ECONOMIC REALITY AND TRUE AND FAIR VIEW

Alina RUSU
Alexandru Ioan Cuza University of Iasi, Faculty of Economy and Business Administration
Iasi, Romania
alina.ionela.rusu@gmail.com

Abstract
Accounting continuously aims to achieve the desideratum for performance which refers to the „true and fair view”, insofar to measure the degree in which it reflects the objective reality through a complete and relevant information on economic facts and processes reflected in the currency. But the approaches concerning the meaning and practical applicability of this concept varies internationally and that because there are major differences between accounting systems which interact globally. Different ways of obtaining the fidelity of a company’s representation reveals the discordances between the true and fair view and its fragility and even bring into question the usefulness of the concept. Multiple images that intend to be faithful, raise questions about the referentials underlying the true and fair view, about the organization of the accounting normalization and about those whom are addressed the provided information. So, this paper aims not finding a generally accepted definition of the concept of true and fair view but a brief presentation of the principal coordinates that have influenced its conceptual development.

Keywords
True and fair view, enterprise, reality, accounting harmonization, standardization, users, International Financial Reporting Standards

Requiring annual financial statements to "give a true and fair view of assets and liabilities, financial position and results" of the company, the fourth European Directive introduced in 1978 a notion to validate the business representation through the annual financial statements. In 2002, Regulation no. 1606/2002 of the European Parliament and Council, which decided to apply International Financial Reporting Standards at EU level is the true and fair view of compliance to these rules a "fundamental condition" of their adoption in European Union countries. However, this representation must take into account, on the one hand, the requirements of rules to be applied to develop financial and accounting information about the company and, secondly, the complex and multiple reality of this entity.

1. TRUE AND FAIR VIEW, FINE TOP OF THE EUROPEAN ACCOUNTING HARMONIZATION?

The concept of true and fair view is rooted in anglo-saxon accounting practice and culture, being made since 1948 in Britain. In section 49 of the Companies Act, under the phrase "true and fair view", it mentions that "every balance sheet of a company shall give a true and fair view of economic and financial
situation of the company at the end of the year, and each profit and loss account of a company must give a true and fair view of the profit or loss made by the company".

Although its purpose is generally recognized as significant in current accounting, financial reporting and auditing, the process of defining this phrase has sparked many discussions and debates at the international level [11]. It was considered "a central and mysterious feature of financial reporting that is at the same time, upper and undefined" [14], "an abstraction or a philosophical concept" [6].

Even if, in European countries, company executives are responsible for annual financial statements to give a true and fair view of the results and performance obtained, and auditors are required to give an opinion on the accomplish of this requirement by the annual financial statements audited, however, European legislation does not provide a definition for this concept. Thus, approaches to the meaning and practical applicability of this concept varies internationally and that because there are major differences in accounting systems which interact globally.

**True and fair view appearance in the Fourth Directive**

First version of the fourth European Directive on annual accounts of companies, dated November 10, 1971, request that they "shall be drawn up clearly and, in the context of the provisions regarding the evaluation of assets and liabilities and the lay-out of accounts, shall reflect as accurately as possible the company’s assets, liabilities, financial position and results".

Starting with June 26, 1972, the study group of accounting experts from the European Economic Community notes that the conditioning of procurement of "a reflection as accurately as possible " only by the provisions concerning the evaluation and structure of assets and liabilities reflects a very limited approach of the problem. It calls for the introduction of "fidelity" concept, which is a translation of the words true and fair view and refers to generally accepted principles. This concept concerns the obligation to provide all the relevant information for users of financial statements, thereby accounting principles to economic progress.

This formulation of the purpose of annual financial statements has been retained in Article 2 of the final version of the European Directive. Annual accounts, including a balance sheet, a profit and loss account and the notes on the accounts, which together constitute a whole (Art. 2, para. 1), when are prepared with clarity and in accordance with the Directive provisions (Art. 2, para. 2) are sufficient to provide the desired true and fair view.

