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Bankruptcy Risk in IFRS Era. Case Study on BSE Companies

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A R T I C L E I N F O

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A B S T R A C T

The path of international accounting convergence is, unanimously accepted by all decision makers of the international financial reporting environment, as being the best solution towards reducing differences in international accounting. The idea of core standards is embraced by our country, too, the proof being the last legislative changes in Romanian accounting framework. This study aims to highlight a small part of the economic consequences of the decision to extend the mandatory use of IFRS standards to the statutory financial statements, also. More exactly we will underline the changes registered at the level of bankruptcy risk measureson a samples of companies listed on BSE.

1. International accounting convergence

Developments occurred in the past decade, in the field of optimizing financial reports configuration; draw a predictable option of game makers engaged in international accounting normalization in order to embrace the idea of a global set of accounting standards for quality (core standards). Accounting diversity has recorded numerous adverse effects on how the reporting and interpretation of financial performance are made and generated a more accentuated damage to accounting information credibility, due to a low degree of international comparability, due to the difficulties of reconciling financial statements, and not the least, in terms of financial communication transparency (Nobes & Parker, 2000).

Efforts made to harmonize domestic accounting regulations and those meant to reduce information asymmetry, revolve around the work of the IASB, which represents the main international accounting normalization factor (Zeff, 2012). Though arguable, it gradually reinforces the legitimacy of this body, based on experience, expertise and professionalism, proven along time (Danjou & Walton, 2012). IASB also expresses its interest in a transparent and accessible consultative accounting normalization process, (*due process*), to which all relevant professional bodies can take part (ASEAN, EFRAG, GLASS).

Although projection of both due process and corporate governance mechanisms implemented on IFRS Foundation level, the degree of participation of IASB external normalization factors is quite low among both academics (Larson & Hertz, 2011), and investors (Georgiou, 2010). These studies attest, however, increased interest of professional bodies, especially those from Anglo-Saxon countries, for involvement in international accounting standardization process. Investors, though considered the main beneficiaries of financial statements, opt for an indirect representation in the accounting normalization process (branch professional bodies), especially through the voice of IFRS Advisory Council, within which IASB members are informed on opinions of various organizations and individuals involved in the efforts of consulting the process of normalization.

Larson & Street (2006) shows the accounting convergence process supported by the European Commission as a pioneer in the perspective of establishing a practical accounting convergence approach of U.S. GAAP accounting standards to IAS / IFRS. Moreover, a survey conducted by the AICPA (2008) reveals that, indeed, the international accounting convergence process is supported by 90% of the 143 respondents (from 91 countries) representing important leaders involved in accounting regulatory process.

The adoption of 1606/2002 Regulation of the European Parliament and EC was the key moment that foreshadowed the success of international accounting convergence .with this legislation draft from 1 January 2005; EU countries are obliged to require listed companies consolidated financial statements prepared under IFRS.

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Key moments on describing international accounting convergence process

2000- IOSCO and UE express their favourable opinion for adopting IFRS
2002- EC decide mandatory adoption of IFRS decide on consolidated financial reporting
2002- IASB and FASB sign *Norwalk Agreement(MoU- Memorandum of Understanding)*
2002- IASB create the basics of a XBRL taxonomy, regarding internet financial reporting
2003- EC approve 2003/51/CE directive which harmonize European directives with IFRS
2006- FASB an IASB draw an action plan regarding a list o common projects
2007- SEC eliminates mandatory reporting of 20-F form made by foreign listed companies
2008- SEC propose a *roadmap* regarding transition to IFRS of domestic listed companies
2009- IASB publish a new set of simplified IFRS standards for SMEs
2009- CE discuss amending 4th Directive applied to SMEs, through COM(2009)/83
2009, 2012, 2013- FASB si IASB update projects status included in the *MoUs*
2013- IIRC and IASB focus on creation of a integrated reporting conceptual framework
2013- SEC publish a final report on future option regarding adoption of IAS/IFRS

Under pressure from the SEC, the U.S. accounting normalization body (FASB) made up to a large collaborative project with IASB, signing Norwalk Agreement (2002). By signing this agreement, the two bodies draw fundamental objectives will underpin future collaborative relationships that will start with IFRS:

- improving accounting rules that lead to a full financial reporting standards compatibility as soon as possible;
- coordinating future working programs to ensure maintaining the compatibility that has been built.

