The international Accounting Standards already contribute to the generation of better and more easily comparable financial information on an international level, supporting thus a more effective allocation of the investments resources in the world. Under the circumstances, there occurs the necessity of a consistent application of the standards on a global level. The financial statements are part of the financial reporting process. A set of complete financial statements usually includes a balance sheet, a profit and loss account, a report of the financial item change (which can be presented in various ways, for example as a status of the treasury flows and of the funds flows) and those notes, as well as those explanatory situations and materials which are part of the financial statements.

Keywords: normalization, goodwill, stock estimation, assets life, recovery test, depreciation index, depreciation, financial investments, depreciation reporting and presentation, software product costs.

1. Ideas progress in the American accounting
The American accounting research has reached nowadays a high level of refinement, the joint efforts of specialists resulting in the creation and development of „conceptual frame”, an extremely effective tool in the accounting normalization. The conceptual frame is a „coherent system of objectives and fundamental principles, interrelated, capable of leading to the formulation of sound norms and to indicating the nature, the role and the limitations of the financial accounting and financial statements”.

Normalization
The big crash of 1929 has revealed a too little financial-accounting information of the investors or the public power. Thus, in 1933, the American Congress creates the Securities and Exchange Commission: S.E.C. Besides the regulation of the bonds transactions and the control of all that is related to the real estate values, this governmental agency is also involved in he accounting doctrine via the so-called „S.X. Rules” which present the form and background conditions applicable for editing the synthesis documents. The first joint works of A.I.C.P.A. – SEC have referred to a standard formula of auditors certifying and to the definition of 5 accounting principles which all the companies admitted at the formal rate should adhere to, principles today called fundamental. However, these principles have not fixed sufficiently accurate rules for the presentation of the financial statements.

In 1959, it has become obvious that this body of accounting profession – CAP could no longer face the changes in the accounting environment. It has been replaced for the APB – Accounting Principles Board, provided with more performing material, technical and academic facilities. This Board had as an objective the decreasing of the number of alternative accounting processings for identical transactions.

During its life, the Board has issued 31 „opinions” and 4 „interpretations”, which have prescribed specific bookings for certain particular types of transactions. Many of these „opinions” have replaced the existing ARBs and have changed the current practices.

2. Accounting principles
In the American reference literature, there also some hierarchy organizing view points on the accounting principles:
• the dominant concept in this hierarchic structure is the fair presentation, or, with other words, the accurate image. However, the accurate image is better asked by applying the good information principle.
• the assembly accounting frame of USA is prefigured by 4 axioms or concepts. However, lately, it has been accepted that the axioms should be considered first rate principles. These axioms or concepts are:
  o the principle of legacy splitting
  o the principle of currency stability or currency nominalism
  o the principle of operating continuity

• all the other principles, considered of rate 2, come to guarantee a high quality of the financial statements issuing and presentation:
  - the principle of caution
  - the principle of methods permanence
  - the principle of relative importance
  - the principle of relating the expenses with the incomes and the principle of developing the principle of accounting periods specialization as a sub-principle.

Intangible assets

The Intangible Assets are regulated by the following norms:

- Accounting Principles Board Opinion 16 APB 16
- Accounting Principles Board Opinion 17 APB 17
- Financial Accounting Standards 72 FAS 72
- Financial Accounting Standards 86 FAS 86
- Financial Accounting Standards 121 FAS 121

Goodwill

The Goodwill is posted only when it is obtained as part of the assets of a purchased company and represents the cost of the unidentifiable intangible assets purchased.

If at the time of a purchase a negative goodwill occurs, it should be allocated in order to accordingly decrease the value distributed to the non-current assets (including the identifiable intangible assets) in order to determinate the fair value.

Cost of software products

The costs for creating software products with the aim of selling, renting or offering them on the market should be acknowledged as expenses when they occur until the time when the technological feasibility has been set up. The further costs, such as the creation of documentation and of the training materials, should be capitalized until the time when the products are available for delivery to customers.

