CONSIDERATIONS ON IASB RECENT ISSUED STANDARDS

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Abstract:
Recent financial crisis has raised numerous dilemmas around the accounting information relevance. History has drawn a clear trend in favour of international accounting convergence. The solution of IFRS, accepted as a global set of accounting standards, seems to be the proper solution for all players of the markets. The standard-setting mechanisms promoted by IASB encourage an increasing number of countries to adopt IFRS, in different ways. But questions remain regarding several controversial accounting areas such as impairment of assets, provisions, off-sheet accounting, fair value, fiscal impact on accounting treatments and so on. This article tries to reveal several aspects regarding IASB efforts on drawing a strategy of continuous improvement focused on increasing transparency and trust in financial reports. The article aim to make a short review about the main projects of research finalised by IASB, in cooperation with FASB and other national accounting regulators.
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Introduction

In an era of globalization, when the international capitalization is fundamental, the availability and comparability of financial information is essential on assuring an optimal capital allocation. Consequently, the need of a core set of high quality accounting standards, built within a principle-based accounting model is obvious. Currently, financial information market is facing an image crisis, cause the quality of financial information released by financial statements is deeply affected by various accounting manipulation technique and discretionary disclosure strategies.

Accounting system represent a product of economic system. Accounting issues can be translated as the incapacity of the accounting system to adapt, on time, to the dynamic of the economic system it serves. Tensions raised among central topics of financial reporting, require an in-depth analysis of the recognition and classification criteria, the feasibility of the accounting measurement models and to be solved through a transparent and public process of international accounting standard-setting. Integrating uncertainty in the financial statements, especially in case of IFRS first time adopters, conceptualization of several vague terms such as probability threshold, concept of control, materiality, incompatibility of financial statements objectives and general accepted accounting principles, or simply the relativism existent on recognition and classification accounting treatments are only a small part of a long list of accounting controversies.

When talking about disclosures, we get the dilemma of optimal financial reporting regulation, illustrated by the endless discussion around the relation between voluntary financial reporting and mandatory financial reporting. Moral hazard, as well as adverse selection can be avoided through a complete and honest financial reporting strategy. Thus, the financial information quality isn't affected, and the capital markets offer relevant information as input for the mark-to-market accounting measurement models. Moreover, in case of mark-to-model accounting measurement models, the validity of the results of the models are conditioned by information disclosed, regarding the methodology, source of information and the judgment used by accountants, cause estimates in accounting imply a great probability of error accounting.

IASB (International Accounting Standards Board) is the global accounting standard-setting body assuming the central role on coordinating the international accounting convergence process. Its key strategy is well described by the IASB Due Process Handbook, approved by the Trustees in January 2013, through a simple set of core principles: transparency, full and fair consultation and accountability. The proof is the strong professional cooperation between IASB and numerous other national and international professional bodies such as FASB (Financial Accounting Standards Board), EFRAG (European Financial Reporting Advisory Group), AOSSG (Asian-Ocenian Standard-Setters Group), GLASS (Group fo Latin American Accounting Standard Setters), IIRC (International Integrated Reporting Council), IFAC (International Federation of Accountants), IVSC (International Valuation Standards Council), IOSCO (International Organization of Securities Commissions). Both political factor and accounting profession have engaged in drawing clear strategies to assure a correct implementation process and an efficient and effective monitoring process for IFRS applicability. Formation of consultation groups like FCAG (Financial Crisis Advisory Group), ASAF (Accounting Standards Advisory Forum), or CMAC (Capital Markets Advisory Committee) prove the objective view of IASB on the standard-setting process, gathering the prepares and the users of the financial information to one table of discussion.

This article is designed to reveal several considerations regarding two directions of research. There is given an actual picture of the status of IFRS adoption worldwide till the end of 2013, using a geographical approach which can underline regional trends regarding option for IFRS adoption, explained by historical and cultural factors, financing system, legal factor, or accounting profession tradition.

On the other hand, the reality of expanding IFRS adoption worldwide is explained mainly by the financial reporting standards quality and the institutional framework of each jurisdiction. That's why we consider opportune to emphasise some recent aspects of IASB continuous improvement strategy, which surely will increase IASB worldwide legitimacy significantly. This strategy opportunity is best outlined by the President of IFRS Foundation Trustees himself, Michael Prada, who claimed in a recent interview that „the standard-setting process is messy, controversial and unpopular" (IASB, 2014). Moreover, Hans Hoogervorst, the chairman of International Accounting Standards Board, recognise the effect of the politics on the accounting standard-setting, but remain to his main objectives outlining a core set of accounting principles. Also, he is trying to balance the optimal volume of financial presentation and disclosures necessary for encouraging a real debate around the role of uncertainty and materiality on financial reporting (KPMG, 2013). These assertions explain, on a simplified way, the need of a continuous negotiation between the involved parties and the solution is a core set of financial reporting standards being flexible, able to adapt to the economic system dynamics.

Financial information demand diversity is impossible to be covered by a single set of financial statements, IFRS choosing the investors as main beneficiaries of financial information (CF, art. 10). Passing over the agency problem between managers and investors, there still must be solved the way of covering financial information needs of the stakeholders. As a response to this reality IASB decided to involve as many interested parties as possible in the accounting standard-setting process, and first have opened and Agenda of consultation revealing the most important topics to be debated by the board in the future. This way, part of the critical issues in the accounting regulation enforcement can be solved, by creating accounting standards starting from the accounting best practices already existing.

Literature review

In the context of an ongoing process of globalization and international capitalization, Soros (2002) draws attention to the essential feature of this phenomenon, namely that of facilitating migration of global financial capital, in the context of ensuring an optimal allocation of available financial resources. Reducing capital costs, increasing international capital mobility with a higher rate of return, and liquidity, and lower rate of risk, are the main objectives of financial information users.