International accounting convergence projects aimed at revising the already existing accounting standards by harmonizing the provisions of the two international accounting standards on one hand, and the preparation of new accounting standards, on the other. The list of these projects was adjusted along time depending on the available resources and the priority list drawn by the two standard setters.

But the most important convergence project is, by far, that of amending and completing the accounting conceptual framework. This project (the stages for the accounting conceptual framework are the following: a. objectives and qualitative characteristics, b. elements and recognition, c. evaluation, d. reporting entity, e. presentation and publication, f. purpose and status of the conceptual framework, g. applicability for non -profit entities), involved numerous interest groups in a sustained public debate approach (through the *Discussion Forum : Financial Reporting Disclosure*). Currently, the only completed sections are those regarding objectives and qualitative characteristics of accounting information, completed in 2010. IASB expects completion of modernization process of the accounting conceptual framework by September 2015.

A more visible option to use IASB standards is observed among financial statements settlers. In 2008, a study reveals that companies representing 33% of global equity market capitalization already use IAS / IFRS accounting standards, while 22 % of them expressed their option to make the transition to IAS/IFRS, and only 10% were still using local accounting standards (Fosbre et . al., 2009).

IFRS are currently used in the consolidated financial statements in IFRS of over 100 jurisdictions .Adopting IFRS takes many forms. While some states choose to implement the full incorporation of IFRS into national legislation (Trinidad and Tobago -1988, Bosnia - Herzegovina 1995 Vietnam - 2002 Bahamas 2007); or have successfully completed harmonization projects of local accounting standards with the international standards (China - 2006-2010 Algeria, India, Indonesia - 2012) most jurisdictions choose adopting IFRS in its original form, by limiting the applying sphere only to consolidated financial statements of listed companies . But currently, there are also jurisdictions (Cameroon, Congo, Senegal - 2014, Bolivia, Colombia -2015, US-2016, Saudi Arabia - 2017) that did not appeal to the adoption of IFRS (around 15% of jurisdictions worldwide) but many of them have expressed their desire to conduct a future project for implementing IFRS.

In a constructive, accessible and transparent approach, IASB can ensure success of accounting convergence project, especially given that brings on its side actors such as the U.S. and China, representing the driving forces in international accounting standardization approach, through the power of legitimacy they can offer to international accounting standards. Internationalization of capital markets, enhancing the role of multinationals in the world economy, the creation of a more powerful accounting profession through professional international bodies (IFAC, AICPA, EFRAG etc.) and the emphasized influence of international financial institutions (IMF, World Bank) represent favourable factors that support carrying on uniformization of financial reporting practices process worldwide and adoption of IFRS .

But accounting standardization bodies must make greater efforts to enhance comparability of financial statements, which although is significantly increased due to an accounting harmonization in law, must be performed on financial reporting practices by IFRS simplification obtained through an accounting options reduction (Cole, 2013). Equally, accounting normalization process should be streamlined so that the accounting standards to respond quickly to dynamic economic system in order to avoid the situation of a spontaneous accounting harmonization imposed by accounting practice (Canibano & Mora, 2000) and also avoid damage to the usefulness of accounting information, that could no longer be able to respond to the new demands of the users of accounting information.

2. Economic consequences of IFRS

Amid discussions on IASB legitimacy and IFRS's ability to reflect a true and fair view of financial and economic situation of reporting entities through synthesis financial situations; there is a visible interest in the economic effects of accounting normalization process .

Ball (2006) supports the adoption of IFRS, which is beneficial to investors by improving accuracy, transparency and relevance of financial statements, financial reporting cost reduction, increasing the company's market value or boost acquisitions market and business combinations, through FDI (foreign direct investments) component of the countries that adopt IFRS. Yet, he also pointed to a number of disadvantages that persist today (ICAEW, 2012), among which we mention the issue of IFRS applying sphere, the cultural component of IFRS accounting judgments exercised in its interpretation, controversies regarding treatments and the bases of estimation and assessment in accounting, differences in the efficiency of enforcement mechanisms, etc. .