If, after setting the annual accounts in accordance with the provisions of the Directive, informations gathered in the accounts are insufficient to meet the requirement of true and fair view, additional information must be given in the notes (Art. 2, para. 4). Where, even by providing additional information, the true and fair view can not be ensured, the provisions of the directive must be departed from, in order to give a true and fair view (Art. 2, para. 5). Therefore, according to European normalizators, the true and fair view is a overriding principle.
The concept of true and fair view in the national versions of the directive and its implementation into national legislation

This concept has been translated into various languages in the European Community, but national language version is relevant for each Member State. Language versions of the Fourth Directive's fragment, presented in Table 1 illustrates the differences in translation. English version uses the word "view", which binds to a sense of sight and can be interpreted both in active mode: the act of seeing something, and in passive mode: what is seen, or abstract: the idea.
Table 1. Phrases used by some European Union member states before and after the adoption of European Directives

<table>
<thead>
<tr>
<th>Analyzed country</th>
<th>Expression in the law before the implementation of European Directive</th>
<th>European Directive text translate in the national language</th>
<th>Expression in the law different from Directive</th>
</tr>
</thead>
<tbody>
<tr>
<td>France, Belgium, Luxembourg</td>
<td>-</td>
<td>une image fidele (een getrouw beeld – in Flemish)</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>ein den tatsächlichen Verhältnissen entsprechendes Bild – a view that corresponds to the real situation</td>
<td>unter Beachtung der Grundsätze ordnungsmäßiger Buchführung (continue as in Directive) – in accordance with accepted accounting principles</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>un quadro fedele</td>
<td>rappresentare in modo veritiero e corretto</td>
</tr>
<tr>
<td>United Kingdom, Ireland</td>
<td>true and fair view</td>
<td>true and fair view</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>et paliteig bilde</td>
<td>god regnskapsskikk – consistent with good accounting practice</td>
</tr>
<tr>
<td>Netherlands</td>
<td>geeft een zodanig inzicht dat een verantwoord oordeel kan worden gevormd – provide a view which allows issuance of well-founded opinions</td>
<td>een getrouw beeld</td>
<td>geeft getrouw en stelselmatig – present credible, consistent and clear</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>una imagen fiel</td>
<td>la imagen fiel ... de conformidad con las disposiciones legales – a true view in accordance with legal provisions</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>en rattvisande bild – a true, fair and not misleading view</td>
<td>en rattvisande bild – a true, fair and not misleading view</td>
</tr>
</tbody>
</table>

Source: [13]

German word "Bild" and Dutch "beeld", ethymologically identical, indicate, like the French word "image" or the Spanish "imagen", the result of a technical or intellectual operation of reproducing an object, operation for which achieving different tools are needed.

However, the French and Spanish terms, as part of the same lexical family as the concept "imagination" (imagination / imaginación), refer to the intellectual approach evoked by English words, unlike the more technical sense of the Dutch and German expressions.

English word "view" is accompanied by two adjectives whose meanings largely overlap: "true" means "right", "real", "honest" and "fair" is "frank", "loyal".

The French, Spanish, Italian and Dutch versions use a single adjective qualitative " fidèle", "fiel", "fedele" and "getrouw"; Dutch adjective has the same
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origin with the English "true". German version, however, waives the adjective "treu" akin to those of English and Flemish, and uses a roundabout "which corresponds to the actual situation" ("ein den entsprechenden tatsächlichen Verhältnissen").

The concept of true and fair view seems to respond to two concerns which are not entirely opposed, nor fully converged [10]:
- that of a rigorous application of different techniques;
- that goes beyond techniques using responsible reasoning.

The "fair" inclusion in Member State's national laws of the notion "true and fair view" would have meant keeping the shape of article 2 of the Directive.

The Netherlands has maintained the old provision that "the annual accounts give a view which allows issuance of a well-founded opinion on the company's assets, liabilities and income. In the British law, true and fair view, is about balance on the one hand, and about profit and loss account, on the other hand, and not about annual financial statements in their entirety. Germany, Spain and France condition the obtaining of a true and fair view, first of compliance of the "accepted accounting principles", the second of achieving "compliance with the law provisions" and the third of compliance the requirements of regularity and sincerity and even of prudence. German law does not provide the exceptional situation which permits derogation from its provisions for obtaining a true and fair view. The accounting law issued by the European Directives can not hide the fact that there are more than one true and fair view [7]. But he considers them as equivalent.

Equivalent conventional representations of the company

When the true and fair view results naturally from the application with good faith and competence of national accounting provisions derivative from European Directives, it corresponds to a conventional representation of the company, of each Member State, obtained by respecting the regularity and sincerity of the annual financial statements.

The objective of true and fair view has the role of a final test [10] which assures users of financial statements that the information provided is complete, consistent with the facts, clear and useful. From the viewpoint of those who prepare financial statements, this test helps for a better compliance with the rules and determines them to provide explanations and additional information in the notes. And sometimes, it causes derogation from the rules.

