

Chapter 7

Accounting System

1. General

The Romanian accounting system has undergone continuous reform over the past years, with the aim of improving, simplifying and at the same time increasing the accuracy and comprehensibility of accounting operations by aligning relevant Romanian legal provisions to European Union legislation in the field.

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

As of 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), a process which started with the enactment of Order No. 94/2001 regarding the approval of accountancy regulations harmonized with the 4th Directive of the European Communities and International Accounting Standards. The above Order was repealed by Order No. 1752/2005 which was subsequently repealed by Order No. 3055/2009 of the Ministry of Public Finances regarding the approval of accounting regulations in compliance with European Directives, namely the 4th and 7th Directives of the European Communities.

Beginning 1 January 2015, Order no. 1802/2014 of the Ministry of Public Finances on the approval of accounting regulations regarding the individual and consolidated annual financial statements, repealed Order No. 3055/2009. Therefore, beginning 2015, Romania has changed its main accounting rules.

2. Main Regulations

- 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. 1802/2014 of the Ministry of Public Finances on the approval of the accounting regulations on the individual and consolidated annual financial statements (“**Order No. 1802/2014**”).

3. Entities subject to accountancy regulations

- (i) regies autonomies;
- (ii) national companies;
- (iii) commercial companies;

- (iv) national research and development institutions;
- (v) public institutions;
- (vi) cooperative enterprises;
- (vii) associations and other legal entities, with or without profitable purpose;
- (viii) individuals carrying out income-generating activities (e.g. authorised individuals, enterprises set up by individual entrepreneurs and family enterprises, individuals carrying out liberal professions);
- (ix) sub-units without legal personality registered abroad, pertaining to Romanian entities;
- (x) permanent establishments in Romania of foreign entities;
- (xi) undertakings for collective investment not established through articles of incorporation.

Entities contemplated above (except for individuals mentioned under point (viii)) must organize and conduct a double entry accounting, whereas individuals obtaining income must conduct single entry accounting and keep an Inventory Ledger and a Journal Ledger for collections and payments.

Beginning 1 January 2015, entities who have registered in the previous financial exercise a net turnover and total assets under the RON equivalent of EUR 35,000 can no longer opt for a simplified accounting system. However, certain entities/individuals expressly provided for by law are permitted to apply a simplified accounting system or may choose to follow the double-entry accounting rules.

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 the measurement, evaluation, acknowledgment, administration and control of the assets and debts, equity and obtained results and consists in chronological and systematic recording, processing, publication and preservation of information regarding the financial status and economic yield, as well as other information regarding the activity performed by 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 fiscal 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 - applicable as detailed below - allows Romanian companies to communicate in an international language, widely recognized and understood by all investors. At the same time, through the correct application 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 the Romanian language and expressed in the national currency, RON. Accounting operations evidencing foreign currency transactions must be kept both in RON and in the relevant foreign currency.

6. Corporate accountancy

Corporate entities usually keep and manage accounting records through distinct, specialised departments, led by the financial director, by the chief accountant or by any other person empowered to act accordingly. These persons must hold a university economic studies diploma, recognised by the Ministry of Education and Scientific Research. Should the activity of a corporate entity not require the creation of a specialised accountancy department, then authorized legal entities, expert accountants or licensed accountants can also keep accounting records, based on service agreements concluded in this respect.

The responsibility for keeping the accounts lies with the financial director, the chief accountant or the persons empowered in this respect, together with the subordinated personnel. If accountancy is kept by third-party authorized legal entities or expert accountants or licensed accountants, such legal entities/individuals are responsible for keeping the accounts in accordance with the relevant legal and contractual provisions.

Profit or loss is registered cumulatively in the accounting records starting with the beginning of the financial year. Closure of the incomes and expenses accounts is carried out, generally, at the end of the financial year. 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 (*e.g.* payments received or made, amounts used for shareholders/associates' personal expenses when allowed by the articles of incorporation, sale and purchase of goods/services) 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 year period (computed from the year following their filing) in the archive of the aforementioned persons, except for certain specific cases provided by law (*e.g.* 50 years for payrolls).

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 litigation, either for or against, depending if they were kept according to the legal provisions.