Intangible Assets Depreciation

The cost of each type of intangible asset should be depreciated on the estimated life time. The depreciation period of each intangible asset, including the Goodwill, should be determined after analyzing all the pertinent factors, but it shouldn’t exceed 40 years. The depreciation method should be the linear one, unless another systematic method of depreciation is considered more suitable.

The depreciation period should be reviewed permanently and it can be increased or decreased, as applicable. The non-depreciated costs should be re-distributed during the reviewed balance period. In practice, the size of depreciation periods is unusual.

Goodwill Elimination

In the case a group of assets or a company is sold, the non-depreciated value of the goodwill acknowledged at purchase should be acknowledged in the cost of the sold asset (as a whole or partially).

Intangible Assets Presentation

It should be presented each class of intangible assets which are at least 5% of the total assets, the acknowledgement basis and any significant input or elimination.

Besides, the following should also be presented:
- period depreciation and consolidated depreciation (should be given both in the balance sheet and in notes);
- depreciation period and depreciation method used
- the non-depreciated capitalized costs of the software products as well as the effects on the profit and loss account – the expenses with the depreciation and cancellation of capitalized costs. The information regarding the non-depreciated capitalized costs of the software products should not be shown as part of research and development.

The following information should be given when a company acknowledges depreciation losses:
- description of depreciated assets and of the fact and circumstances which have resulted in the assets depreciation;
- loss value and the way of determining it;
- the item in the profit and loss account in which the depreciation loss has been reported, if it has not been reported separately;
- if applicable, the business segment affected

Estimation

The holdings, equipments, machines should not be updated to show the appreciated value, the market value or the current value higher than the price,
except some special cases, such as the quasi-reorganization or the “push down accounting”.

Depreciation

The generally accepted principles of the accounting require that the cost value of a production unit (minus the recoverable value) be split during the estimated life time such as to be allocated as fairly as possible during the period when benefits are obtained from using that unit.

Any change in the depreciation method for an identifiable assets class represents a change of the accounting policies and requires the adjustment of the cumulative effect in the profit and loss account of the period.

Depreciation of the permanent capitals

In 1995, the Council for Accounting Financial Standards has adopted the Standard No.121, The Accounting of fixed assets depreciations and of fixed assets taken out of use, which decides the accounting handling for depreciation and taking the permanent capitals out of use, including some identifiable intangible assets and the goodwill related. FAS 121 completes opinion APB no.30, regarding the effects of giving up a business segment, as well as some extraordinary, unusual or low frequency events and transactions.

However, FAS 121 does not apply to those assets whose accounting is regulated by other standards:
- FASB 44 – The accounting of intangible assets owned by the transport companies.
- FASB 50 – The financial reporting of the audio records studios
- FASB 63 – The financial reporting of the radio broadcasting companies
- FASB 86- The accounting of software products costs, products made for sale
- FASB 90 – Restructured companies – The accounting of facilities closings.

Recoverability Test - STEP 2

If there are any depreciation indicators or if some circumstances indicate the possibility of their existence, the manager should determine if a depreciation loss is to be admitted or not. The depreciation loss may be admitted for the permanent capitals which are in use only if the estimated value of the future cash-flows is lower than the net accounting value.

The estimation of future cash-flows (used to test the recoverability of the concerned permanent capitals) should include only those flows (cash inputs and outputs) which are directly related to the concerned permanent capitals and are the direct result of their use or, possibly, of their being taken out of use.

The Standard determines that the estimation period of the cash-flows should start from the The estimated Cash-flows should also include the flows associated to the future expenses for maintaining the existing capacity, including the ones required for the repair or replacing of some components of the assets for their operation at optimum parameters (e.g. : the possible expenses for the repair of a building roof), but there should not be included the flows related possible modernization expenses (which improve the asset performances).

USGAAP Standards allow (and even recommend), but do not demand the use of the probable future cash-flows approach.

