

The Correlation between the Conceptual System of the Political Economy and that of the Accountancy – a Solution for Reducing the Risks Connected to the Administration Activities in any Stage of the Economic*

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Abstract. *Some mistakes of big financial institutions caused the crisis from 2008: the correlation for a long term balance in accordance with economical theory and accounting practice were not applied, not enough control of financial flows, wrong management of very important companies, unuse of actuarial tools. Provisions for many kind of clients and the amount of assets were not bookkept in accordance with IAS-IFRS system. It is a international collective interest about accounting of big financial institutions that manage an important part of many from international market. The analysis of the profitability-cost correlation in the development strategy of the company as part of a good management was not applied in accordance with economical theory. The fraud, including accounting fraud, was present in big institutions.*

Keywords: accounting; political economy; crisis; fraud; financial institution.

JEL Code: A12.

REL Code: 5C.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?”, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

Introduction

In the accounts department and in the accounting law there have appeared, in time, many problems, dilemmas and economic theories which are of a major importance in the economic science. Among the main causes of the financial crisis which begun in 2008 is the accountancy fraud, the unreasonable and extremely high deviation from the concepts of the general economic theory and the way of operationally using these concepts in the accountancy or in the financial management, the exaggeration of the treating method based on exceptions of the different situations that the companies deal with in the current activity, with a significant deviation from the approach based on unanimously accepted professional arguments.

1. The correlation between the conceptual system of the political economy and that of the accountancy. General practice and big institution practice

1.1. The problem of balance or the balance-unbalance dilemma has been known even within the accounts department and the accounting law. There have been noticed accounting doctrines which focused themselves on the concept of balanced evolution. At micro-economic level, this means:

a) correlation between income and expenses on short, average and long term, so that one should register a rational profit, in agreement with the capitalization parameters of the capital invested in other projects, balanced with the business degree of risk;

b) correlation between returns and payments on short, average and long term, so that one should register a positive or negative treasury flow which should be sustainable on the financial market according to some reasonable estimations;

c) permanent correlation between assets structure and company's debt structure.

Accountancy and accounting law have been influenced by the economic science studies concerning the possibility and the opportunity of the unbalance as an instrument of evolution towards performance. Some micro-economic strategies based on a lack of balance lead to a long-term balance. The processed of regional integration and those belonging to global economy have aroused the companies to adopt formulas which lead to a lack of balance, at least partially, regarding the correlations as they are formulated in the classical way. The big financial institutions that failed in 2008 and caused the crisis did not apply the correlation for a long term balance in accordance with economical theory and accounting practice.

1.2. The controversy free exchange-protectionism has made the object of some very important theoretical studies, inclusively by a mathematical formalization of high class. Accountancy has had, in time, the role of registering all the elements that make the difference in the business ongoing between the juridical

system of free exchange and that of protectionism. One cannot imagine a debate regarding all these huge options if there is a lack of information regarding the impact at company level. Both the arguments for free exchange and those for protectionism are based on the assessment of the impact produced by the differentiations between the two juridical systems. At the level of companies the comparison must be made between the higher level of customs duties for the foreign trade transactions and the opportunity of some business ongoing in more countries and without customs duties. Comparisons are especially made at level of profit and loss account. The analysis supposes the introduction of hypotheses concerning the activity volume structure and that of sales figure. Customs duties increase the costs of companies which import on a certain market, respectively those of the producers and exporters of partner countries. At the same time, customs duties support the companies that produce and sale on national market. From the point of view of optimization calculations at macro-economic level, there are to be taken into account the reduced customs duties which affect income (as smaller budgetary income) in a relative and absolute way, compared to the advantages on economic network or those in favor of consumers. Protectionism means higher customs duties (as budgetary income) with an impact upon the development of those areas which bring progress in economy at a certain moment in time. The elaboration of models regarding the advantages of protectionism or of the free exchange were based, among others, on the data from the accountancy of companies involved in transactions where customs duties had an important role in market positioning. The more or less support of the public authorities regarding the foreign trade liberalization is related to direct or indirect interests towards some categories of transaction. The information regarding the systems of micro-economic interests and the intensity of this interest come from accounting field, to a great extent.

Free exchange does not mean “no rules”. The control of finance flows is very important to have economic growth with free exchange for financial tools. If there are no control of management and few people decide for a big amount of money, like in financial institutions from USA, the danger of fraud is really big and may generate effects in accordance with the amount of money wrong managed.

