolvent, after turnover business. Of these, we selected for analysis *Hidroelectrica S.A.*, *Romstrade S.R.L.*, *Murfatlar Romania S.A.*, *Concefa S.A.* and *Fortus S.A.*

Results

The results of the determination, monitoring evolution analysis financial ratios and their interpretation, can be fit into one of the following:

- A. analysis of indicators and drawing their evolution gives alarming signals for users of financial-accounting information regarding companies evolution and therefore reflect reality and respects the principle of true and fair view;*
- B. values recorded by the analyzed indicators do not indicate the possibility of entry companies in the insolvency proceedings; this means that the information is not complying with economic reality.*

We find that all entities were classified in A situation, that the calculation of indicators based on based from financial statements *disclose specific financial difficulty and risk associated* with the business entity. Consequently, *the financial statements are prepared in accordance with the regulations in force and the principle of true and fair view. Thus, we conclude that express and communicate to users accounting truth about economic condition of the entity.*

Results validation

To validate the results, we used financial statements issued by the agency in monitoring, evaluating and providing financial and investment advisory services (application *AlertaCUI.ro* website owned by SC Gamage S.R.L., application run *InfoQuick.ro* Coface Romania, a subsidiary of Paris-based Coface; application accessible at *www.risco.ro*, society Financial View Media Services S.R.L.). Information contained in reports emitted by the mentioned agencies, specific companies listed in the thirteen Annexes of paper, shows that *activities involving a high degree of risk* in terms of continuity, due especially to lack of liquidity.

For Hidroelectrica, we resorted to the ratings awarded by two major rating agencies, accredited in Europe by the *Securities and Exchange Commission*, Moody's and Standard & Poor's. And they confirm the results of the empirical approach.

Thus, it appears that the study case results were validated by all sources turn to. Therefore, on the basis of financial indicators can be concluded that *all five companies are located in an unprofitable area that indicates liquidity problems and high risks.*

Conclusions and comments on the study case

Financial analysis of business performance indicators helped us to know financial position of the company, reflected through the reporting documents. On their basis, we find that *economic and financial performance of companies has adequate dynamics of some activities which are associated major risks. All five biggest companies shall communicate information through the financial statements that indicates the major difficulties faced by each entity. Information reflects economic reality and conveys the truth of the current status and the future trend. For this reason, we consider fundamental assumption research validated.* However, due to financial irregularities and serious violations of financial discipline signaled in management of the analyzed companies, mentioned in paper, we do not exclude manifestation of the owners interests in connection with their entry into insolvency.

Since companies analyzed reflects in specific financial statements economic and financial difficulties and reports on significant risk and uncertainty going concern, consider that *the study case is empirical evidence*

that they have prepared and published financial statements respecting the principle of true and fair view. Consequently, they express the accounting truth.

Also, concluded that the most important test of truth is the one of time. We take into account an enterprise business continuity and financial gain from correctly and efficiently substantiation decisions, according to real information.

Limits of the study case

Although indicators studied were selected according to criteria of relevance and that are most commonly used in the financial analysis, for better information, is required more complex analysis of the entire set of accounting documents, reports of directors, auditors, or other such documents. However, we believe that our approach is enough to achieve our goal, which is to see if, based on published information, one can deduce future course of events after 2011, indicating the insolvency of the selected companies. Although it can be improved, the empirical approach provides an overview and basic research confirms.

RESEARCH RESULTS AND DISSEMINATION

The findings we reached about theoretical and empirical *support and validate the basic hypothesis stated at the beginning of the study.* Thus, we conclude that *accounting truth is obtained when financial statements are prepared by professional accountants who apply accounting regulations and bring good faith professional judgment in accounting service of performance objective, true and fair view. By default, this representation is accurate in line with economic reality, which is useful and worthy of the trust of users.* This can be confirmed, however belatedly, after decision making.

We believe that financial-accounting information must always be interpreted and used with caution. Full ensure, absolute truths and perfection, are goals toward which we tend, but hard to accomplish.

Regarding the empirical study, although we concluded that financial statements reflect true and fair view and accounting truth, considering that it does not allow users to know with certainty whether for the disclosure were used, however, techniques had a more optimistic position and recorded performances.

The dissemination of the results of scientific endeavor has been made by a number of publications and participation in national and international conferences, as follows:

- scientific articles published in ISI conference proceedings - an article as co-author;
- scientific articles published in journals indexed B + and BDI - four articles as sole author, one as first author and three as co-author;
- presentations of scientific papers in international conferences - three units;
- scientific articles published in international conference proceedings - a publication;
- presentations of scientific papers in national conferences – a participation;
- work in a volume published by nationally recognized - a publication.

CONCLUSIONS AND PROPOSALS

In our opinion, research accounting truth always involves connection the following concepts and dimensions: *true and fair view* (reflected by the information in financial statements), *accounting regulations, professional judgment and audit*.