Any company's financial reporting policy produces by itself a number of economic, enterprise-level, effects which through the level of uncertainty generated by the existing information asymmetry between accounting information users and annual accounts setters; determines the weighted average cost of capital, liquidity of the securities issued, or even the evolution of a company's stock value (Choi & Meek, 2011) . By adopting proper IFRS, a reduction in information asymmetry is achieved, together with an increase in accounting information quality, increasing the comparability degree of financial statements and that of transparency in financial communication process (Houqi et. al., 2013). Thus, companies have access to financing sources cheaper than those offered by domestic capital markets, enhances increased investors' interest in securities issued under the risk of inefficient allocation of funds in these titles is significantly reduced with the increasing amount and quality of accounting information in the financial reports of the synthesis. However there are restraints which highlight the importance of property costs claimed by managers in limiting financial reporting, which could harm the company in relation to competing companies or relevant litigation costs through which they do not want to be sanctioned by the shareholders if the estimations and assumptions drawn are not achieved (Cotter et. al., 2011) .

On a macro level, the economic effects of IFRS adoption and implementation materializes in increased foreign direct investment (Gordon et. al., 2012), integration of capital markets (S & Wong, 2010), reducing transaction costs (Ramana & Sletten, 2009) or increased markets capitalization (Daske et. al., 2013).

All these represent positive externalities of regulating financial reporting according to IFRS on both enterprises an economic system level, subject to a fair and consistent adoption of IFRS. An improper implementation of IFRS leads itself to a series of negative economic effects on reporting entities and also to a set of negative externalities (Leuz & Wysocki, 2009).

Under these conditions, an efficient allocation of financial capital is ensured, conditioned by financial structure funding companies, as capital markets require an amount of financial information considerably higher than banks that have access to confidential information through various contractual lending terms(Sun, 2006).

On the enterprise level, numerous comparative empirical studies are undertaken between reporting financial performances recorded in accordance with IASB international accounting standards and national accounting standards. These studies, based on a sample of companies from different countries, prove enhanced quality of accounting information released from financial statements prepared under IFRS (Barth et . al., 2008 ; Horton et. al., 2010; Brochet et. al., 2011; Cascino & Gassen, 2012), aimed at improving economic forecasts, a mitigation determination of earnings smoothing techniques, and an increased opportunity and comparability of accounting information .

There are also analyzes that focus, especially on a detailed approach to accounting treatment differences between international accounting standards and domestic accounting standards (Bao et . al., 2010; Garcia et . al., 2011 ; Tendeloo & Vanstraelen, 2011 ; Iatridis & Dalla, 2011 ; Klimczak, 2011 ; Chua et. al., 2012).

Reducing information asymmetries between shareholders and stakeholders is provided through mechanisms of corporate governance, accounting regulations in force and the enforcement institutional framework (Beyer et. al., 2010). The border between voluntary reporting and reporting required by law is often blurred, especially in the context of a dynamic economic environment. But the quality of corporate governance mechanisms provided by an internal audit department in the company, the quality of normalization process and accounting standards ability to meet the information requirements of external users, the 'infrastructure '' and enforcement mechanisms to which financial reporting incentives for managers are added (Soderstrom & Sun, 2007) represent fundamental conditions in achieving notable results from the adoption and implementation of IFRS. Furthermore, the hypothesis according to which voluntarily adoption of IFRS, especially by the countries whose accounting framework differs significantly from international standards, generate significant financial benefits; is validated (Daske et . al., 2013).

National accounting normalization bodies must take into account the need for limiting financial reports volume, in cost -benefit report perspective that any reporting entity considers to be essential in developing financial reporting strategies and policies. As such, they must intervene through regulation of financial reporting, provided only that the accounting information markets fail to establish optimum financial reporting (Leuz & Wysocki, 2009), and must build a close working relationship with international standardization bodies in order to provide a better understanding of international accounting standards.

3. Comparative approach between Romanian GAAP and IFRS

As any other emerging European economy, Romania too, went through a period of profound changes on its way to the construction and consolidation of a market economy. With the privatization process that was to follow during the transition period, and together with the development of international financial relations, our economy would take a new look, whose healthy sustainable growth was conditioned by an accounting system capable of responding to the information needs of different groups of financial accounting information users (MacLullich & Gurau, 2004). The foreign investors' role was fundamental, especially through FDI component because we could not speak of a developed capital market attractive to foreign institutional investors. Therefore, the accounting system had to properly respond to their information demands in order to ensure a financial climate characterized by financial stability of financial investments, and especially through transparency and low agency cost.