The different speed-ups and slowing downs of liberalization rhythm can be explained by means of these interests reflected in accountancy. In the set of information which are relevant for this topic, there can be seen the associates of the companies having business interests which are submitted to the process of European liberalization of foreign trade. The slow rhythm of service market integration in the EU can be explained by means of a reduced participation of European MPs in information technology companies or trans-frontier services, in general.

1.3. *The economic efficiency-social justice dilemma* in the reparation of richness and income was introduced in the economic theory at the beginning of the XIX th century but it gradually reflected itself in the companies' accountancy in the XXth century. The actual stage of practice at micro-economic level in the application of social justice desiderata can be applied especially to the most performing segment and it is related to the concept called *corporatist social responsibility*. The accounting law should find solutions for settling the reports related to the application of this concept. Accountancy has introduced formulas of registering, management and reference of the way in which this principle is applied.

Social justice do not mean help from taxes paid by poor people for banks wrong managed. Also economic efficiency do not mean help from taxes paid by poor people for banks wrong managed. So why keep such institutions that caused crisis?

1.4. A global problem of humanity which was included in the economic science study object was represented, starting with the middle of the XX th century, by the *relation between resources waste and people's welfare or the connection between the level of life quality and environment protection*.

The responses of the accounting law and of the accountancy at this problem consisted in:

- the improvement of calculation methods of companies' negative outsourcing which resulted from the fact that environment protection norms haven't been applied;
- connecting the managerial and financial accountancy to environment accountancy;
- perfecting the balance-sheet technique so that the concept "environment balance-sheet" become operational;
- the correlation between the needs to be informed with regard to the environment and the accountancy report offer;
- the adapting of lifelong products cost calculation methods, including the assessment of residual cost as offal;
- adapting the provisions system to those projects which have an impact upon the environment, including the mining industry;
- the support of informational mechanism for a long-term development with accounting procedures and methodologies which are adapted and adequate to its specificity.

For this kind of problems, the budgetary politics found solutions concerning the social and economic fields. Pollution assessment systems, research support systems for clear energy were some of the first answers of the budgetary politics and there were good results there where they were applied. Thus, in a few years, some economic developing countries reduced their dependence on energy primary

resources and brought a major contribution to the creation of an environment protection politics which was both real and efficient.

There is also negative outsourcing wrong management of the companies that failed and the fraud in accounting. The amount paid by the public budget is a measure of this kind of outsourcing. If the Government have no tools to reduce such kind of negative outsourcing the crisis is very possible.

1.5. Another problem of economic science was represented by the most adequate *assessment of economic dynamics* the purposes of which were not to disturb the social balances and to imprint a real progress in people's living standard. An important step made by the economic science was in the direction of using the Math apparatus and especially that of formalizing the concepts or the relations studied. It is about mathematical *modeling of economic processes and phenomena*. Such a tendency was reflected in accountancy as well. The manner in which modeling impact manifested itself in the budgetary politics contained many plans. First, there were elaborated micro-economic mathematical models which contained data from the accounting-informational system. As a rule, the majority of these models contained the profit, the sales figure, the developed activity. Lately, there have been mentioned corporatist rules. All these parameters are the result of accounting information processing or represent accounting procedures on rigor classes, including the reference system. The banks failed in 2008 did not apply the actuarial tools for their management.

Secondly, there have been elaborated company models according to the parameters of budgetary politics. There have not been neglected parameters like the evolution of budgetary returns according to the development of economy or the tax burden. These models have been submitted to analysis especially from a doctrinaire perspective.

At microeconomic level, there are models which presented the company's evolution from different areas of activity under the influence of the budgetary parameters like wages tax rate, profit tax, VAT. Also, there has been analyzed the influence that taxes had upon the degradation of the situation of certain segments of economic agents, especially for small and medium-size enterprises.

1.6. From the perspective of economic sciences' hierarchy or class structure, *accountancy* is part of the *category of applicative sciences or applicative models*. At its level, there are applied a lot of elements of the fundamental theory or even of economic philosophy. It is known that the debates concerning the contents of accounting informational system gave and still give the opportunity to some important debates of the legitimate users of financial situations, on the form or content of accounting reports, on the way in which the analysis indicators are explained, on the economic implications of different accounting options.

Important rules of accounting, including IAS-IFRS system was not applied by the big banks. Provisions for many kind of clients was not bookkept, the amount of assets was bookkept without evaluation, other rules was not respected. So, accounting was not an applicative science for the big banks.