In order to achieve these goals, the only solution was represented by eliminating international accounting differences, through the international process of accounting convergence. Moreover, the literature began to give higher importance to positive effects of an international audit convergence, as audit missions are a basic element of enforcement infrastructure of a country (Christensen H.B. et. al., 2013). Even if it seems to be insignificant (Kocenda E. et. al., 2008), a fiscal convergence model, applicable in case of EU community, also represent an essential factor of increasing financial information value relevance, cause of the strong connection between tax rules and accounting policy.

The literature explain the option of majority of standard-setters, sustained by the political factor, for international accounting convergence cause of the macroeconomic positive effects confirmed statistically by numerous studies, mentioning the increase of direct foreign investments (Chen et.al., 2014), stimulating merger and acquisition transactions (Francis et. al., 2012), capital markets integration (Cai & Wong, 2010), or increase of market capitalization (Daske et. al., 2013). Moreover, at reporting entity level, there are also significant positive effects on the cost of capital evolution, liquidity and value of firm (Daske et. al., 2013), or cost transaction (Ramana & Sletten, 2009).

Zeff (2012) confirm, through a historical approach, the central role of IASC, now the IASB (2001), which struggles to acquire a global legitimacy for its work, by attracting various international professional and governmental bodies in the process of international standard-setting. The current standard-setting process, known as the due process, is focused especially on finding solutions for the topics considered to be relevant to the actual process of international accounting convergence.

The accounting convergence process is still in progress, recent results encouraging IASB to continue its efforts together with the other involved international professional organizations. In spite of the pressure imposed by economic background of globalization, such as the efforts towards an economic integration specific for Euro zone (Jayaraman&Verdi, 2013), the main factor of success was assured by the political factor, through lobbying undertaken by the preparers, shareholders and stakeholders as well, where the state plays a central role. But, obvious preoccupation is seen especially in case of preparers from code law countries and the Big 4 (Jorissen et. al., 2014). The same hypothesis is confirmed by Ramana's study (2013) who sustain that the way of IFRS adoption is basically dependent on the power a jurisdiction has within IASB accounting standard-setting process, or on the compatibility of cultural valences between the analysed jurisdiction and at least a country that has a significant power of decision within IASB. Thus, this model of politics of accounting standard-setting promote the regional groups of interests which should be better represented within the international standard-setting process.

The process of international accounting convergence, where the IASB and FASB, and later through the due process, other more regional accounting standard-setters have gathered to create a synergy on the views regarding the financial reporting framework, has been accepted globally as a solution to the small value relevance of financial information in the context of international capitalization. Option for IFRS within international accounting process is justified by the political support IASB got from international professional organisation, thus avoiding a potential hegemony of American accounting standard-setting philosophy (Flower, 1997). Even if controversial, IASB legitimacy can't be denied based on recent results regarding the level of adoption of IFRS worldwide. More than that, even if Burlaud&Colasse (2010) emphasize the process of deregulation isn't irreversible in the context of the global financial crises, we subscribe to Danjou&Walton (2012) opinion who do not deny the politics behind the accounting standards, but they underline the importance of governance and accountability procedures implemented by the IFRS Foundation Trustees within the corporate governance strategy of the organization.

There is confirmed the importance of financial reporting quality on assuring investment efficiency (Sun, 2006; Biddle et. al., 2009) and consequently on economic growth and financing premises(Sun, 2006; Li & Shroff, 2010; Ball et.al., 2013). Financial reporting quality determines the level of monitoring costs and the initial conditions of financing a firm. That is why we subscribe to hypothesis that the accounting system is mainly influenced by the type of the predominant financing system(capital market-based vs debt-based systems), and only on the background by other factors (Nobes, 2000; Ball et. al., 2008). Moreover, the recent behavioural finance theory where the power of investor perception is of central importance, through several biases, pay greater attention to the perceived quality of financial information on the market (Pompian, 2006).

Financial reporting quality is determined, by the quality of accounting standards and the legal and political system (Soderstrom & Sun, 2006). Indeed, if the enforcement infrastructure, the investor/ creditor protection, the tax system, and sometimes the endorsement process, are assigned to the national regulators, the quality of the accounting standards has to be improved by IASB continuously, as the main actor in the scene of international accounting standard-setting. That is why the cooperation between IASB and national regulators must be strongly promoted, cause the authority of IASB does not extend to the phases of implementing and monitoring the use of IFRS. More than that, national professional organizations must be a binder between IASB and the national governmental agencies and have to establish a strong triangle with valuation firms and audit professional national organizations. Consequently, financial reporting quality is determined by the quality of the accounting standards, but conditioned by the enforcement infrastructure efficiency along the entire financial reporting supply chain.

Lack of a genuine conceptual framework, inductive approach to accounting standard-setting, tax-accounting connection, the cultural factor, the multitude of alternative accounting treatments, the variety of financial reporting strategies , and not least the poor involvement of the accounting profession in the process of standard-setting is shaping premises of a large space of accounting manipulating practices. Not surprisingly is the result of Hail study (2013) that reveals, for the past three decades, a significant deterioration of value relevance of the income statement, cause of various earnings management techniques . Contrary, the value relevance of the balance sheet, under creditors pressure, did not suffer significant changes, situation partially explained by changes of the national institutional framework and the importance creditors give to the balance-sheet information.

All these aspects are considered by IASB to be reflected in the accounting standards through numerous projects debated on a transparent and open way of standard-setting, through the due process (IASB, 2013). There still are many controversial accounting topics, especially in areas of measurement and estimation in accounting, financial reporting conceptual framework, or corporate disclosure regulation level.

Barth (2006) even tried to make a brief review of the actual accounting research questions, underlining the lack of relevant insights regarding topics concerning institutional impediment in accounting convergence process, effects of principle-based accounting on financial information quality and users' perception, disclosure incentives efficiency, political influences on standard-setting process, financial structure impact on financial reporting format and level of financial information aggregation etc.

Nobes (2011) continue the same research direction, emphasising the need of a continuous improvement cycle, by relating main factors of variations in IFRS adoption and practice, placing on a central angle the problems of accounting estimates and the overt and covert options in IFRS.