However, through the true and fair view, the Accounting Directives do not realize a unification of national regulations but a "coordination" of their own. It establishes "minimum equivalent legal requirements" and contributes to achieving "the objectives of comparability and equivalence of information "[19]. Equivalence between the true and fair views provided by the accounts of European enterprises is obtained through the correspondence of national and Community rules.

Conversely, by adopting International Financial Reporting Standards, the European Union is considering setting up a single referential. This will allow the presentation "of a true and fair view of the financial position, performance and cash flows of an entity (IAS 1). However, because the interpretation and assimilation of these rules by Member States will be done in the language of each country and in the
context of the national concepts and practices, it will be difficult to create a single regulatory framework to ensure a facile time and space comparison of the information provided by the annual accounts.

2. THE TRUE AND FAIR VIEW AND THE SEARCH OF THE COMPANY’S “REALITY”

Conventional representation created by a game of national images, the true and fair view is not a static concept. Different ways of obtaining a faithful representation of a company reveals the discordances of the true and fair view and his fragility and even bring into question the usefulness of the concept.

The discordances of the true and fair view

Due to the multiplicity of national accounting conventions, the discordances between the different meanings of the true and fair view deformed often the analysis of the company’s economic reality.

European harmonization of the Accounting Directives’ provisions have some drawbacks including:

- significant impact of taxation on accounting in some countries: France, Italy, Austria, Germany;
- differences between countries in terms of determining the content and value of intangible assets;
- a diverse application of valuation rules and even the existence of different methods for individual accounts to those consolidated;
- systematic depreciation of property investment;
- different rules for entry of goods leased in the asset side of the lessor;

These dissociations are more difficult to accept as the preparation of financial statements in euros allows immediate comparisons. Gradual penetration of international standards in the national accounting rules would have to mitigate. However, paradoxically, the desire to facilitate the introduction of IRFSs into the Community sites had the effect of multiplying options, with the risk of damaging the directives’s utility.

True and fair view’s fragility

True and fair view is fragile as long as the accounting rules are incomplete or can be handled [5]. These are incomplete when do not provide solutions for:

- the accounting treatment of same transactions: the accountant must use his imagination to meet legal, economic or financial innovation for not providing timely accounting standardized or regulated solutions;
- the type of information that must be submitted: annual accounts do not present all business risks, treasury analysis justify the cash flows statement;

They are incomplete because the accounting and financial information is generally only numerically expressed.
Also, it is manipulated by creative accounting to the extent that transactions are initiated or built solely according to the desired image, according to the intention of who prepares the annual financial statements [3]. The creative accounting targets the practices derived from standard accounting practices, characterized by certain techniques more or less complex. Its ultimate goal is the change of the annual financial statements reflected by the financial position and performance of the entity in the direction desired by the producers of information. Therefore, it's use leads to misinformation and distortions of economic reality entities [16].

The main techniques for handling the entity's performance are offered by the wickets which are allowed by the treatments and accounting policies provided by accounting standards. There are several "options" or possible versions in accounting data processing, appropriate either to true and substantiated accounting elections, or to a certain freedom that the accountant assumes by showing in the financial statements the desired level of the entity’s financial position and performance.

This flexibility can be summed up by clever and careful indication that the annual financial statements provide "one of the true and fair views of the company's assets and liabilities, financial position and income [1].

In the game of custom views built by the individual enterprises and enterprise groups, the true and fair view proves to be incomplete and fragile.

**True and fair view or non untrue and unfair view?**

Resumption or not in national law of the requirement of derogation from the rules in exceptional circumstances is an indicator of the degree of flexibility that each Member State shall recognize to this conventional representation – true and fair view. But this flexibility is useful only in the absence of adequate rules or procedures, a situation which can only be temporary and exceptional and must determine expanding quickly the existing regulatory device. Paradoxically, the prevalence of true and fair view gives the impression of a static normalization, although this is changing, is a perpetual creation. On the other hand, imposing an obligation whose outcome is uncertain, imprecise, this prevalence appears to be a dangerous notion for those who prepare financial statements, as they could be accused of lack of responsibility when they claim exemption from rules but also when they do not invoke it [4].

When in German law is omitted the possibility of waiving, this omission shows a certain precision and stresses that the German true and fair view is obtained only under the principles of a normalized accounting. This solution transforms the requirement to get a result in the obligation to use certain methods and strengthens the legal security of accounting information.