Predictable for cultural and historical reasons, the Romanian accounting regulator's option involves building a strong accounting model influenced by the French accounting model and the 4th European Directive. However, international accounting standards would make their presence felt in the domestic accounting framework with Accountancy Development Program, under which the Ministry of Finance was advised by a team of British experts. Along with the construction and implementation of the developing programme of accounting system in Romania, international accounting standards would gain ground against the French prudential model. The utopian situation in which the accounting system was found by taking from both the French and the British model of various notable influences transforms the Romanian accounting system in a genuine formula. Only experience would prove that it was a long way ahead in the direction of improving the initial accounting system and its adjustment to the Romanian economic system's dynamics directly influenced by globalization consequences.

Harmonization of Romanian accounting legislation with European Community regulations started with the publication of OMF 403/1999, representing a pilot phase in which 13 companies have opted for voluntary IFRS being constantly counselled by British accountants.

Because of numerous deficiencies generated by applying OMPF 403 / 1999, especially in terms of the carrying out the amount of reported accounting information, two years later, OMF 94/2001was issued; by which additions to the connection with 4th Directive of CEE were made, noting that SMEs would apply IAS, but in a simplified form. Consequently, OMF 306/2002 approved regulations of simplified financial reporting statements, harmonized with European Directives.

In addition, the Ministry of Finance has published a practical guide to IFRS for Romanian companies, not for regulatory reasons, but solely for guidance and facilitation to assimilating concepts, principles and other controversial issues (MFP, 2001).

However, accounting-taxation connection was not divided, IFRS implementation plan being placed second in relation to tax compliance, while the myth of historical cost as the basis of assessment only would persist, and the question of constructing a school curriculum designed to introduce the study of international accounting standards in the curricula would still remain an open point for the next monitoring report (ROSC, 2003).

Main differences between IFRS and Romanian GAAP

Financial structure adjusted	Standard	Operation
social capital	I. **IAS 29 „*Financial Reporting in Hyperinflationary Economies*”**	- the inflation adjustment for the period up to 31.12.2013;
investment property	IAS 40 „*Investment Property*”	- tangible assets reclassification, given that OMFP 3055/2009 does not provide a separate position for investment properties, being included in category of tangible assets;
non-current assets held for sale	II. **IFRS 5 „ *Non-current Assets Held for Sale and Discontinued Operations*”**	- tangible assets reclassification, given that OMFP 3055/2009 does not make a separation between the assets held for use and those held for sale;
biological assets	IAS 41 „*Agriculture*”	- tangible assets reclassification, given that OMFP 3055/2009 does not provide a separate position for biological assets, being included in category of tangible assets;

Financial structure adjusted	Standard	Operation
inventories	IAS 2 „*Inventories*”	- OMFP 3055/2009 permits also LIFO inventory method valuation, even if IFRS prohibits it;
subsequent commercial discounts	IAS 2 „*Inventories*”	- according to OMFP 3055/2009 commercial discounts are recognized only when they respect all conditions for recognition;
construction contracts	IAS 11 „ *Construction contracts*”	- OMFP 3055/2009 does not provide any treatement for this issue;
deferred taxation	IAS 12 „*Income taxes*”	- OMFP 3055/2009 does not regulates the notion of deferred taxation, but provides some special situations in which may be constituted provisions for taxation;
derivative financial instruments	III. **IAS 39 „ *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT*”**	- OMFP 3055/2009 regulates the accounting for these instruments only when settlement.

Source: KPMG (2012)

OMPF 1752/2005 provides a distant position of Romanian conceptual accounting framework towards of the provisions of International Accounting Standards, preferring a focus on the perspective dictated by European Directives (ROSC, 2008).

Romania's aspirations to join the EU economic area, with pressures from external creditors (World Bank, IMF) are at the basis of issuing OMF 907/2005 (amended by OMPF 2001/2006 and 1121/2006), which introduces compulsory writing of consolidated financial statements under IFRS standards as endorsed by the EU of the listed companies.

In parallel, other companies may opt for voluntary adoption of IFRS, for information purposes, without being exempt from having to draw consolidated financial statements according to OMPF 1752/2005.

In hope of a late reconciliation, legislative bodies issue OMPF 3055/2009, which does not change the format of the annual financial statements, but produces changes in the accounting policies and strategies.

Again for political reasons, the adoption of IFRS in the statutory financial statements of listed companies is decided by OMPF 1286/2012. According to KPMG (2012) reconciliation of financial statements drawn in accordance to OMPF 3055/2009 with the international accounting standards has recorded significant differences, especially with accounting treatments mentioned above.

Thus, from the harmonization of Romanian accounting regulations with international accounting referential (Order No. 94 /2001, OMPF 1752/2005 OMPF 3055/2009) Romania gradually embraces the process of international accounting convergence results by full adoption of IFRS of listed companies.