Continuous improvement projects are necessary cause we face currently with the negative effects of the accounting standards proliferation, meaning accounting standards redundancy, high level of details on specific prescribed accounting treatments, lack of flexibility of accounting standards, multiple treatments permitted for similar economic events, excessive disclosure, or too complex valuation models recommended by accounting standards (Malciu, 1998).

All these questions raised intense debate on several opportunities of improvement that IASB started gradually to insert in their public agenda consultation, grouped on three main sections: major projects, conceptual framework, and implementation and maintenance projects (IASB, 2012). We remind here some of the major topics discussed: revenue recognition principles, definition and differentiation between equity and debt financial instruments, off balance-sheet accounting, offsetting principles, recognition and derecognition criteria issues, economic substance over legal form in case of leases, recognition and measurement models in case of insurance contracts, structure and value relevance of the financial statements in the context of first time adoption and the global financial crisis, definition of the accounting information quality, integration for the business model in annual financial reports, solutions to incorporate uncertainty in measurement models used in accounting, role of the disclosures in the notes to the financial statements etc.

Moreover, the researchers realize that a solution to the problem of discretionary disclosure strategies used by reporting entities is to reconsider alternative disclosure frameworks, such as integrated financial reporting, focusing better on governance and accountability along the chain of value added analysis, or corporate sustainable reporting, giving more importance to the social and environmental aspects of an entity. Even IASB realised the opportunity to enhance the attention of its own work for stewardship and valuation, considered as as future potential objectives aimed by the financial statements. Shareholders value added is the most important key performance indicator in the context international capitalization. Consequently, the financial statements have to give answers to shareholders and stakeholders as well about the perspectives of a firm. Value stream mapping is a complex process and it can't be depicted only by financial statements. That is way in the last decade recent research have focused on the utility of non-financial reporting as an important component of corporate financial reporting (Lungu et. al., 2012; IIRC Institute, 2013).

The list of accounting issues mentioned above raise a question mark on the relevance of accounting information in decision-making process, especially when reporting entities' access to capital markets depend on different capital and performance covenants based on financial statements. Thus, managers are tempted to use various creative accounting techniques meant to manipulate earnings and induce financial wealth among potential investors. Whether it is their incompetence, or simply the limited financial resources that managers have, earnings smoothing , disclosure reluctance, tax planning policies, represent generally applicable objectives of financial reporting strategies of economic entities (Dumitrescu , 2014).

The only solution to stop, or at least reduce the negative effects of such practice, is for IASB to cope with earnings management practices and thus improve continuously the actual accounting standards, especially when the accrual accounting model fail to offer a true and fair view.

Research methodology

This article is a descriptive analysis of the recent developments IASB has achieved through its research and developments activities. For transparency and accountability of IASB activities, the board has adopted a strategy of continuous improvement of accounting standards aimed to cover various current accounting issues. Consequently, IFRS Foundation decided in February 2010, organization of a public consultation of IASB agenda every three years, additional to annual consultation made with Advisory Council and Trustees

IASB strategy requires focusing resources in three main directions:

- annual improvement projects, considering modifications of existing standards submitted by IFRIC, to arbitration by IASB; these projects usually concern punctual aspects drawn by IASB, IFRIC specialists or professionals on different accounting standards;
- major projects represent part of the accounting convergence process, concerning works started by the IASB, in conjunction with the FASB;
- research projects that are currently in the stage of gathering information and public debate; next step means these projects become potential major future IASB projects.

All these steps depict a structured process of standard-setting, but we have to pay attention to the time this will take, the resources necessary, or the effectiveness of the new financial reporting standards on solving actual controversial accounting topics.

Results and discussion

IASB represents an accounting standard-setting body of private law. Consequently, it does not have the necessary legal power to ensure the adoption, implementation and proper use of international accounting standards. This mission lies with the state, through its special agencies. In this context, the IASB acknowledged the necessity of shaping a credible image around its efforts, in order to enhance the legitimacy of its actions. For an increasing transparency, IASB has raised a continuous improvement strategy, aiming to solve actual controversial topics and thus adapt to the economic system on a timely manner. On this direction, IFRS Foundation Trustees have decided on February 2010, that a public consultation of IASB agenda must be organised once every three years, additional to the IFRS Advisory Council. This public consultation was aimed to depict the most important topics to be debated by IASB in the next years and a prioritization of the proposed projects, considering the financial constraints.

Consequently, on December 2012, IASB has published a Feedback Statement, which was outlining five major topics of interest:

- a stabilization of international accounting standards;
- actual financial reporting conceptual framework reform;
- reconsideration of drafting mechanism of new standards through cost-benefit analysis and conceptualization of accounting controversies from the early stages; the post-implementation review will become a basic tool within accounting standard-setting process, according to the Due Process Handbook;
- tracing a strategy of continuous review of accounting standards in new jurisdictions that require adoption of IFRS.

Some of the major projects outlined by Feedback Statement were successfully completed:

- publishing IFRS 10 Consolidated Financial Statements and IFRS 12 Presentation existing interests in other entities, which completed the first phase of the accounting convergence project on consolidated accounts; in the next stage of this project, these standards, together with IAS 27 are amended by a series of changes set in Investment Entities report, published in October 2012, with legal effect from 1 January 2014;
- IAS 31 and SIC 13 are superseded by IFRS 11 Joint Arrangements, outlining together with IFRS 12 financial reporting requirements in case of joint-venture business combinations ;
- in November 2013 there was published IFRS 9 Financial Instruments, the final form of Financial Instruments after a period of four years from the first draft of the standard, the period during which :

✓ a simplification and rationalization of financial instruments classification was achieved , and the accounting treatment recommended by IAS 39, reported by specialist as causing amplification of the financial crisis, have been revised;

✓ amendments have been made to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation, regarding financial assets and liabilities offsetting;

✓ derecognition treatment of financial instruments have been incorporated from IAS 39;

✓ considerations that trace the fundamental aspects of hedge accounting have been introduced;

- in May 2011, IFRS 13 Fair value measurement was published, thus emphasizing transition to the mark-to-market accounting valuation model, despite the disadvantages that involve the use of fair value as the main basis of measurement;

- IFRS 14 Regulatory Deferral Accounts, an interim standard, was published on January 2014, aimed to help first time adopters of IFRS on reporting financial effects of rate-regulated activities, by permitting them to continue using the treatment recommended by the local GAAP for a limited timeframe;
- the newest international financial reporting standards is IFRS 15 Revenue from Contracts with Customers, which brings major changes focusing on a 5 steps model of revenue recognition.

