ACCOUNTING – SOCIAL SCIENCE

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Abstract: *Accounting as a mathematics-derived science appeared in Venice during the Renaissance, and permanently evolved and adapted to the economic development of society and addressed the increased information needs in the context of emerging economic entities and investors. The development of entities and increased economic complexity also increased the number of people interested in the information resulting from the informational subsystem of accounting. Today, when globalization has visible effects, and company holdings are active in multiple countries, and technical progress is on the rise, the information flows employed by accounting increased at the same pace with such entities. Selecting from the complexity of information travelling in the world economy requires an accounting normalization process, and the unitary understanding of the complexity of information flows generated by accounting required a harmonization of the summary documents, accounting methods and terminology. Romania, as part of the world system of information flows, subscribed to accounting normalization and accepted two accounting organization models. On one hand, the application of the accounting referential to a defined group of entities as established by international rules (IFRS – under Order no. 881/2012 of the Ministry of Public Finance) and the other entities applying the national rules established under Order no. 1802/2014 of the Minister of Public Finance, in force as of 01 January 2015. Considering the extent of the implementation of established principles, assessment bases and accounting-specific practices, and the large number of people interested in the information flows generated by accounting, and the influence exerted on large population groups, one can safely state that this is a social science.*

Keywords: *accounting, science, information flows, stakeholders, profit-making entities, company holdings, transactions, technical progress, accounting normalization, accounting harmonization, social science, accounting subsystem, entity functions.*

JEL Classification: *M 4, M41.*

1. Emergence and evolution of accounting

The science of accounting is based in the Renaissance, a period of extraordinary expansion of arts, sciences and trade relations. In this exceptional social context, the first accounting work is published in Venice, titled „Summa di Aritmetica, Geometria, Proportioni et Proportionalita” (Neag R., *Reform of Romanian accounting between the French and Anglo-Saxon models*), Editura Economică, Bucharest, 2000, page 23), which represents the first treaty of accounting by the mathematician Luca Paciolo. This is a pivotal moment in the emergence of the science of accounting as a derivative of the fundamental science of mathematics. In the following centuries, double-entry accounting spread thanks to translations of Luca Paciolo's work, and another milestone in the spreading and evolution of accounting was the publishing of the following two works, namely:

1. The work of the Dutchman, Jehan Ympyn (published in 1543), also translated in French, called ,,Nouvelle instructions remonstration de la tresexellente science du livre de compte, pour compter et menez comptez à maniere d'Itallie, translated in English in 1547, representing another milestone for European accounting;
2. The second work of reference (published in 1567) was that of the Frenchman, Pierre de Savonne, entitled "Instructions et manière de tenir livres de raison et de comptes par parties dubles". This work was extremely valuable, being re-edited four times until 1614.

These works resulted in the spreading of double-entry accounting, but also reflected the economic development of the time, characterized by (Ionaşcu I., *Dynamics of contemporan accounting doctrines*), Editura Economică, Bucharest 2003, page 22):

- Existence of small economic entities;

- Low-value and low-complexity transactions, reflecting the social and economic context.
- Emphasis on inventories as assets rather than fixed capital;
- One-man management

In the 19th century, the fast development of business, capitals and share companies led to a wide-scale use of balance sheets and profit and loss accounts, since managers had to periodically disclose asset and economic information to owners.

This period also sees the establishment of the first basic specific accounting principles, which are also found in the principles of 21st century accounting, namely:

- The principle of going concern;
- The principle of prudence;
- The principle of financial independence.

The milestone scientific basis governing current accounting dates back to the first decades of the 20th century in the United States, which saw the conceptualization, criteria-based separation, detailing and explanation of a set of accounting principles accepted by all the users of information as generated by accounting and generically known as "Generally Accepted Accounting Principles (US G.A.A.P)". This was continued by the introduction, from 1934, of an accounting regulatory framework governing the audit report, according to which financial statements should provide an accurate overview of the financial situation and results, based on the generally-accepted accounting framework.

2 . The science of accounting in 21st century in Romania

2.1. Accounting from the standpoint of profit-making entities' functions

First, we set out to present accounting as an integrating sub-system of micro-systems, i.e. the profit-making economic entity.

In this micro-system attributed to the economic entity, accounting is represented by the accounting-financial function, which includes a multitude of activities for the assessment and recording the required resource inputs for the objectives of the entity, together with the assessment of the movements of assets belonging to such entities (Nicolescu and Verboncu, p.293).

By its financial accounting function, accounting ensures the quantification of resources and results for the other functions of the economic entity.