The economic impacts of this transition can be carefully analyzed by the study of reconciliation statements required by IFRS1, but a deep analysis can be performed only after an adjustment period of several years. However, Roman setters opted for a forced adoption of IFRS, dictated by political factors (Ionascu et. al, 2011). However, this decision must be carefully analyzed in light of the incompatibility of the Romanian accounting system with international accounting standards, whether it is about how to finance the economy ,tax-accounting report, accounting normalization mechanism, accounting axiomatization, or level of conceptualization (Feleaga, 1999).

4. Methodological research

Adoption of IFRS involves a number of differences in the system of financial ratios of each company calculated from the two types of financial statements, prepared in accordance with OMF 3055/2009 and according to OMF 1286/2012. Both the nature of activity performed by an enterprise, and the institutional normalization and monitoring framework are key factors determining the amplitude of changes occurred after the reform of financial regulatory reporting. Therefore, both policy funding and investment policy of the companies covered by OMF 1286/2012 are directly affected.

Bankruptcy risk, defined as the probability for an enterprise to enter into bankruptcy or be declared bankrupt, depends on a complex set of such financial ratios. This is the origin of many analysis models used in the financial analysis practices. By static analysis models, bankruptcy risk is measured by analyzing the financial equilibrium of the balance released, through which different structure rates are built; that reflects the degree of solvency and liquidity of the company. By dynamic analysis models the accent falls on the flow analysis of funding switchboard (Stancu, 2002). All these indicators are based on accounting information from financial statements affected by this change, and also by creative accounting strategies and policies set in order to obtain the various tax savings provided by the Tax Code.

Empirical methods, based on discriminating analysis of financial ratios represent a statistically validated formula to measure bankruptcy risk. Although consistency of pattern score function is arguable, in the context of an extremely dynamic business environment, the cognitive score for a company is relevant in shaping future financial strategies (Anghel, 2002). Thus, structure ratios' informational value is combined with that of return ratios, score interpretation is based on an accumulation of information released not only by the balance sheet or funding framework but also by the other defining elements of financial reporting package.

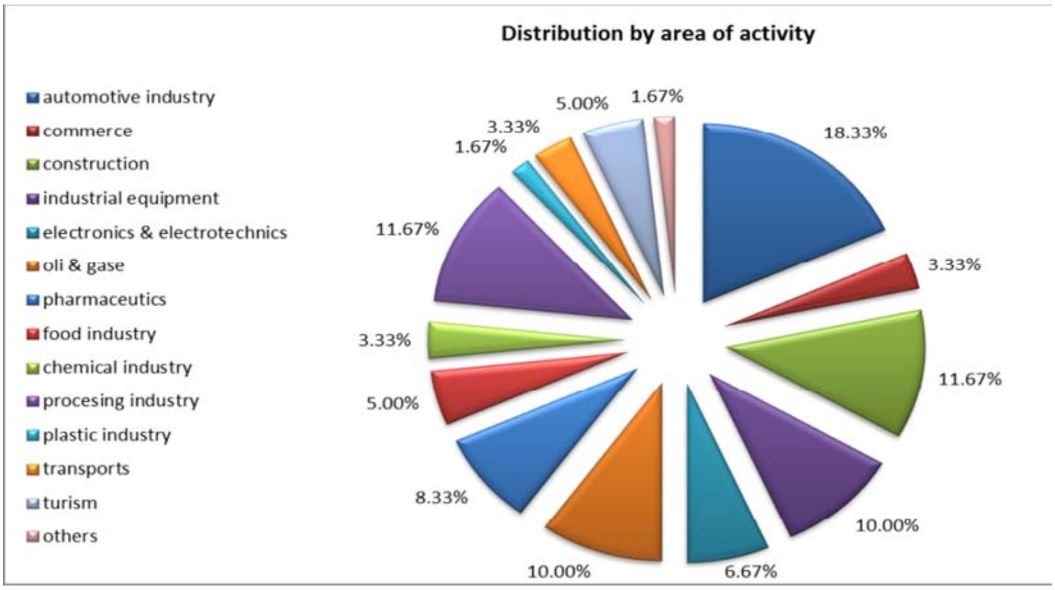
Boundaries of these empirical methods can be found in inconsistent patterns in a dynamic environment (Altman & Hotchkiss, 2006). These models must also be constructed for each area of activity in order to be considered relevant in bankruptcy risk analysis. Equally, economic environmental conditions differ from one country to another. Consequently, score models should be adjusted to the conditions of the economic environment for which the risk analysis is performed (Stroe & Male, 2010).