Measurment of depreciation loss - STEP 3

(Measurement of an Impairment Loss)

The best method of determining the fair value of the permanent capitals is the market price in the case of an active market. However, for a good part of the permanent capitals no active market exists. If the market price is not available, the best estimation of the fair value of the permanent capitals should be based on the best possible information available, including the price of other similar assets and other technical estimations. The Standard specifically point out that the technical estimation is often the most accessible method of estimating the fair value of assets. Standard FASB No.7 “Using Cash Flow Information and Present Value in Accounting Measurements” deals with the use of two techniques in determining the fair value: estimated cash-flows approach and traditional approach of current value. The technique of the current price uses a single set of estimated cash-flows and a single interest rate (the rate which should be correlated with the risk).

The cash-flow used for testing the recoverability shouldn’t be necessarily identical with the ones used in the case of the fair value measurement; the company could nevertheless use the future cash-flows estimations performed for the recoverability test.

Allocation of a Depreciation

The Standard contains special rules for the allocation of depreciation losses for a group of assets. The Standard requires that the depreciation
loss decrease only the net accounting value related to the assets which have been analyzed. The depreciation loss should be allocated proportionally on each net accounting value of the assets which are part of the depreciated group of assets.

Anyway, the net accounting value of the permanent capitals in the group cannot be decreased below their fair value, assuming that it is determinable.

Depreciation Reporting and Presentation (Reporting and Disclosure of Impairments)

- description of the permanent capitals (or of the group) which are depreciated, and of the facts and circumstances which have caused the depreciation;
- depreciation loss value and its presentation in the outputs account;
- the method used in determining the fair value
- if applicable, the segment affected by assets depreciation loss

INTERESTS CAPITALIZATION

It is regulated by the following norms:
- Financial Accounting Standards 34 FAS 34
- Financial Accounting Standards 42 FAS 42
- Financial Accounting Standards 58 FAS 58

The amount to be capitalized

It represents the expenses with the interest which could have been theoretically avoided if the expenses with those assets hadn’t been done. It cannot exceed the interest due for a certain period.

Period

The interest capitalization should start when the following three conditions are met:
- the expenses with the concerned asset to have been done;
- the operations required for the asset commissioning be in progress;
- the interest to be due.

The interest capitalization should stop when the asset is considerably finalized and ready to be used. The term “considerably finalized” is used to block interest capitalization when asset completion is purposely delayed.

Presentation

The total amount of the due interest and the amount capitalized during the financial period should be presented.

FINANCIAL INVESTMENTS

The following norms are regulated:
- Accounting Research Bulletin 43 ARB 43
- Financial Accounting Standards 115 FAS 115
- Financial Accounting Standards 130 FAS 130
- Financial Accounting Standards 140 FAS 140

The most important is FAS 115 – The Accounting of some investments in trade bills and investment securities which apply to all the investments in:
- investment securities which have an easily determinable value, except the capital investments booked based on the capitals method (it regards the investments of 20-50% to the capital of a company) and the investments in subsidiary companies
- trade bills, securities issued by the state or by corporations (shares, bonds, public securities, treasury securities) etc.

The investment companies and the securities companies are not subject to these regulations.

The securities kept until maturity

It is that category of investment securities for which the company has the firm intention and possibility to keep until maturity.

Some securities might not be classified as „kept until maturity” even if they are going to be kept till then, if, from various reasons, the holder will not recover the entire value of the investment (he has collected them before the maturity at a lower value, or he will use them for the sinking of a lower debt etc.).

The sale or transfer of investment securities from the category „kept until maturity” before the maturity date are allowed only under the following circumstances:
- extreme and very improbable cases, such as: the significant damaging of the creditor reliability as a result of some unusual events which could have not been reasonably foreseen.
- the sale is carried out close to the maturity date, and the risks regarding the interest fluctuation are eliminated, or the sale comes when at least 85% of the investment value at the purchase time has been collected.

This type of securities is estimated at the depreciated cost. The incomes from interests and dividends should be admitted as incomes. Even if the investment is posted on the depreciated cost,
an estimation should be done to determine if a possible decrease of the fair value under the depreciated cost is of a nature other than the temporary one.

**Securities available for sale**

They are those securities which cannot be included in neither of the other two categories. The transfers between the three categories should be scarce and well justified. The Standards provide examples regarding the circumstances which can justify such transfers.