1.7. Any component of economic science has a proper mechanism through which it supports a set of interests. Accountancy and accounting law, as part of the economic science *respond to a set of complex interests even in the dynamics*. On one hand, accountancy and accounting law have in view national collective interests, being in correlation with macro economy. Taxes are paid by companies, to a great extent. Fiscal management, the purpose of which is to control taxable mass at level of company, needs, first of all, accountancy data. It is true that recent evolutions of accountancy mark the separation from strict demands of the fiscal system, but this does not mean that there are new flows of information and documents for tax calculations. Fiscal management continues to process accounting data which are submitted to specific demands. As a rule, taxes are part of the companies' costs. In those cases when the taxation subject is not clearly defined, practice demonstrated that this belongs to enterprise's accountancy as well.

A few examples support this statement: the differences resulting from the global income tax which were calculated for the private individuals in Romania before 2004, the change of gross income taxation regarding the retentions owned by the employee, taxation of the advantages in nature. One of the forms of supporting the economic raising is represented by the mechanism of public subventions. Accountancy has the following duties in managing the state aid:

- delivers information concerning the opportunity of aid tuning and the application of selection criteria;
- supervises the registering of state aid as an element of companies' non-fiscal income;
- helps at the management of use method;
- allows subsequent monitoring of state aid and of its effects on the microeconomic plan and on the general plan.

Taxes payment by companies can be submitted to a crossed control by means of public finance treasury and of companies' accounting. The existence of accounting justifying documents helps at the identification of some errors of registering at public finance treasury. For these reasons, accountancy concerns *general collective interests*. There appears an aspect of the system of interests at micro-economic level. It is known that, at company level, the interests are presented in a diversified, structured, stratified way. The patronage (the associates) has interests related to profit, sales figure and company value. Managers want to reach performance indicators. The bigger are the expenses the more unreachable become the indicators. Employees want to continue exploitation so that they keep their workplaces and a stable and secure income source. If there is a national

collectiv interest about accounting of all kind of companies much more will be an international collectiv interst about accounting of financial institution that manage an important of money from international market.

If the taxation level is higher, either the net salary diminishes or the business risks to be over. As private individuals, both the managers and the employees want good salaries which should cover their needs. After the crise public debt increased and the taxes have to cover this debt. All the people pay for the lost from financial institution.

The last part of the XXth century marked, including Europe, a large process of regionalization. Accountancy is part of this process. More than that, accountancy surpassed the European integration, from the point of view of the rhythm. The accountancy of EU's companies entered the period of international normalization. For this reason, the legislation concerning the liberty of capitals' movement, of European citizens' mobility to create companies in any state of the EU found the accountancy ready for this. The only obstacles there still exists are the linguistic ones. From the point of view of accounting references, there is a total regionalization concerning the format and the contents of principal positions. From this point of view one can tell that there is a correlation between *the normalization of accountancy and the regional economy*.

In the epoch of globalization there are correlations between accountancy and the national budgetary politics which are looked upon in a relation of interdependence, due to the *Agreements among countries regarding the avoidance of double taxation*. Thus, we can speak about borderless international practice of management and pursuit procedures within companies participating at the international value circuit of the demands of double taxation avoidance agreements. Among these demands one can notice the separate registering of external suppliers, of services catering within these relations, the emission of reports at level of each supplier concerning the sums and data where services were discounted. It is very important not to import as international practice the accounting fraud.

The systems of financing by means of international financial organisms like IMF impose *restrictions in the public politics regarding* the transparent support of the different categories of companies, the reduction and elimination of crossed subventions, the fiscal and quasi-fiscal credit. These restrictions find and answer in adequate accounting procedures at level of companies which could identify the presence of every state aid, be it direct or indirect, of any form of public intervention in the companies' business. From the above presented, we can notice that there is a *correlation between accountancy and world's economy*.

Taxes are drawings which reduce the available income of certain individuals. Fiscal laws establish, in the great majority of cases, that the payer of taxes adherent to staff rights is the company (the employer). This separation

is available especially in the case of pay-as-you-earn taxes. The company in itself is a juridical creation and contains a set of interests. There can be affected the employers' profits, the managers' salaries, the employees' salaries. Sometimes it is possible that the fiscal changes be in the consumers' pockets or in those of the users of economic goods offered by the company. By means of accountancy we are able to know who are the real beneficiaries of public acquisition and of state aid, respectively who obtains profit from the respective transactions, who consumes and who produces the goods which represent the object of public acquisitions or of state aid.