8. Annual financial statements. International Financial Reporting Standards

Under Order No. 1802/2014 legal entities are required to prepare detailed, simplified or specific microenterprises financial statements, depending on the fulfilment of various criteria as detailed below.

Microenterprises can prepare a special type of financial statements if they do not exceed at least two of the following criteria:

- (i) net turnover: RON 3,000,000 (approx. EUR 670,000);
- (ii) cumulated value of assets: RON 1,500,000 (approx. EUR 334,000);
- (iii) average number of employees during the financial year: 10.

The special type of financial statements for microenterprises are:

- (i) simplified balance sheet;
- (ii) simplified profit and loss account;
- (iii) microenterprises are not compelled to prepare explanatory notes to the annual financial statements, but they must provide information regarding (a) their accounting policies, (b) the total value of their financial arrangements, guarantees, contingent assets or liabilities which are not included in the simplified balance sheet, legal commitments in connection to pensions and related parties (c) the amount of advances and loans granted to members of the administrative, management or supervisory bodies, and guarantees borne in their names and (d) the acquisitions of their own shares.

Entities that exceed at least two of the following criteria (also called *medium and large sized entities*) must prepare detailed annual financial statements:

- (i) net turnover: RON 35,000,000 (approx. EUR 7,780,000);
- (ii) cumulated value of assets: RON 17,500,000 (approx. EUR 3,890,000);
- (iii) average number of employees during the financial year: 50.

The detailed annual financial statements must comprise the following:

- (i) balance sheet;
- (ii) profit and loss account;
- (iii) statement of changes in equity;
- (iv) cash flow statement;
- (v) explanatory notes for the annual financial statements.

Legal entities who are not considered microenterprises and do not exceed two of the aforesaid criteria for medium and large sized entities (also called *small entities*), draft simplified annual financial statements. The simplified annual financial statements must include the following:

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

Optionally, simplified statements may also include the statement of changes in equity and/or the cash flow statement.

Special rules are provided for newly established entities and group entities, as well as for entities which fulfil the criteria of another type of entity (e.g. microenterprise, small entity, medium and large sized entity), as compared to the previous financial year.

The annual financial statement must be accompanied by an affidavit issued by the management bodies of the legal entities, stating that they take responsibility for the preparation of the financial statement. and that they confirm the following:

- (i) the accounting policies used for the preparation of the annual financial statement are in accordance with the applicable accounting provisions;
- (ii) the annual financial statement provides a true and fair view of the financial position, financial performance and other information related to the activity;
- (iii) the legal entity performs its activities in a continuous matter.

The consolidated financial statements should be drawn-up by legal entities in accordance with the provisions of Order No. 1802/2014, if the companies which are subject to consolidation qualify as small or medium sized groups or large groups.

Small or medium sized groups are formed between a parent-company and its subsidiaries which do not exceed together two of the following criteria:

- (i) net turnover: RON 210,000,000 (approx. EUR 46,600,000);
- (ii) cumulated value of assets: RON 105,000,000 (approx. EUR 23,300,000);
- (iii) average number of employees during the financial year: 250.

Large groups are formed between a parent-company and its subsidiaries that exceed together two of the criteria mentioned above.

The following companies are obliged to audit their financial statements:

- (i) medium and large sized companies;
- (ii) national companies;

- (iii) companies where the State holds the entirety/majority of the share capital;
- (iv) regies autonomies;
- (v) legal entities that exceed at least two of the following criteria: (a) net turnover: RON 32,000,000 (approx. EUR 7,100,000), (b) cumulated value of assets: RON 16,000,000 (approx. EUR 3,500,000), (c) average number of employees during the financial year: 50. This obligation arises in cases where the entity exceeds the above mentioned criteria for two consecutive financial years.

Also, annual consolidated financial statements are subject to audit.

Annual financial statements prepared by small entities and microenterprises should be reviewed by censors.

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

In case a foreign legal entity has more than one permanent establishment registered in Romania, the annual financial statement should be prepared only by the permanent establishment designated to comply tax requirements. Such annual financial statements should reflect the entire activity performed in Romania by the registered permanent establishments.

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

Annual financial statements must be kept for 10 years.