Table 1. Currently major project of IASB

	IASB project name	**Standard**	**Initial date**	**Due process stage**		**Project stage**
1	Conceptual Framework	-	2012	DP	2014	-
2	Disclosure Initiative	-	2013	ED	2014	IAS 1 amendments
			2014	TBD	2014	Net debt
2	Financial instruments	IFRS 9	2011	ED	2012	Comprehensive project
			2011	ED	2012	Classification and measurement
			2009	ED	2013	Impairment
			2014	DP	2014	Macro hedge accounting
3	Insurance Contracts	IFRS 4	2001	ED	2013	-
4	Leases	IAS 17	2006	ED	2013	-

Source: IASB website, 2014

Currently IASB agenda also state the interest for several major project being in progress, among which the most important is declared to be the modernization of the actual conceptual framework for financial reporting. Some of these projects are structured on multiple phases of development, but essential is the fact that they address major changes of already existing financial reporting standards.
Also, IASB agenda has included a set of research projects, aimed to prepare in advance the basis of the future discussion papers regarding several actual financial reporting issues. They address especially on the side of presentation and disclosure optimization, cause recent research has revealed the fact that voluntary disclosures don't solve the problem of information asymmetry between preparers and user of financial information (Beyer et. al., 2010).
Cause the concept of fair value and the methodology implied were already debated in the literature, we will focus our attention on the two major projects of the IASB recently recording fundamental results, namely IFRS 14 Regulatory Deferral Accounts and IFRS 15 Revenue from Contracts with Customers. Both standards were expected from long time to be published in order to bring more guidance on two controversial topics raising serious problems regarding the quality of the information reveal by financial statements.

Table 2. Ongoing research project

Description IASB research project	Initiation date	Comments
Companies combinations within the group	2011	- contains IFRS 3 completions regarding accounting for transactions between entities that are ultimately controlled by the same party or parties;
Financial reporting framework	2012	- proposes a series of amendments to IAS 1, regarding difficulties faced by junior accountants in the exercise of accounting judgment; - tries a clarification of the concept of materiality; - follows, in close connection with the project to reform the conceptual framework for financial reporting, to replace IAS 1, IAS 7 and IAS 8, with a financial reporting framework, more focused on a principle-based approach;
Discounting rates	2012	- provides basis for a discussion paper that want to give more guidance on understanding and using discount rates used by various reporting standards (IAS 19, IAS 36, IAS 37, IFRS 13), as they reflect major part of the uncertainty incorporated in the accounting estimation models;
Financial instruments with equity characteristics	2008	- follows the distinction between hybrid financial instruments that are not covered by IAS 32 and that should be reported as equity or as debt securities, as this topic has a great impact on the debt covenants used in financing firms;
Rate-regulated activities	2008	- seeks to clarify some technical difficulties of regulatory accounting, valid in cases of market monopolies, or public utility interest; overall, the project aims reconfiguration of the financial and accounting treatments reformulated such that users of financial information to be able to delineate the financial effects of the rate-regulated activities of firm;

Source: IASB website, 2014

Considerations regarding IFRS 14

Accounting for rate-regulated activities, also known as regulatory accounting, is specific as the accounting treatments differ from those prescribed by financial accounting of unregulated activities. Regulated activities are necessary in case of natural monopolies, imperfect markets, economies of scale, have large fixed and non-liquid investment, or production of goods with a relative inelasticity of demand. Thus, they have to be under the straight control of the state. Here we count sector like power energy, pharmaceutics, extraction industry, agriculture etc.
The main difference between regulatory accounting and accounting for non-regulated activities is the treatment of future recovery of postponed costs (operational costs, investment costs) permitted in case of rate-regulated activities. Even if the rate of investment recovery are cautiously controlled by governmental bodies, this treatment is really criticised cause the firms are not stimulated to operate efficiently.
Let's take as example the case of TransElectrica which supplies power energy for firms and households as well. Part of its activity is rate-regulated, by the ANRE (National Authority for the Regulation in the Energy Sector), such as the transport service. On this case, the price (or the total operational revenue) and the amount

being marketed are under the incidence of the provisions of Law 123/2012 of power energy and natural gases. On 2013, the company has reported on the Annual Report the following dates:

Table 3. TransElectrica financial information

	Approved by ANRE	Realised	Financial impact of regulator's policy
Amount sold (TWh)	54.81	51.85	-63 mil. RON
Avg price (RON/MWh)	21.16	21.75	+31 mil. RON
cumulated effect of rate-regulation			-32 mil. RON

Source: Annual report, 2013

So, according to regulatory accounting principles, the value of 32 mil. RON can be recovered in the future financial exercises in case the regulator permits, increasing the unit price. Till then, the legal framework permits the company to report regulatory deferral accounts (assets/ liabilities) and variations in the financial statements (art. 180, Law 123/2012).
The mechanism of regulatory deferral accounts is similar with the one prescribed by the IAS 20 for governmental financial assistance offered to firms achieving specific set of criteria. In Table 4 we outline the differential impact on the financial statements in case of a regulated company and an unregulated company.
Regulatory accounting principles are basically similar among countries, but the difference appears on the mechanism the rate of regulation determination which raise financial differences between levels of regulatory deferral accounts being recognised in the financial statements around the world. Consequently, a corporation having plants in various countries has the financial performance indicators significantly affected. To protect users of financial information, the prepares have to emphasize the impact of rate-regulation of its activity on the financial performance.