In this context we choose to analyze the bankruptcy risk of firms listed on BSE, using Anghel (2002) model, represented by the score function:

$$Z = 5.676 + 6.3718 \times \frac{\text{Net profit}}{\text{Sales}} + 5.3932 \times \frac{\text{Cash flow}}{\text{Total assets}} - 5.1427 \times \frac{\text{Liabilities}}{\text{Assets}} - 0.0105 \times \frac{\text{Current liabilities}}{\text{Sales}} \quad (1)$$

<table>
<tr><th>Interval Z</th><th>Interpretation</th><th>Succes rate</th><th colspan="2">Model error</th></tr>
<tr><td>Z < 0</td><td>bankruptcy</td><td rowspan="3">97.8 %</td><td>3.2 %</td><td>Type I</td></tr>
<tr><td>0> Z > 2.05</td><td>uncertainty zone</td><td rowspan="2">3.5 %</td><td rowspan="2">Type II</td></tr>
<tr><td>Z > 2.05</td><td>non bankruptcy</td></tr>
</table>

The present study aims to highlight the influence of IFRS adoption in the statutory financial statements, by using a sample of 60 companies listed on the BSE (from the top 100 listed companies), representing 60.11% of market capitalization.



For the used sample we perform a comparative analysis of rates underlying the bankruptcy risk analysis chosen model, taken from the individual financial statements of each company, for the financial year 2011. The reason we did not choose data of 2012 financial year is the lack of comparative financial data of this financial year.

In the study, we will proceed to:

- analyse the selected sample on main components to study Anghel (2002) model consistency in time;
- classification of enterprises before and after the adoption of IFRS in the financial statements.

Statistical analysis will be performed by using Eviews 7.0 statistical software, to which Office Excel 2010 environment processed analyses are added.

5. Results and interpretation

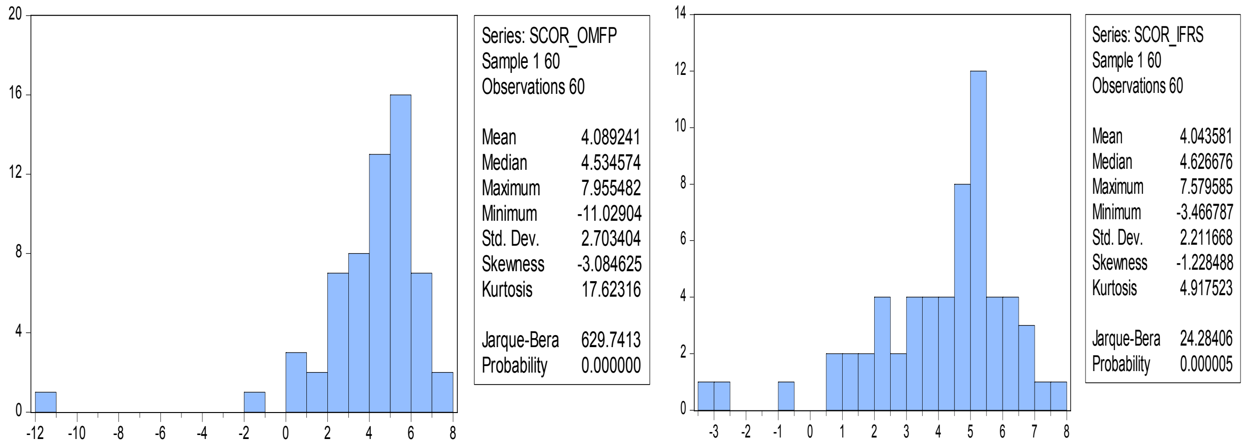
The transition from writing individual financial statements of listed companies under Romanian accounting regulations (DAS) to those in compliance with IFRS generates a series of changes in the financial structures of both the income statement, and balance sheet. But these differences do not appear to be significant, compared to the specialists' expectations.