Accounting as integrating function of other functions of the profit-making entity, provides specific activities for the other functions, namely:

- For the research and development function, it ensures the assessment of the set of activities performed by the entity for the establishment of new ideas, new products, and new technologies, and their accounting in the specific accounts, resulting in scientific and technical progress;
- The commercial function ensures the assessment and recording of material resource inputs (raw materials, equipment) sourced from the free market, required for the performance of own activities and for the assessment of and recording of products and services sold on the market;
- For the production function, accounting ensures the assessment and recording of material resources, financial and human inputs required for the supply of products and services as provided under the business description of the entity, and ensures optimized resource allocation;
- For the human resources function, accounting ensures the assessment and recording of human resources expenses and social expenses related to the human

resources, in the complex process of performing the specific business object of the entity.

2.2. Accounting from the standpoint of information flows

Secondly, our approach will particularly consider accounting information for various large and complex entities. The emergence of company holdings created the premises for the expansion of micro-systems called profit-making entities, which were determined by:

a) Increased competition on a globalizing market;

b) The aggregation or combination of entities created the premises for meeting increasingly larger supply;

c) Company holdings tend to behave as a complex micro-system or self-standing entities (Pitulice, p.9) ;

d) At the end of the 20th century, the tendency towards globalization set the stage for investors to invest outside national borders, a phenomenon which generated the establishment of multinational companies that took advantage of:

- Easy access to energy sources;
- Technological advantage by the capability to incorporate technical progress;
- Very good mobility of highly qualified human resources;
- Quality products and services on the market;
- Rapid access to information flows;
- Implementation of IAS/IFRS in the accounting of the group members, regardless of location;
- Accounting normalization generating the harmonization of summary documents, accounting methods and terminology.

The normalization process determined a reference framework with three fundamental purposes (Feleagă, p.15) :

- Public power thus obtains consistent information;
- External users can better use accounting information particularly by quicker usage of time and space-based comparisons between enterprises (similar or different);
- Better allocation of resources at national level.

The above-mentioned phenomena show that both globalization and the emergence of company holdings led to mutations and drove the development of accounting.

In turn, accounting addressed such changes by issuing information adapted to new conditions, whereby decisions makers were timely informed and took appropriate decisions.

The swift development of information technology tends to determine the creation of “information societies" (Berheci, p.9), which will generate:

- Increased transaction and capital placement speed;
- Quicker transfer of capitals between countries;
- Information processing should be much quicker;

The accounting information flows should be processed equally quick and timely submitted to stakeholders.

The information flows which the accounting sub-system will efficiently and appropriately process are the following:

a) Information flows on the assessment and recording of resource-determined inputs (material, financial, human);

b) Flows generated by the internal activity, which combine inputs and determine the assessment and recording of goods and services;

c) Information flows on the assessment and recording of outputs determined by sales of entity-specific goods and services;
d) Information flows on the assessment of assets, debts and equity at the time of the financial reports;
e) The financial report information should be consistent with the appropriate accounting referential.

Figure no. 1 below describes financial accounting as a subsystem.