Table 4. Impact of regulatory financial statements

Type	Year	Debit	Credit
Unregulated firm	2013	- charge full negative effect of 32 mil. RON to expenses;	- reduce debtors with the value of 32 mil. RON;
Regulated firm		- recognition of regulatory asset of 32 mil. RON;	- reduce debtors with the value of 32 mil. RON;
	………	………………….	………………….
	2013+N	- recognition of partial expense;	- partial reduction in amount of regulatory asset;

Source: own construction

Till recently, this topic was covered only partially by IFRS. Along with IFRS 14 published, IASB has borrowed the model already conceived by FASB for regulatory accounting model well drawn on SFAS 71 Accounting for the Effects of Certain Types of Regulation, issued from 1982 already. It is well known that US

GAAP differ from IFRS especially on the focus attributed by FASB to specific industry accounting standard-setting.

IFRS 14 Regulatory Deferral Accounts, is an interim standards, having the role to cover on a principle-based approach the problem of regulatory deferral accounts till the comprehensive project regarding rate-regulated activities will end by issuing a final financial reporting standard. As a result of the Rate-regulated activities IASB project, which is still in progress, IFRS 14 was originally issued in January 2014 applicable for entity's first annual IFRS financial statements, beginning on or after with 1 January 2016. The standard is applicable only for IFRS first time adopters who have recognised regulatory deferral account balances according with local GAAP before adopting IFRS.

Main scope of the standard is that entities that recognise regulatory deferral account balances in their financial statements in accordance with local GAAP are permitted to continue reporting these balances according to previous GAAP used. The standard also come up with clarifications regarding regulatory deferral accounts that should be reported based on this interim standard, mentioning two criteria that have to be followed:

- price regulation by an authorised body;
- the rate established by regulator is designed to recover the entity's allowable costs of providing the regulated goods or services.

The prepares shall disclose separate line items in the statement of financial position for the total of all regulatory deferral account debit balances and the total of all regulatory deferral account credit balances as well, being distinguished from the assets and liabilities that are presented according with other standards. Moreover, the variances registered on the regulatory deferral accounts have to be disclosed as a separate line item in the statement of profit or loss and other comprehensive income, being well distinguished by income and expenses that are presented according with other standards. Thus, the user can appreciate the effects of the rate regulation on the financial position, the financial performance and cash flow of a reporting entity. If we come back to our initial example, TransElectrica, we can see Table 5 the financial effects of rate regulation.

It is obvious that, especially in case of industries such power energy or pharmaceutical industry, the impact is high, cause of the assets structure implying a high rate of fixed assets to be recovered on next years. That is way IFRS 14 requires application of IAS 33, which oblige prepares to report earnings per share, both including and excluding the movements in the regulatory deferral account balances.

Same standard focus on two general directions regarding disclosure requirements, that referring to information that describe the features of rate regulation (the nature and extent of rate regulated activities, identity of the rate regulator, the nature of the regulatory rate-setting process, or risks and uncertainties that affect the future recovery of the regulatory deferral accounts etc.), and which outline the financial effects on the financial statements (expected period of return, income tax on regulatory deferral accounts, or any other changes determined by variations on foreign currency rates, discount rates or even estimated cash flows).

Table 5. Financial impact of rate regulation, case of TransElectrica balances

KPI	Value	$\Delta_{\%}$
Fixed assets	3573 mil. RON	0.895%
Debtors	844 mil. RON	3.79%
Operating income	1197 mil. RON	2.67%
EBIT	249 mil. RON	12.85%
Net income	201 mil. RON	15.92%
Operating cash flow	544 mil. RON	5.88%

Source: own calculation

There is also discussed the interference between IFRS 14 and the requirements of other standards. As a core principle we mention that in the absence of any specific exception, exemption, or additional requirement mentioned in IFRS 14, if other standards have different measurement requirements from the existing accounting policy under previous GAAP, then those standards take precedence in recognising and measuring regulatory items.

This standard allows a temporary exemption from paragraph 11 from IAS 8, but they remain applicable paragraphs 10 and 12. This way, the standard preserves the importance of a rationale judgement used on adopting various accounting policies, ensuring conformity with qualitative characteristics of the financial information disclosed and flexibility in scope of reporting information with economic substance, rather than legal form. Also, we remind that deferred tax would be recognised and measured on regulatory deferral account balances in accordance with IAS 12, but have to be disclosed within the regulatory items section, instead of within tax line items. Conflict appear, also when proceeding to impairment tests for cash-generating units, which have to be done as IAS 36 require.

Even though, comparability of financial information is affected by allowing entities to apply local GAAP on recognising and measuring regulatory deferral accounts, as practice around the world varies. Main reasons are the rate-regulation setting-process and the exceptions and exemptions stated by IFRS 14. For instance, on reporting consolidated accounts, entities will cope with a conflict between IFRS 10 and IFRS 14, when the parent has to consolidate entities which have reported previously regulatory deferral accounts and also entities which haven’t reported previously such account balances.

historical cost of the assets – depreciation =

= rate base x rate-of-return allowed by regulator

= uncovered investment + operating costs, including depreciation and interest

= revenue justified by cost and return - revenue charged to customers

= regulatory deferral account balance.

Around the world there are two main basic approaches for rate-regulation, namely rate-of-return regulation and price-cap regulation. In case of rate-of-return model, the price charged to customers is equal to the efficient costs of production plus a market-determined rate of return on capital. The price-cap model is opposite to the rate-of-return model. The model differs by country, even by industry. The difference between the two models, in the last years, became smaller cause of a better financial forecast analysis made by rate-regulated entities. In case of rate-of-return model, the regulatory formula is given by above relation, using financial balances related to the regulated activity of an entity.

There can be raise several questions regarding this formula, affecting financial statements. First of all, which are the criteria used to classify allowable costs and how these costs are calculated as being related exclusive to the regulated activity of the reporting entity? Moreover, which is the judgement used on assets allocation for regulated activities. There might be cases when an asset is used both in regulated operating activities and unregulated operating activities. What about the rate of return used? Should it reflect a macroeconomic level of cost of production efficiency, or should it be related to other references? What about the discount rates, or cash-flow estimations used? Are they reliable and reflect the economic substance?

