

Chapter 7

Accounting system

1. Overview

The Romanian accounting system underwent continuous reform in the past years with the aim to improve, simplify and at the same time increase the accuracy and comprehensibility of accounting operations by aligning the relevant Romanian legal provisions to European Union legislation in the field.

The beginning of the accounting reform was marked by passing the Accounting Law no. 82/1991 and continued with another stage, starting with January 1st, 1994, when the former accounting system was replaced by a new one, the Generally Accepted Accounting Principles (GAAP) that was closer to the French system.

Starting 2001, the Ministry of Public Finances has been involved in harmonizing the Romanian accounting system to European Union Directives and to International Accounting Standards (IAS), process which started with enactment of Order 94/2001 regarding the approval of the accountancy regulations harmonized with 4th Directive of the European Communities and International Accounting Standards. The above Order was repealed by Order no. 1752/2005 of the Ministry of Public Finances regarding the approval of the accounting regulations in compliance with the European Directives, namely the 4th and 7th Directives of the European Communities.

Order 1752/2005 entered into force on January 1, 2006 and hence was applicable starting with the preparation of the financial statements for 2006.

2. Legal framework

- Law no. 82/1991 on the accounting system, republished, as further amended and completed (“Law no. 82/1991”);
- Government Ordinance no. 65/1994 on the organization of expert accountants and chartered accountants, as further amended and completed (“GO no. 65/1994”);
- Government Emergency Ordinance no. 75/1999 on financial audit activity, as further amended and completed (“GO no. 75/1999”);
- Order no. 1752/2005 of the Ministry of Public Finances regarding the approval of the accounting regulations in compliance with the European Directives (“Order no. 1752/2005”).

3. Entities subject to accountancy regulations

- regies autonomes;
- national companies;

- commercial companies;
- national research and development institutions;
- public institutions;
- cooperative enterprises;
- associations and other legal entities;
- individuals carrying out income-generating activities in accordance with the provisions of Government Emergency Ordinance no. 48/2008 regarding economic activities performed by authorised natural persons, enterprises set up by individual entrepreneurs and family enterprises;
- sub-units registered abroad by Romanian entities, as well as permanent establishments in Romania of foreign entities.

Certain types of entities, such as credit institutions and other financial institutions, publicly owned companies, insurance companies, pension funds, state institutions etc. apply specialized sets of rules to their financial reporting/accounting systems.

4. Accountancy operations

Accountancy, as a specialized activity, consists of evaluation, administration and control of the assets, debts and equity of persons subject to accountancy regulations and consists in chronological and systematic recording, processing, publication and preservation of information regarding the financial status and economic yield, as well as the treasury ebb and flow of the above-mentioned entities. Accounting information is meant to be used for the internal activities of such persons, as well as for their business relations with current and future investors, financial and commercial creditors, clients, public institutions and other persons. Thus, any economical-financial operation must be registered within the accounting records at the same time the operation is performed.

Using the European Union financial reporting system and the International Financial Reporting Standards, where applicable as detailed below, allows Romanian companies to communicate in an international language, widely recognized and understood by all investors. At the same time, by the correct appliance of international accounting standards and the practice of a strict financial audit, the confidence of internal and international investors will continue to grow and, consequently, further capital investments will be attracted.

5. Language and currency used for accounting purposes

Generally, accounting records must be kept in Romanian language and expressed in the national currency RON. Accounting operations evidencing foreign currency transactions must be kept both in RON and in foreign currency. At the same time, for information purposes only, accounting records may also be kept in any foreign currency.

6. Corporate accountancy

Corporate entities are to keep and manage accounting records through distinct, specialised departments, led by the business director and by the chief accountant or by any other person empowered to do so. These persons must hold a university economic studies diploma, recognised by the Ministry of Education, Research and Youth. Should the activity of a corporate entity not require the creation of a specialised accountancy department, authorized legal entities, expert accountants or chartered accountants can also keep accounting records.

The responsibility for the accountancy keeping lies with the director or with the funds coordinator or any other person in charge with the entity's management. If accountancy is kept by third-party authorized legal entities or by expert accountants or chartered accountants, such legal entities/individuals shall be responsible for accountancy keeping in accordance with the relevant legal and contractual provisions.

Profit or loss is registered cumulated in the accounting records starting with the beginning of the year. Closing of the incomes and expenses accounts is carried out, as a rule, at the end of the financial year. The allocation of profit is recorded based upon its destination in the book accounts, after the approval of the annual financial statements.