Differences between DAS and IFRS at mean of financial ratios level

	debt rate (R3)		*Liquidity (R2)*		*sales return (R1)*		*solvency (R4)*	
	DAS	**IFRS**	**DAS**	**IFRS**	**DAS**	**IFRS**	**DAS**	**IFRS**
Domain	Mean							
automotive industry	0.64	0.68	0.07	0.07	-1.03	-0.03	0.39	0.42
commerce	0.21	0.23	**-0.01**	**0.02**	0.03	0.13	0.87	1.00
construction	0.38	0.41	0.00	0.00	-0.16	-0.94	1.53	1.47
industrial equipment	0.59	0.63	-0.03	-0.03	-0.32	-0.01	**0.49**	**0.66**
electronics & electrotechnics	0.23	0.23	0.00	0.00	0.03	-0.04	0.21	0.20
oli & gase	0.38	0.39	0.11	0.10	**0.99**	**0.11**	0.33	0.35
pharmaceutics	0.46	0.46	0.09	0.09	0.10	0.09	0.49	0.51
food industry	0.32	0.33	0.08	0.06	0.04	0.03	0.26	0.27
chemical industry	0.15	0.18	0.01	0.03	-0.18	-1.38	1.26	1.26
procesing industry	0.38	0.39	0.04	0.04	-0.03	-0.01	0.55	0.56
plastic industry	0.12	0.19	0.03	0.03	0.02	0.03	0.29	0.31
transports	0.31	0.30	0.06	0.06	0.06	0.08	0.33	0.32
turism	0.06	0.08	0.02	0.02	0.02	0.06	0.25	0.26
others	1.48	1.25	0.03	0.03	0.58	-0.14	1.19	1.18

Source: own calculus with Excel

These changes lead to insignificant differences in the values and function score recorded for each of the companies included in the analyzed sample.



Source: projection with Eviews 7.0

So, COMPAS SA Company, the only company initially classified in the use of IFRS as being uncertain, is reclassified to the imminent bankruptcy risk. Also, the company ENERGOPETROL S.A. was reclassified from non-bankrupt company, to the zone of the companies in the state of uncertainty regarding the risk of bankruptcy.

Main risk ratio results

	IFRS	*%*	*OMFP*	*%*
bankruptcy zone	3	5.00%	2	3.33%
uncertainty zone	6	10.00%	5	8.33%
non-bankruptcy zone	51	85.00%	53	88.33%

Source: own calculus with Excel

To provide a clearer picture of these changes, let us analyze the main causes that led to these reclassifications for the two companies:

2011	**Compa S.A.**			**EnergoPetrol S.A.**		
	IFRS	*DAS*	*Δ*	*IFRS*	*DAS*	*Δ*
Fixed assets	324286 ron	329181 ron	-1.49%	5425 ron	5425 ron	0.00%
Current assets	176278 ron	164021 ron	7.47%	26245 ron	26245 ron	0.00%
Non current liabilities	93927 ron	78207 ron	20.10%	4673 ron	3954 ron	18.18%
Shareholder's equity	299835 ron	292562 ron	2.49%	8788 ron	9936 ron	-11.55%
Current liabilities	98030 ron	99869 ron	-1.84%	18278 ron	17831 ron	2.51%

2011	Compa S.A.			EnergoPetrol S.A.		
	IFRS	*DAS*	Δ	*IFRS*	*DAS*	*Δ*
Sales	475420 ron	475420 ron	0.00%	20695 ron	17837 ron	16.02%
Gross operating profit	27054 ron	27158 ron	-0.38%	1385 ron	1385 ron	0.00%
Net profit	19632 ron	17369 ron	13.03%	56 ron	56 ron	0.00%
Cash flow	51332 ron	48925 ron	4.92%	-3208 ron	-3208 ron	0.00%

Source: own calculus

Principal components analysis

Eigenvalues: (Sum = 4, Average = 1)

	DAS					IFRS				
Number	Value	Difference	Proportion	Cumulative value	%	Value	Difference	Proportion	Cumulative value	%
1	2.013	1.149	0.503	2.013	0.503	1.744	0.812	0.436	1.744	0.436
2	0.864	0.050	0.216	2.877	0.719	0.933	0.066	0.233	2.677	0.669
3	0.813	0.504	0.203	3.690	0.923	0.867	0.411	0.217	3.544	0.886
4	0.310	---	0.078	4	1	0.456	---	0.114	4	1

Eigenvectors (loadings):

Variable	PC 1	PC 2	PC 3	PC 4	PC 1	PC 2	PC 3	PC 4
R1	0.614	0.012	0.308	0.727	0.629	0.266	0.054	0.729
R2	0.589	0.138	0.418	-0.677	0.588	0.351	0.312	-0.659
R3	-0.364	0.820	0.426	0.113	-0.403	0.266	0.855	0.187
R4	-0.378	-0.555	0.741	0.015	-0.311	0.857	-0.410	-0.014