9. Accountancy provisions contained in the Company Law No. 31/1990

- (i) Key persons in the Company Law No. 31/1990 on accounting set forth: the financial statement must be discussed, approved, and, as the case may be, amended by a general meeting of shareholders, whereby the dividends are based on the earned (accounting) profit;
- (ii) the financial statements of companies obliged to be audited according to local accountancy regulations must be audited by a financial auditor – an individual or legal entity; companies that are not obliged to audit their financial statements have a choice between appointing a financial auditor or appointing censors;
- (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 to verify the conformity of a company's book keeping with the legal provisions in force;
- (iv) the censors and/or financial auditor draw/s up a detailed report regarding the balance sheet and the profits, on which the general meeting of shareholders relies on to approve the annual financial statement;

- (v) after being approved by the general meeting of shareholders, the annual financial statement must be filed with the fiscal authorities, who will subsequently inform the relevant Trade Registry with a view to performing the mandatory public recording formalities.

As per Law No. 31/1990, companies having an annual turnover exceeding RON 10,000,000 (approx. EUR 2,200,000) must publish in the Official Gazette an information notice confirming the submission of the annual financial statement.

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

According to the Order No. 881/2012 on the application by publicly held companies of IFRS and Law No. 297/2004, publicly traded companies must draft their financial statements in accordance with the provisions of IFRS. Financial statements of publicly traded companies are checked and verified by financial auditors.

Publicly traded companies must file with the securities market authority, and the relevant regulated market operator, and publish financial reports quarterly, bi-annually and annually.

A publicly traded company is required to make publicly available its annual financial statement, along with the annual report, within 4 months from the end of the financial year, and both must be approved by a general meeting of shareholders. The annual report must also contain the report drafted by the financial auditor.

The bi-annual report must be made publicly available from 2 months after the end of the period covered by the report. If the bi-annual financial statements were audited, then the report must also contain the auditor's statement.

If the publicly traded company drafts both individual and consolidated financial statements, the FSA¹ is competent to decide whether both individual and consolidated statements are to be made public or if it is sufficient to publish only either the individual or the consolidated statements. The FSA may decide that only individual statements or only consolidated statements should be published, as long as the statements that are not published do not contain any significant additional information.

From January the 1st, 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 traded companies who prepare consolidated statements must apply IFRS. Also, their individual financial statements should be prepared in compliance with IFRS.

11. Expert and licensed accountants

11.1. Qualifying as expert accountant or licensed accountant

The status of expert accountant and licensed accountant is acquired through examination, followed by a professional practice period of 3 years, followed by a further exam.

Expert accountants are professionally qualified to verify and ascertain the way the companies' economic-financial and accounting functions are run by its managing bodies, to monitor the companies' management,

¹ The Romanian Financial Supervising Authority

draft and check the legality of financial statements, and to prepare accounting expertise reports. Expert accountants supervise the activity of licensed accountants and their endorsement is necessary to validate financial statements prepared by chartered accountants.

Licensed accountants are persons who acquired this attribute in accordance with GO 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. Duties of licensed accountants and of expert accountants

Licensed accountants have the following main duties:

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

Expert accountants have the following main duties:

- (i) to prepare or review accounting records; to draft, check and certify 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 legal obligations for the companies' censors;
- (v) to perform any other services related to accountancy, financial, administrative and informatic organisation, and company set-up and reorganization fields;
- (vi) to perform audit, tax consultancy and valuations services (only after being authorisation from the related regulatory bodies).

Accounting activity performed by expert accountants and/or licensed accountants can be practiced either individually or by establishing corporate entities.

11.3. The Body of Expert and Licensed Accountants

The Body of Expert and Licensed Accountants is a professional organization, with legal personality, organised at a national level, made up of expert accountants and licensed accountants, with duties and functions in organizing the profession.

12. Financial auditing

Financial auditing consists of investigating activities performed by financial auditors in order to express an opinion regarding financial statements, or to perform other assurance missions and professional services according to international auditing standards.

Financial auditors may be natural or legal persons and are granted this attribute by the Chamber of Financial Auditors of Romania, according to GEO No. 75/1999.

Financial auditors may perform the following activities:

- (i) financial audit;
- (ii) internal audit;
- (iii) financial-accountancy services;
- (iv) accountancy and financial management;
- (v) professional accountancy training;
- (vi) accountancy expertise, evaluations/appraisals, judicial reorganization and liquidation activities, as well as tax consultancy services (only after being authorisation by the related regulatory bodies).