7. Accounting books

7.1. Journal – Ledger, where are recorded all company operations, payments received or made, as well as amounts used for shareholders/associates' personal expenses when allowed by the Articles of Incorporation, kept in chronological order.

7.2. Inventory – Ledger, where are recorded all real estate and movable assets, commercial and civil debenture and receivables, pursuant to an inventory.

7.3. General Ledger, which serves as a summary of the journal - ledger, offering a synthetic view of the corporate status.

The accounting books have to be filled in such way as to allow the identification and control of the accounting operations at any time and must be kept for a 10 years period in the archive of the aforementioned persons.

The accounting books, besides their role of evidence and control of commercial activities, can serve as evidence in court cases. They can be used as evidence in litigations between merchants, against the merchant who has been keeping them but also in his favour, if they were kept according to the legal provisions.

8. Annual financial statements. International Financial Reporting Standards

Under Order 1752/2005, legal entities are required to prepare detailed or simplified financial statements, depending on the fulfilment of various criteria as detailed below.

Legal persons that exceed at least two of the following criteria, must prepare detailed annual financial statements:

- (i) net turnover: EUR 7,300,000;
- (ii) cumulated value of assets: EUR 3,650,000;
- (iii) average number of employees: 50

The detailed annual financial statements must comprise the following:

- (i) the balance sheet;
- (ii) profit and loss account;
- (iii) description of evolution of own capitals;
- (iv) treasury cash flow status;
- (v) explanatory notes regarding the financial statements.

Legal persons that do not exceed two of the aforesaid criteria shall draft simplified annual financial statements. The simplified annual financial statements must comprise the following:

- (i) simplified balance sheet;
- (ii) profit and loss account;
- (iii) explanatory notes of the financial statements.

Optionally, simplified statements may also include references to evolution of own capitals and/or treasury cash flow.

The annual financial statements must be accompanied by an affidavit issued by the management bodies of the legal persons stating that the former are drawn-up in accordance with the provisions of the 4th Directive of European Communities.

The consolidated financial statements shall be drawn-up by legal persons in accordance with the provisions of 7th Directive of European Communities if the companies which follow to be consolidated exceed together two of the following criteria:

- (i) net turnover: EUR 35,040,000;
- (ii) cumulated value of assets: EUR 17,520,000;
- (iii) average number of employees: 250.

The following companies have the obligation to apply the International Financial Reporting Standards (IFRS) when preparing their financial statements: (i) publicly traded companies that prepare consolidated statements; and (ii) credit institutions for the purpose of preparing their consolidated statements.

Data comprised in the financial statements must be consistent with the data recorded in accounting books and to the assets and liabilities inventory. Any set-off between accounts, including set off between income and expenses in the profit and loss account is prohibited.

Annual financial statements must be kept for 10 years by the company.

9. Accountancy provisions of the Company Law no. 31/1990

The main provisions regarding the companies' accountancy refer to:

- (i) the financial statements must be discussed, approved and, as the case may be, amended by the General Meeting of the Shareholders, whereby the dividends are based on the earned profit;
- (ii) the financial statements of companies which according to the accountancy regulations harmonized with the European Directives must prepare detailed financial statements, shall be audited by a financial auditor – individual or legal entities; companies that are not required to prepare detailed statements have a choice between appointing a financial auditor and/or appointing censors and/or appoint both censors and a financial auditor;
- (iii) the censors and/or financial auditor check the balance sheet, the profit and loss account, the accounting books, as well as any other documents necessary for the purpose of verifying the conformity of a company's book keeping with the legal provisions in force;

- (iv) the censors and/or financial auditor draw up a detailed report regarding the balance sheet and the profits, which report shall be relied on by the Shareholders' General Meeting when approving the annual financial statements;
- (v) within at most 15 days after the General Meeting approved the annual financial statements, directors must file a copy of the annual financial statements with the fiscal authorities and with the Trade Registry.

10. Provisions on auditors of the open companies established by Law no. 297/2004 regarding securities, financial investments services and securities markets

According to the Order no. 1752/2005 and Law 297/2004 regarding the capital market, publicly held companies must draft their financial statements in accordance with the provisions of 4th Directive of European Communities, irrespective of whether they meet the criteria mentioned above regarding net turnover, cumulated value of assets and average number of employees. The financial statements of publicly held companies are submitted to the financial auditors in order to be checked.