Ordinary correlations:

	R1	R2	R3	R4		R1	R2	R3	R4
R1	1				R1	1			
R2	0.682	1			R2	0.528	1		
R3	-0.309	-0.213	1		R3	-0.274	-0.151	1	
R4	-0.284	-0.266	0.142	1	R4	-0.152	-0.145	0.126	1

Source: principal components analysis with Eviews 7.0

By analyzing financial reports and notes to the financial statements we concluded the following aspects that generate significant differences between the figures obtained in the two reporting requirements (according to DAS, respectively IFRS). For example, in the case of company Compa S.A. differences can be explained by:

- on balance level:
  - reclassifications in the category of receivables, both for tangible advances, and advances paid to suppliers for the stock of acquisitions ;
  - recording of deferred tax asset, resulting from temporary differences based on the discrepancies between the depreciation accounting times and fiscal ones, as well as temporary differences arising between accounting value and their tax base resulting from the revaluation of assets according to IAS12;
  - recalculation of intangible asset impairment according toIAS 36;
  - adjusted social capital and reserves to the effect of inflation in accordance with IAS 29;
  - increase long-term liabilities on account of setting up of provisions to cover any contractual severance pay set by collective agreement, and guarantees expenditures;
- on global income level:
  - provisioning and coverage for guarantees granted and severance payments;
  - deferred income tax revenue;
  - transfer of revaluation reserve to retained earnings;
  - reductions obtained from revaluation of tangible discounts.

Not surprising at all is the fact that on treasury flows there are no differences recorded, which certifies accruals importance in characterizing economic and financial situation of a company in accordance with IFRS, or the written according OFMP 3055/2009.

Regarding Anghel (2002) model to estimate enterprises' risk of bankruptcy, the statistical results of main component analysis; validates our sample's relevance on score function construction, whether it is about reporting, the analysis certifies significant percentage rate $\frac{\text{Net profit}}{\text{Sales}}$ that explain differences in proportion of 50.3 % recorded in the analyzed sample. With this result we revalidate the hypothesis of a yet tight connection between taxation and accounting, confirmed by previous studies (Cuzdriorean et . al., 2010).

6. Conclusions

Modernization of Romanian accounting system is not only a catalyst for sustainable economic development, but also a prerequisite in this respect. The direction followed by the Romanian accounting regulations is a natural one, in agreement with the international economic and financial relations with the outside.

Despite the sustained efforts of international financial institutions (IMF, World Bank) to lobby for the adoption of IFRS in the Romanian economy as well as the progress recorded in the reform of the institutional framework responsible for regulating and monitoring financial reporting, cultural factors persist in the Romanian accounting environment (Olimid & Artemisa - Calu, 2006; Dima & Dima, 2009). Furthermore, financing companies continues to be performed , largely through bank lending. Of course, we can not omit resistance from the state to delegate responsibility of normalization private professional body, simply because it would lose its preferential position, that of beneficiary of financial accounting information released by regulated synthetic financial reports.

All these compete to damaging accounting environment preventing it from benefiting from marginal positive effects of adopting IFRS, to provide economic environment quality accounting information. The results of the present research themselves; attesting insignificant differences in the rates of bankruptcy risk can be justified by an unfaithful application of international accounting standards. This can also derive from the hypothesis validated by Daske et . al. (2013) that a voluntary IFRS adoption is preferable, especially in case of large differences recorded in the accounting legislation, compared to IFRS. However, we must not forget that the Romanian accounting regulations have taken numerous influent international accounting standards, with the Development Program of Romanian Accounting System, have persisted in the current accounting regulations.

We draw attention of accounting regulator to the negative externalities caused by a flawed regulatory process of financial reporting, designed to respond to a single user, the state. We equally consider appropriate a fond debate of the process of normalization, to trace accounting solutions of accounting deregulation for the Romanian accounting environment and improve the transparency of the process itself.

But the greatest challenge for local accounting normalisers is to outline an accounting identity to Romanian financial reporting model, as accounting reform should not continue only under the pressure of external decision-makers, but also by developing a self-regulatory function of the Romanian accounting system as a response to economic system's dynamics. This self -regulation can be developed by dynamic analysis the of the Romanian accounting system since 2001, resulting thus a behavioural pattern of normalization function of the accounting system.

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