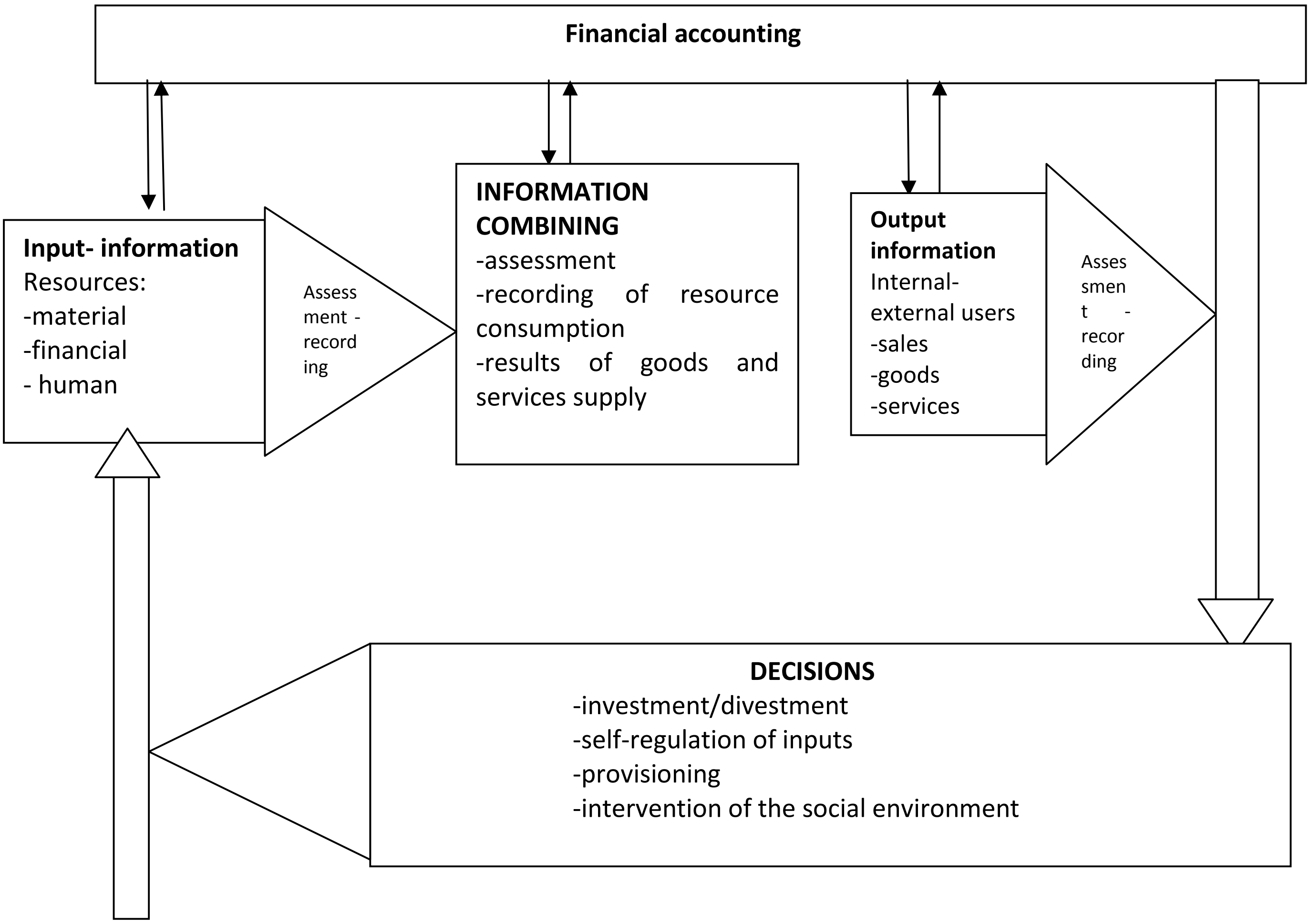

Figure no. 1. The entity's accounting subsystem

3. Normalization and harmonization of accounting in Romania

In Romania, as in other countries, the process of normalization is logical and influenced by the level of development, understanding and acceptance of new economic conditions. This process ensures users that accounting information is as close to economic reality and the accounting referential as possible.

The normalization of accounting and connection to accounting information flows began after 1990, when Romania migrated to market economy.

In this context, according to the Romanian regulatory framework, accounting is generically defined as an activity specializing on techniques that should ensure: the measurement, assessment, knowledge, management and control of financial statement items (Law 82/1991, published in the Official Journal, art. 263/27.12.1991, art. 2 of 1).

The financial statement items which are subject to the above-mentioned techniques are the following: assets, debts, equity and results.

Accounting can also be defined as a micro-system allowing the identification and measurement of the combination of resources available to the entity during the financial year, to record the phenomena and processes of the entity, then provide specific information of various stakeholders.

Accounting as a complex micro-system should also comply with the following legal requirements:

- Chronological and systematic recording of information;
- The processing, publication and keeping of information on the financial position and performance and other information on the profit-making entity;

The purpose of flows resulting from financial accounting is to provide relevant and timely information to a wide range of stakeholders.

The stakeholders interested in the financial accounting information include the following: shareholders, owners of other entities willing to invest in the said entity, managers, suppliers, customers, employees, the government, competitors, banks and other creditors.

Economic entities organize and manage their accounting according to established, accepted rules (IFRS the national rules), in order to prepare consistent financial statements at the end of the financial year.

National rules established that the objective of financial statements is the provision of information on the financial status, financial performance, entity's cash flows, which are relevant for a wide range of stakeholders (OMFP no 1802/2014, published in the Official Journal no. 963/30.12.2014).

Regardless of the accepted accounting rules (IFRS or national rules), the financial statement information should include two categories of accounting information:

1. The first category of accounting information consists in:
   - The utility of the information;
   - The opportunity of the information;
   - The completeness of the information;
   - The neutrality of the information;
   - Accurate representation.
2. The second category of accounting information consists in:
   - Comprehensibility of the information;
   - Compatibility of the information;
   - Relevance of the information;
   - Verifiability of the information.

The Order no. 881/2012 of the Minister of Public Finance establishes the entities preparing financial statements according to IFRS (such as credit institutions, the entities authorized and supervised by CNVM).

The two legal acts: OMFP no. 881/2012 and OMFP no. 1802/2014 are aimed at ensuring the alignment of national accounting to information flows derived from international accounting rules.

4. Conclusions

Accounting is a sub-system and at the same time a function of the micro-system (represented by the economic entity), integrating for the others. Accounting emerged during the Renaissance, following the economic development of the time, and adapted to economic development. Beginning with the 20th century, accounting tends to become international due to the emergence of company holdings and the increased amount of processed information, originating from multiple entities located worldwide. Accounting is a science permanently adapting to the development of global economic entities. Due to its information flows dedicated to a wide range of users, accounting is a social science.

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