The choice of methods used by those who prepare the annual financial statements would be facilitated by abandoning the prevalence of true and fair view and by the introduction of the notions: "not-faithful view" or "not untrue and unfair view" [8]. The latter would be more practical and easier to identify, as far as the opposite situation "unfaithful or untrue and unfair view" can be found by an auditor.
Adopt non untrue and unfair view would allow the recognition of the prevalence of substance over form principle, often equated with the objective of true and fair view. Foundation of the true and fair view [15], this principle does not require derogation from the rules but applying the appropriate accounting rules, namely the creation of relevant rules [4].

3. THE TRUE AND FAIR VIEW AND THE FINANCIAL ACCOUNTING INFORMATION

Multiple images that intend to be faithful raise questions about the referentials underlying the true and fair view, about the organization of the accounting normalization and about those whom are addressed the provided information.

The true and fair view and his referential

For the rules and accounting principles to lead to a true and fair view it is necessary that this set of rules and principles are well known, understood and accepted by the users of financial statements, and that's because "the view can be true and fair only compared with the interpretation that a user will do. Each one is seeking his own truth "[12].

Starting from the premise that there may be more true and fair views of the same reality, as there may be more photos of the same object, depending on factors (light, distance, etc.) promotes the idea that "true and fair view can not be confused with an exact copy of the economic reality, but is the image that can be trusted and which can credited "[12]. Thus, the values of the economic and financial indicators obtained by a society will be different depending on the reporting system used (eg. the Romanian accounting referential against them one from UK). The question that arises in this situation is: which of the situations reflects the reality? Both situations reflect reality, but a reality specific to the local economic and social environment and that because accounting rules do not have a universal power of action but they have become true because social actors have accepted them and gave them recognition. Therefore, a normalized and real accounting representation is obtained based on accounting rules recognized by a particular social community. This may explain why the concept of true and fair view varies from country to country: Germans, preoccupied with the information's relevance associate the financial statements with "the most certainly possible view", the French "with the image sincere and consistent with the rules" and in the countries where financial accounting still serve fiscal purposes, the image is considered accurate only insofar as the annual accounts comply with tax regulations. International Standard IAS 1 suggests that "the application of IFRSs, with the presentation of additional information when needed, leads to financial statements which give a true and fair view".

Thus, EU accounting illustrates the reality of a different and forked accounting referential. Indeed, the Directives are supplemented by different national provisions applied differently depending on the enterprises's size.
The intense systematization of accounting rules that characterized the continental accounting and that expanded to countries of customary law when implementing the European accounting directives, has encountered some limits, taking into account the role recognized to the International Accounting Standards Board, IASB [2].

Meaningful analysis of business transactions use criteria which do not fall into the classical categories of trade law or even in the concepts developed on the basis of economic law. It is therefore necessary the assertion of its accounting definitions that are the basis of the autonomy of the accounting rules.

For this purpose IASB uses the "Framework for the Preparation and Presentation of Financial Statements". In this conceptual framework are defined by a logical reasoning the elements of accounting and are established the conditions for their accounting registration and for their evaluation by the considered entity. IFRSs are often presented as based on principles rather than rules. In these conditions they still target comparability or consistency? IASB favors relevance; which is not incompatible with the differences in application [2].

True and fair view and the accounting standardization organization

Different perspectives on the true and fair view are produced therefore by different approaches on the organization of accounting standardization.

Macro-economic approach attempts to subordinate the company's accounting to its imperatives. Thus, company's accounting is in close correlation with national accounting policies, since the latter influences economic goals. For example, the following correlations can be revealed: the income may be adjusted ("smoothed") to promote economic stability in business, depreciation rates can be corrected in order to stimulate economic growth; special reserves can be created to encourage enterprises in launching new investment projects; for achieving macroeconomic equilibrium can be designed and implemented a social responsibility accounting. A first version of this approach would be reporting to the national accounting for the validation of the normalization process and for providing standardized information about the company. This approach, illustrated by French accounting normalization, where standardization body is part of the government, presents the risk of turning the company into a mere collector of information. Alternatively, given the example of Germany where accounting is used to define a stable framework (legal) of business by encoding accounting rules. In this case, the normalization process, which logically overlaps the normal legislative process, takes the chance of printing to the true and fair view a legal form limited and inflexible. According to macro-economic approach, accounting is central to the game of the market players because, measuring their rights and obligations, allows the market transactions.