It is relevant to find out in the problems of interests system the social needs to which the public consumption addresses itself. The payments for social protection are mostly addressed to for physiological needs. Education which is financed out of public funds refers to man's needs for knowledge. The expenses destined for the Ministry of National Defense and for the Ministry of Administration and of the Interior concern the security of the individual and of the property. The analysis of the expense from the point of view of human needs to which they address can represent a starting point in establishing the level of the country's development and especially of its perspectives. When the budgetary politics is mainly directed towards basic physiological needs, there appears a clear sign of reduced level of development and of some reduced future perspectives.

The approach of budgetary politics from the point of view of economic interests can be deepened in the analysis of the *mutations which it provokes over market hierarchies*. If the budgetary politics limits itself to the redistribution of funds to collective general needs then it accomplishes its mission. To the extent to which there are changes on the market hierarchies we can speak about a politics which affects and distorts competition. Such a budgetary politics is harmful for the national economic complex and for the market efficiencies.

2. The analysis of the profitability-cost correlation in the development strategy of the company

Within the decisional process in the modern enterprises the profitability-cost correlation has a special position. The respective issue involves a dynamic analysis that starts from the critical point and follows in time the situation of the profitability per product according to the essential curves that condition the profit.

The majority of the experts state that the *product policy* represents a decisive field of the fundamental options in the economic activity. In order to decide upon the introduction or the taking out of use, the sizes or the diversification of the services, it is extremely important to analyze the *life cycle* of the products, both at the producer and the consumer, in correlation with the

profitability dynamics. The cost-profitability analysis is completed with the cost-income, cost-gross margin, profit – fixed capital or share capital. Often there are positive or negative gaps as compared to the expectations of the employers or of the managers. The economic analysis shall propose concrete solutions according to every single situation.

In the case of certain negative unsustainable deviations, much above the expectations, it is possible to decide to *stop the operation* or even the *functioning of the employers' entity*. Such decisions are taken if

- we can notice a tendency of the cumulated loss dimension increase;
- for the recovery significant investments are necessary, which can be recovered under weaker financial conditions than the current conditions on the market;
- there are no recovery signs in the predictable future;
- the assets' separate value exceeds the entity value (the value of the respective business under the conditions of the existing economic process). The activity stopping means the suspension of the specific activities with the purpose of some major technological, economic, conception mutations. It is possible to start the activity again after the reorganization. In the economic doctrine we use the word *reengineering* for such processes. Stopping the entity functioning means putting the employers' entity in dissolution and legal liquidation. Usually it won't start the activity again. The managers of financial institutions replaced this kind of analyse with accounting fraud because is easier.

Another option is the modification of the seasonable character in relation with the intensity of the exploitation and of the economic activity in the case of some time gaps between the expected level and the actually performed level. We can choose the option of the activity on a shorter or longer segment during one year.

The third option is the introduction of certain major modifications in the structure, conception and resources granted to the business if there are "alert" gaps between the expected and the accomplished profitability indicators. Through these modifications it is possible to completely or partly change the activity profile, the business plan, the used personnel, the management system, the organisational structure. The purpose is to reduce the costs up to the profitability level expected by the employers.

For financial institutions the respect of the economic theory and accounting rules means sometimes to reduce the bonus and the salaries of the managers. But the accounting fraud replaced such a problem to clients and reditors of the banks, to public budget and poor people.

We do not exclude the decision of a strict monitoring and control if we notice conjunctural deviations from the expected positions. In such cases we

must separate the influence of the objective cyclic tendencies in a company life over the profitability. The costs budget and the other components of the estimation mechanism shall be rigorously used so as to eliminate the conjunctural unjustified consumptions of resources.

Conclusions

Between the accountancy and the general economic theory we have set correlations to the level of concepts, principles, including the rendering of the various general economic laws in the specific accountancy schemes. This is what I intend to do in this communication – to point out these correlations. One of the possible conclusions is that the outburst of the financial crisis is not due to the underdevelopment of the economic science in general or of any specific component part, but the practice, mainly illegal or in opposition with the fundamental theoretic concepts of certain companies having a dominant position on the international market. Taking into consideration these correlations, along with the rigorous compliance with the applicable accounting regulations would have probably avoided the outburst of the financial crisis. Another conclusion is that it is not necessary to seriously review the economic theory as long as the causes of the outburst of the crisis consist in the deviation from the economic theory, not in the compliance with it.

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