The financial auditor:

- (i) drafts an audit report regarding annual financial statements in accordance with the auditing standards issued by the Financial Auditors Chamber of Romania;
- (ii) drafts within 30 days, based on the information made available by the directors and in accordance with the auditing standards and the reporting background defined by international accounting standards and the regulation of the National Securities Commission ("NSC"), additional reports pertaining to specific operations upon request by shareholders holding at least 5% of the voting rights. The directors are bound to provide the auditors with all required information.

Publicly held company must file with the NSC and the relevant regulated market and publish financial reports quarterly, bi-annually and annually.

A publicly held company is bound to make available to the public its financial statements along with the annual report, within 4 months after the end of the financial year and both must be approved by the General Meeting of Shareholders. The annual report will also contain the report drafted by the financial auditor.

The bi-annual report must be made available to the public, within 2 months after the end of the period covered by such report. If the bi-annual financial statements were audited, then the report must contain the auditor's statement as well.

If the publicly held company drafts both individual and consolidated financial statements, the NSC is competent to decide whether both individual and consolidated statements are to be made public or if it is sufficient to only publish either the individual or the consolidated statements. The NSC may decide that only individual statements or, as the case may be, only consolidated statements shall be published as long as the statements that are not published do not contain any significant additional information to the information comprised within the statements that shall be published.

As of January 1, 2007, as a result of Romania's accession to the European Union, the provisions of Regulation (EC) No 1606/2002 on the application of international accounting standards became directly applicable in Romania and hence, all publicly held companies that

prepare consolidated statements must apply the International Financial Reporting Standards (IFRS).

Publicly held companies may also choose to prepare a distinct set of individual statements in accordance with the International Financial Reporting Standards, to be used in their relations with investors. Nevertheless, such companies still have to draft a set of individual financial statements compliant with the 4th Directive, in accordance with Order 1752/2005, to be used in their relations with the Romanian state.

11. Expert and chartered accountants

11.1. Qualifying as expert accountant or chartered accountant

The status of expert accountant and chartered accountant is acquired by passing an exam, followed by a professional practice period of 3 years and passing another exam when the practice period is over.

Expert accountants are persons who are professionally qualified to verify and ascertain the way the companies' economical-financial and accountancy activity is run by its managing bodies, monitor the companies' management and to check the legality of balance sheet and profit and loss account. Expert accountants supervise the activity of chartered accountants and their endorsement is necessary in order for financial statements prepared by chartered accountants to be valid.

Chartered accountants are persons who acquired this attribute in accordance with Government Ordinance no. 65/1994, and are competent to keep accounting records and prepare accounting statements of companies under the supervision of an expert accountant.

11.2. Attributions of chartered accountants and of expert accountants

Chartered accountants have the following main duties and attributions:

- (i) to keep accounting records of economic-financial operations;
- (ii) to do preparatory work for the drafting of the financial statements.

Expert accountants have the following main duties and attributions:

- (i) to draft, check and certify the financial statements;
- (ii) to perform economic-financial analyses, draft financial reports and prepare patrimonial assessments;
- (iii) to perform accounting examinations at the request of judicial bodies or of private persons, in accordance with the law;
- (iv) to fulfil the obligations the law provides for the companies' censors;
- (v) to perform any other services related to accountancy, financial, fiscal, administrative organisation and company reorganization fields.

The audit activity can be practiced either individually or in the form of professional partnerships or by establishing corporate entities.

11.3. Experts and Chartered Accountants Professional Body

The Experts and Chartered Accountants Professional Body is a professional organization, with legal personality, organised at national level, made up of expert accountants and chartered accountants, with duties and attributions in organizing the profession.

12. Financial auditing

Financial auditing consists in investigating activities performed by financial auditors in order to express an opinion regarding the financial statements, according to international auditing standards.

Financial auditors may be natural or legal persons and are granted this attribute by the Experts and Chartered Accountants Professional Body, according to Government Emergency Ordinance no. 75/1999.

Financial auditors may perform the following activities:

- (i) financial audit;
- (ii) internal audit;
- (iii) accountancy, financial and fiscal consultancy;
- (iv) accountancy and financial management;
- (v) professional training;
- (vi) accountancy expertise;
- (vii) evaluations/appraisals;
- (viii) judicial reorganization and liquidation activities.