Conversely, micro-economic approach puts the company at the center of the accounting normalization and of the true and fair view. Accounting is considered a branch of economics and business management. A fundamental concept of this model is to preserve in real terms the money invested by an enterprise (maintenance of physical capital). One important element of the micro-economic model is the
replacement value accounting, as an alternative or supplement to historical cost accounting. One such system of evaluation is also required by the financial sectorial communications. Most illustrative example of applying the microeconomic model is the accounting system in Netherlands [17].

Clearly, accounting normalization and its corollary, true and fair view, is seen as a learning process applied to the business reality. This approach appears in Anglo-Saxon method, being explained by the concept true and fair view [10]. Being responsibility of professional accountants, this process has the advantage of the flexibility and progressivity, however, it does not relate to consistency, it can lead to denial of accounting standardization.

For this image game is generated a plurality of accounting functions, including social functions, to the extent that accounting rules are social norms. Each function may be associated with a particular status of accounting normalization and normalization body. Quality of rules is dependent on the due process. This process involves the schedule and formalises stages, sanctioned by the vote, the rule-making by a group of experts. The papers are published and they are subject to public debate. Quality of the standards issued by the IASB is a result of this process.

The effectiveness of a normalization organization depends on its independence. Its missions should include development of accounting rules, delegated to a body able to issue binding texts, their interpretation, entrusted to a committee of emergency, and follow their implementation. IASB is an iconic example in that regard.

True and fair view and the proper functioning of the economy depends on the effectiveness and quality of the normalization body.

**True and fair view and the using of financial accounting information**

Accounting and financial information is the result of agreements. The definition of these conventions involves the presence of a normalization body which prepares the rules of the game, construction and quality regulations. These rules must be validated to become binding on third parties, justifying also the controls (of the auditors, of the oversight committees in the financial markets, etc.).

True and fair view corresponds to the optimal level of an accounting regulatory system defined by the following ensemble: financial accounting information, normalization body, validation and control bodies, the preparers and users of financial statements.

In the long term, true and fair view must allow users to take decisions in the face of new challenges (corporate governance, sustainable development). According to European Directives, the true and fair view aims to protecting shareholders and third parties. Therefore, it is trust in a business approach that "entity" and takes into account the interests of various stakeholders, especially creditors. International Financial Reporting Standards position it in an unstable balance, which mainly favors investors in an approach of the owners.
4. INSTEAD OF CONCLUSIONS

Financial and accounting information is often a tool by which the manager can influence the perception of his users on the enterprise so that "economics interests (...) are served by accounting" [1] and it is "a social mirror to look the enterprise, but is an active mirror" [9].

The image created by the accounting, will create a new reality that will guide the user's behavior and will determinate decision making.

In the enterprise, accounting information is produced under the supervision of the managers who have the authority for controlling her dissemination and use. Thus, they can select the information provided to users based on their distinct and often contrary interests: to the banks, to the suppliers and other creditors will provide a balance sheet "embellish", made in the optimistic variant, to the state will provide a balance sheet which undervalues profit and hence tax liabilities and to base their own decisions will use a balance sheet closer to reality.

Therefore, there are so many true and fair views as recipients of information are, because "the truth said by accounting is only a filter that allows understanding of a reality". Accounting representation can not be and it is never entirely objective. It is always more or less subjective and transmits, even inevitable, the intentions of those who realized it, managers of enterprises assisted by their accountants. This construction is subject to social convention essentially legal, the accounting standards, which leaves a margin of freedom to the "manufacturer", the enterprise's manager.

A challenge for professional accountants is the question "how true and fair must be the true and fair view?" Responses are varied, depending on the philosophy of the accounting system in which they practice. So, those in continental systems, which are characterized by a greater or lesser influence of taxation on accounting, will measure the degree of fidelity of the true and fair view according to regularity, which requires compliance with rules, regulations. But those rules have sometimes a fiscal nature and contradict the economic content of accounting information, which can affect the quality of the true and fair view.

On the other hand, professionals belonging to the Anglo-Saxon accounting systems, will give priority to economic reality, opting for total disconnection between tax and accounting. To ensure a true and fair view is necessar that the documents underlying accounting records be accurate, authentic and genuine. Also, the quality of accounting information and, implicitly, the true and fair view is determined by the professional competence of accountants and application by them, in good faith, of the accounting rules and regulations. Both accountants and managers should be loyal, honest and should not distort the reality. The degree of fidelity of the image provided by financial statements is even greater, since it contributes in such an objective mode to the substantiation of the decision-making process of their users, who base their business decisions on the image of the economic reality provided by them.
References