All these questions reveal the risk for fraudulent or creative accounting, as the industry specific can't be completely reflected through a principle-based standard. Additionally, there must be paid attention to the costs involved by maintaining multiple accounting records and the materiality of the information regarding regulatory deferral accounts. There may be case when recognition of such balances would not impact significantly decision-making.

We hope that all these concerns will be clarified by the end of the Comprehenisve project of Rate-regulated activities, as this project is still in progress and actual content of IFRS 14 is planned to be used just temporary.

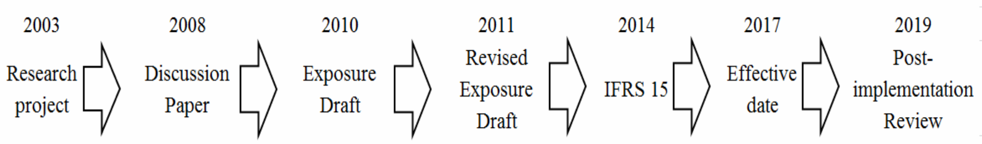
Considerations regarding IFRS 15

Accrual accounting and continuity assumption are two key concept of the actual Conceptual Framework for Financial Reporting. The model of accrual accounting says that, the revenues are recognized when they are earned and expenses are recognized when they are incurred. As the revenue is used on calculating the net operating profit, considered as a key performance indicator revealing enterprise's efficiency, it is mandatory that the accounting standards to draw clear directions on revenue recognition, in order the matching principle to be used properly. More than that, considering firm valuation model of discounted cash-flows (DCF), we must pay great attention to the accuracy of the revenues reported, as they are the basis of deduction on determining the future cash-flows used on calculating the value of firm.

Looking for a better economic substance of transactions, there has been installed a confusion around the treatments of recognition and timing of revenue recognition, which affect significantly the quality of financial information disclosed by the financial statements. For instance, let's have the case of IAS 11 which gives

preparers the option to recognize the revenue generated by a long-term construction contract using the percentage of completion method, but only if the outcome of the contract can be estimated reliably. Such a covert option put in difficulty the professional, cause appreciating how reliable are the estimations of the outcome can generate various opinions among the specialists. Also, IAS 18 requires within the set of recognition criteria that cash is collected or is reasonably likely to be collected. When talking about probability threshold the standard-setters are reluctant as setting such a threshold can't be applicable to all types of industry, or calculation assume a high risk of error estimation. The dichotomy of delivery status vs cash collection raises various creative accounting opportunities on using IAS 18, Van Greuning et. al. (2011) emphasizing four main categories of financial manipulation involving revenue, namely recording questionable revenue or recording revenue prematurely, recording fictitious revenue, recording one-time gains to boost income, and shifting revenues to future periods. We mentioning here situation when customer pay in advance the delivery, products/services are provided over multiple years, rights to use the product /service sold, are affected by the fact that the seller retains residual rights, credit-worthiness of customer questionable, or refunding for dissatisfied customers (Mulford & Comiskey, 2002; Jones M., 2011).
In order to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, IASB together with FASB within the project of accounting convergence, has issued IFRS 15 Revenue from Contracts with Customers, on May 2014, applicable beginning on or after 1 January 2017. The timeline of this standard lies along about 12 years of discussion and debate, the interest being proved by the large number of comment letters received by IASB, especially from North American and European preparers and accountancy bodies (IASB, 2014). Domains affected by the new standard are limited, as the timing of revenue recognition and measurement are the main controversies, reminding here the health care industry, construction, IT, real estate, telecommunications, licensors, or aerospace and defence.

Figure 3. Timeline of IFRS 15



Source: IASB, 2014

Borrowing significant aspects from US GAAP requirements regarding revenue recognition, the standard is aimed to replace IAS 11 and IAS 18, being focused on establishing a new control-based revenue recognition model, revisiting the model of revenue recognition over time in case of long-term contracts, providing new and more detailed guidance on portfolio of contracts, multiple element arrangements, timing of revenue recognition, financing component, variable pricing and credit risk, specific topics (contract costs, warranties, licencing, breakage, rights of return and other customer options, non-refundable upfront fees), or expanding and improving disclosure requirements about revenue (revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories; contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities; performance obligations, including when the company typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations in a contract; significant judgements, and changes in judgements, made in applying the requirements; assets recognised from the costs to obtain or fulfil a contract with a customer).

The standards will apply to contracts with customers to provide goods or services, including construction contracts and licensing of intellectual property, except lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to customers, or to potential customers, other than the parties to the exchange.

When we talk about a revenue recognition model, is necessary to analyse concerns like contract validity, control of the goods or services to be transferred, transaction price model and collectability of the accounting receivable. Based on these considerations borrowed from the industry-specific US GAAP requirements, IFRS 15 propose a principle-based model consisting of five distinct sequential steps:

- identifying the contract with the customer, step referring to the contract validity which mean that there should be persuasive evidence of an arrangement existing, commitments from involved parties to perform obligations are included, the rights and payment terms for goods or services to be transferred are identifiable, or the customer has accepted the asset;
- setting the separate performance obligations in the contract, for each good or service, in case it is distinct; otherwise the performance obligations will refer to a multiple elements agreement; the difficulty appear on the applicability of the set of criteria used in the classification of a good or service to be distinct;
- determine the transaction price, representing the amount of consideration to which the entity expects to be entitled in exchange of transferring promised goods or services to a customer; transaction price will consider the effects of variable consideration, the time value of money, non-cash consideration and consideration payable to the customer;

▪ when determining the amount of a variable consideration in a contract, it can be used either the expected value or the most likely amount (recommended only in case the entity expects to be entitled to only one of two possible amounts), the option conducting to a fair presentation;

▪ financing component has to be taken in account, especially when the period between payment by the customer and the transfer of the promised goods or services to the customer will be more than one year; moreover, the standard gives additional guidance to when there must be considered the time value of money considering that this is necessary only if:

✓the amount of customer consideration would be substantially different if the customer paid in cash at the time of transfer of the good or service;

✓the expected length of time between the provision of goods and services and the receipt of payment is significant;

✓the interest rate within the contract (implicit or explicit) compared with prevailing market rates differ visibly;

▪ non-cash consideration is applicable in case the customer does not pay by cash the goods or services provided, case when the promise of non-cash consideration have to be measured at fair value for the purpose of determining the transaction price;

▪ consideration payable to the customer reflect the credit the customer has to the seller, who can deduct the consideration from the contract price;

- allocate the transaction price to the separate performance obligations in the contract, by determining stand-alone selling prices for each good or service provided, reporting to the prices charged to other customers, already; otherwise, there can be used market-based estimates, cost-based estimates, or residual estimates;
- recognize revenue when (or as) the entity satisfies a performance obligation, making a clear distinction between an over time revenue recognition and a revenue recognition at a point in time; the customer's control on goods or services delivered is the key of the percentage of revenue to be recognized; the concept of control, probably one of the most debatable concept within this project, can be well appreciated when there is a present right to payment for the asset, the customer has legal title to the asset, the physical possession from seller to customer has been achieved, or the customer has accepted the asset.

In case a revenue does not fulfil the five steps requirements, the consideration already received for the sales has to be deferred as a liability until revenue recognition can take place.

Let's consider the case of an entity TVT, building industrial equipment for lamination automotive industry, with a contract inception date of January 2014. TVT has contracted the delivery of an industrial equipment to four different customer, TSK, TBT, TCR and TRK, on different conditions, as the table below depict. In case of TSK, the equipment, starting to be built on February 2014, is planned to be delivered on March 2014, and installed on April 2014.

In case of TSK agreement, the parties committed to consider that a delay on providing the contracted services will determine a progressive penalty cost of 3.5% from the contract total value, by each three month delaying. The history reveal a probability distribution of the delays registered by TVT for similar contracts in the past, looking like the following one: 3 months delay (20%), 6 months delay (10%), 9 months delay (5%) and 1 year delay (1%).

Table 5. Contracts option (RON)

	Price	**TSK**	**TBT**	**TCR**	**TRK**
Customer design	3,000	x			
Transfer of the equipment	8,000	x	x	x	
Installation	6,000	x	x		
Employee training	3,000	x			x
After-sales service	6,000	x			x
Contracts values		17,000	14,000	8,000	3,000
		3,000			5,000
		6,000			

Also, same contract provision take in account that the contract for after-sales service is signed for 3 years, using a discount rate of 10%. The software improvement programme estimate expenses to be affected by 50% for the first year, 25% for the second year, and another 25% for the second year. The costs for after-sales service represent the cost of 5000 RON, plus a margin of 20%. Also, the employee training value has been estimated to be charged to the customer with the value of 3000 RON, as there were similar transactions on the market. The employee training program consist of 3 distinct modules, consisting of 100 hours split as follows: 40 hours for the first module hold on June 2014, 35 hours for the second module hold on August 2014, and 25 hours for the last module hold on September 2014. Actually, TSK has a credit to TVT, representing unpaid invoice of 500eur dated with December 2013. First we have to identify the contract with the customer. The question we first ask is if all the options mentioned above have to be considered by TVT as single contracts, as these services can be provided separately as well, or the firm can consider the combination of these contracts as a single contract. IFRS 15 sustain that an entity to identify a combination of contracts as single contract, has to negotiate the contracts as a package with a single commercial objective, has to evaluate if the amount of consideration to be paid in one contract depends on the price or performance of the other contract, or if the services are a single performance obligation. In the case of TSK contracts, design, transfer and installation of the equipment can be combined in a single contract. Similar situation is for TBT contract. What about the employee training and after-sales services? This option has to be considered as a separate contract, as it does not influence the transfer of the equipment from seller to customer. Similarly, in case of TRK contract, TVT has to identify separately the services of employee training and after-sales services as they are not interrelated. Once the contract is identified, we have to identify the separate performance obligations in the contract. IFRS 15 requires that, in case of TSK contract, there must be set up a single performance obligation for the designed-to- installation project. Meanwhile, separate performance obligations have to be created for services of employee training and for after-sales service. In the case of TBT contract, there must be paid great attention if the installation has to significantly modify or customise the equipment. In not, then for the TBT contract has to be set up two separate

performance obligations for transfer of equipment and, also, for installation of the equipment. In the order contracts, it is clear that for each single contract that have to be conceived separate performance obligation. In case of the after-sales service contract expanding on a multi-annual period, as prescribed by IFRS 15, there has to be considered a separate performance obligation for each year of the contract, as the contract can suffer modification along the contract period. The next step is to determine the transaction price, considering that consideration the firm is entitled with can be variable at contract inception, can include a financing component on the contract value, non-cash consideration and consideration paid or payable to the customer. In case of TSK design-to-installation contract, the total value of the contract at the contract inception is of 17,000 RON. The variable component of the contract represented by the expected value of variable consideration is
$351.05\ RON = (20\% \cdot 3.5\% + 10\% \cdot 7\% + 5\% \cdot 10.5\% + 1\% \cdot 14\%) \cdot 17{,}000$ RON.
This method must be used throughout the entire contracting period. Changes in uncertain events can be changed on a yearly basis, if necessary.
In case of the after-sales service TSK contract, TVT has to recognize revenue from this contract in value of only 5603 RON, cause the financing component of $397\ RON = 6000\ RON - \left(3000 + \frac{1500}{1.1} + \frac{1500}{(1.1)^2}\right) RON$ has to be deducted from the contract total value. Thus, TVT report accounting receivable of 5603 RON in the balance-sheet, and revenue from interest of $260.3\ RON = (5603\ RON - 3000\ RON) \cdot 10\%$ in the first year, and of $136.33\ RON = (5603\ RON - 4500\ RON + 260.3\ RON) \cdot 10\%$ in the second year. (APPENDIX 1). The following step is to allocate the transaction price to each performance bligation. For instance, for TSK contract (valuing 25000 RON), there was mentioned in the problem that for employee training, from the value of total contract must be allocated 3000 RON on a market-based approach, and for the after-sales service spanning on 3 years there has to be allocated a value of $6000\ RON = 5000\ RON + 20\% \cdot 5000\ RON$ according to a cost-based approach. Cause the customer design costs can't be exactly determined, TVT decide to allocate from the total value of contract the sum of $17000\ RON = 25000\ RON - 3000\ RON - 6000\ RON$, using a residual approach. There remain discussion on how to split the value of 6000 RON representing the value of after-sales service contract along the period of 3 years the contract is valid. The credit TSK has to TVT has to be allocated to each performance obligations as follows: for the design-to-installation contract the value of $340\ RON = 17000 \cdot \frac{24500}{25000} RON$, for the employee training contract the value of $60\ RON = 3000 \cdot \frac{24500}{25000}\ RON$ and for the after-sales service contract the value of $100\ RON = 6000 \cdot \frac{24500}{25000} RON$.