**Depreciations**

If a depreciation of an investment occurs such as the fair value becomes lower to the value posted in the accounting and this depreciation is not temporary, then the depreciation should be posted in the accounting as a loss which will affect the accounting period outcome. This adjustment should not be reverted if an increase of the fair value will be found further on. For the investments in securities from the category of those available for sale, both the depreciations and the further increases of the fair value should be acknowledged in the outcome account, as other gains until actually produced.

**Other financial investments**

The financial investments, other than the investment securities, are booked at the lowest value between the cost and the net achievable value.

When a loan is converted into investment securities, they should be estimated at the fair value. The difference between the loan value and the value of the investment securities should be acknowledged in the outcome account.

The financial investments should give the fair value and the depreciated costs of the financial investments, on at least four groups of due dates: below one year, between 1 and 5 years, between 5 and 10 years, over 10 years. Other types of companies can opt in favor of a group of due dates which they consider more proper to give an accurate image of the portfolio investments.

**Stocks**

The stocks are regulated by the following norms:

- Accounting Research Bulletin 43 (ARB 43)
- Accounting Research Bulletin 45 (ARB 45)
- Statement of Position (AICPA) 81-1 (SOP 81-1)

**Stock Estimation**

The stocks are booked at cost. The cost has been generally defined as the price paid or the compensation given for the purchase of an asset.

In the case of stocks, the cost is the sum of direct and indirect expenses carried out to bring those stocks to the existing form and location.

The stocks costs also include that part of the general and management expenses which are clearly done for producing them (in the case of the stocks of finished products, semi-finished products etc.). As long as there is no direct relation to production, the indirect expenses being based on normal level of activity, some elements such as: the expenses with useless facilities, the excessively unprofitable expenses and the double purchase expenses can be so abnormal as to be necessary to be handled as period expenses instead of being part of the stocks cost.

A change in the structure of the component elements of the stocks cost is considered a change of the accounting policy.

**Methods used for stocks issues**

All the following methods are considered acceptable: LIFO, FIFO, average weighed price, in determining the cost of sold goods. The companies are free to choose the method which best suits the company requirements. For LIFO, AICPA has provided professional guidance for setting up the acceptable accounting practice.

LIFO Method is popular in the USA, being formally accepted in fixing the tax on profit and in the accounting reportings. The cost with the interest shouldn’t be capitalized for stocks, except for some specific projects such as the shipbuilding, bridge building etc. or for works of land improvements.

A change from the stocks accounting method to the cost is required when the stocks utility value decreases below the cost level. The measurement of stocks depreciation is achieved by posting them at the lowest value between the cost and the market value. The market value represents the cost of replacing a stock element (either by purchasing or by manufacturing), considering the following:

- the market value should not exceed the net achieved value, i.e. the estimated sale price minus the sale costs reasonably estimated;
- the market value shouldn’t be lower than the net achievable value, minus the provisions related to these stocks.

The most usual practice is the rule of the lowest value between the cost and the market price for
each stock element. However, where there are only finished products stocks, the method can be applied to the total stock. Similarly, the rule can be also applied on the total of each category where there are compact categories of stocks. Only under extraordinary circumstances (or where the industrial practice is accepted), the stocks can be estimated at a higher value than the cost: precious metals or goods with a fixed currency value, which have no considerable marketing (sale) costs, can be booked at such a value.

Once the stocks are booked at the lowest value between the cost and the market price, a new accounting policy is generated, policy on which one cannot make changes later on.

Within the cost of sold goods, the possible losses generated by the application of the lowest value between the cost and the market price should be presented distinctly. Besides, the losses from stocks purchasing should be identified in the outcome account.

**Long term contracts**

There is no specific definition of the long term contracts. The references to long term contracts of SEC regulations include:

- the contracts or programs for which the gross profit is acknowledged by using the accounting method depending on their finalizing percentage, or any other similar variant;
- the contracts or programs booked at the end of the contract to which are associated material values of stocks or un-invoiced outstanding receivables.

The finalizing period is usually higher than 12 months, but the procedure can be as well applied to the contracts with a finalizing period lower than 12 months, if considered suitable. The percentage method is recommended when the overall costs of contract achievement can be reasonably estimated.

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