Reality captured of accounting signifies, in fact, a truth by which the enterprise is realized and expressed herself, in terms of present and future interests. According to rules, financial reports must reflect economic reality of transactions and events of an entity only that usually belongs to the truth that it produces. Therefore, total confidence of users in true and fair view, expressed by the financial statements, remains more a goal of the accounting profession, than a certainty. We can contribute to improving the credibility of accounting information by using some means, techniques and procedures, including the professional judgment, all subordinated to fundamental purpose - getting faithful image of the financial position, performance and changes them within the specified period.

Although we can not know absolute truth, we can not deny the need for truth, in general. In the economic field, it takes confidence in faithful representation, even if it is not perfect. *Considered to be the strongest argument for quality and honesty financial-accounting communication resistance test over time accounting truth.*

To answer the question “*how can we know what is true and what is not?*” of many information available, we recognize the importance of *the audit* to provide reasonable assurance in this regard. We also identified six criteria² in the specialized literature that we have adapted and correlated with issues researched and we proposed to be used in process of accounting knowledge of the truth.

Because the results of research and the logic required, we propose replacing the term “true and fair view” (used to appoint accounting truth) with one much closer with regard he succeeds currently signify the “true and fair view” of accounting. We are considering a more appropriate construct, namely the significant representative image or image with acceptable risk.

CONTRIBUTION AND THE NOVELTY RESEARCH

We realize a synthesis and critical analysis of literature and the accounting regulations of the accounting truth, make judgments, proposals and perspectives regards issues approached.

We have developed a topical documentary, nuanced and combated opinions, formulated new ideas and proposals for improvement accounting field.

Our research makes connections with religion, philosophy and epistemology. Constitute an approach that distinguishes this demarche from others.

We perform a critical comparative analysis of the components of financial statements in view of the main national and international accounting referential and point out possibility for optimization true and fair view and of the accounting truth transmitted through the situation *Notes (accounting policies and explanatory notes)*. In this way, we support increasing the quality of financial-accounting information, but also their quantity.

We support the use of inappropriate “creative” accounting concept and argue this. Develop an own projection that presents reaction mode and consequences of each category of users behavior, specific to certain factors that generate distrust in the economic environment.

² Toffler, A. and Toffler, H., *Avuția în mișcare*, trad. A. Năstase and N. Năstase, Bucuresti: Editura Antet, 2006, p. 115.

We develop a new concept and propose a definition of it, according to own vision and according to results obtained from the scientific approach. Assign a definition of accounting “truth”.

We present advantages and disadvantages of the excess regulatory or insufficiency rules and point out positive aspects of dissimulation of reality of an entity, by virtue of ensuring going concern assumption.

We approach professional judgment in two viewpoints (as element that ensures the fulfillment of the principle of supremacy true and fair view, respectively as distorting factor faithful representation) and draw perspectives regarding the evolution of the accounting profession and faithful representation of the economic reality, in the financial crisis and globalization.

We recognize and support the financial audit, in its role as a tool enabling a true accounting knowledge as closely as possible and proceed to approaching the problems of relativity terms specific to audit. This confirms that it is not possible for users to know the absolute truth of accounting, whereas for objective reasons, can not guarantee this.

We perform an empirical study in own way approach.

We issue recommendations, useful in promotion of true and fair view business environment and assuring loyal representation of the economic events of an entity.

We emphasize and honest and correct approach to the problem proposed, by accepting that accounting loyalty representation knows limits.

The deepening of carefully selected topics, we wanted achieves a broader knowledge of the objective reality grasped in financial statements. We also broke into less explored areas to help in understanding lawfulness certain facts and truths of accounting field. Through approach route, we generated starting points and directions for more complex future research.

Specify it just that novelty of this paper is the jump from simple “see” and “know” what is accounting truth, respectively true and fair view, at valuable “understand” the dimensions and implications of the concept.

RESEARCH LIMITS

The main limitation the present research consist the possibility of generalizing the results obtained during the development of applicative framework. Although the results empirical study are relevant at national, can not be generalized internationally. In other, the nature of the issues approached,

mostly the knowledge in the field are qualitative. Therefore our approach develops a priority qualitative research. It was not possible to identify quantitative methods that can measure *strictly* the degree of truth communicated through reporting documents.

However, qualitative research is very important in any field, contribute to its development and follows scientific progress.

RESEARCH PERSPECTIVES

Our future research will aim to deepen the elements dealt with in this study to find new arguments in support of a “*better*” accounting truth (as close possible to the true image).

We intend expanding empirical study on a larger number of firms for a further period of time, even throughout the duration. We aim to make a comparative between the financial statements of entities in national insolvency/bankruptcy and those of international companies. This will follow the removal of the main limit of the approach, namely to see whether the results obtained in the analysis of five national companies, for three years, can be generalized to international companies.

However, we want approach the *issue of restatement of financial statements*, action that aims to eliminate differences in accounting disclosure and as faithful representation of economic reality.

References

For the study we consulted a number of 95 books and specialized treaties, 109 scientific articles, 26 laws and 29 Internet sources.