The last step clarify the aspects of measuring the satisfaction of performance obligations, as the standard follows the core principle which consider that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Here is the discussion around revenue recognition over time, or at a point in time. On this direction, IFRS provision that an entity shall recognise revenue for a performance obligation satisfied over time only if the entity can reasonably measure its progress towards complete satisfaction of the performance obligation.
Also, there have been long debate around the method chosen to split the contract value over time (Schipper et. al., 2009). IFRS 15 prescribe two such methods, the output method and the input method, similar with the methods prescribed by IAS 11. The output method recognize the revenue on the basis of units produced or delivered, contract milestones in case of a goods, or in the amount to which the entity has a right to invoice for services. Conversely, input method consist of recognising revenue on the basis of efforts expended to date, relative to total efforts expected to be expended. This method is preferable cause of the reliability of the model. In Table 7 it is obvious that the more accurate is the net operating profit the smaller is the gap between revenues and expenses.
The actual model of revenue recognition become more accurate, more structured and more rigorous, paying attention to the legal aspects, as well as the economic substance of the transaction that must be fairly reported through a precise scheme of revenue recognition based on a customer transfer control model. Technical issue concerning revenue recognition of multiple element agreements have been removed once performance obligations have been set up separately for each distinct good or service provided. Also, the new standards brings more guidance on definition of the concept of control to be transferred to the customer for goods or services provided based on a legal contract, contract costs modification, variable consideration, or allocation of transaction price on performance obligations. But there remains a serious problem regarding the collectability risk. The collectability risk is not taken in account, neither on the discounted rates, nor on the timing of the revenue recognition. Compared to treatment prescribed by IAS 11 and IAS 8, the new standard eliminates the requirement that the revenue must be recognized at the fair value of the consideration received or receivable, which arguably, implicitly includes credit risk.

Conclusions

Decision process gained significantly cause of the international accounting convergence efforts. Improving accounting information quality represents a complex reality nowadays. Along the entire financial reporting supply chain there were encountered visible reforms having multiple objectives, especially focused on standard-setting process and consolidation of an efficient enforcement mechanism. Actual trends in financial reporting are already drawn, attention being directed to the economics and politics behind the accounting standards.

It is obvious that IFRS represent the global solution for a new era of an international accounting language. Even so, IASB must continue its combat with earnings management practices and incomplete financial disclosures. In this context we salute the efforts of IASB on establishing a real continuous improvements strategy of financial accounting standards. Supported by a transparent due process, and a focus on the impact analysis of revised and new accounting standards, the strategy will be surely successful on a long-term approach. IASB legitimacy depend on its potential of innovation. That's why we salute the initiative of IASB of launching the new Research Centre which brings closer the interested academics to the standard-setting process, and build more rigorous accounting standards based on a solid base of research work.

Even so, information asymmetry can't be solved only limiting to the quality of the financial reporting standards. Entities and state as well have to pay attention to the implementation of a healthy corporate governance mechanism supported by a solid organizational structure. Auditors have to guard on the conformity of financial statements with IFRS requirements, especially on the cases of the countries being in full process of transition to IFRS adoption.

All these aspects must be taken in consideration for the future developments in financial reporting standard-setting. But the most important objective, from my point of view is strengthening the trinomial accounting-audit-valuation as the financial statements serve, mainly, the investors requirements of information. This objective have to be supported by promoting expansion of voluntary disclosures practice, so the transparency along the capital markets to increase, in order to increase market liquidity and reduce the cost of capital.

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APPENDIX 1. **Financial impact of revenue recognition** (RON)

		Method	Timing	Transferred control indicator	Month						
					January	February	March	April	June	August	September
Customer design	accounts receivable	input method	at a point in time	right for payment	2940	0	0	-2940	0	0	0
	revenue				0	0	0	2940	0	0	0
	expense				0	1470	1470	0	0	0	0
	profit				0	-1470	-1470	2940	0	0	0
Transfer of the equipment	accounts receivable	output method	at a point in time	risks and rewards of ownership	7840	0	-7840	0	0	0	0
	revenue				0	0	7840	0	0	0	0
	expense				0	0	6500	0	0	0	0
	profit				0	0	1340	0	0	0	0
Installation	accounts receivable	output method	at a point in time	accepance of asset	5880	0	0	-5880	0	0	0
	revenue				0	0	0	5880	0	0	0
	expense				0	0	0	5000	0	0	0
	profit				0	0	0	880	0	0	0
Employee training	accounts receivable	output method	over time	right for payment	2940	0	0	0	-1176	-1029	-735
	revenue				0	0	0	0	1176	1029	735
	expense				0	0	0	0	1176	1029	735
	profit				0	0	0	0	0	0	0
After-sales service	accounts receivable	input method	over time	right for payment	5603	0	0	-167	-167	-167	-167
	revenue				0	0	0	167	167	167	167
	expense				0	0	0	127	127	127	127
	profit				0	0	0	40	40	40	40

Source: own calculation