

APPLICATION OF PROFESSIONAL JUDGEMENT IN THE RECOGNITION OF PROVISIONS. THE CASE OF BSE LISTED COMPANIES

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Abstract:

The nature, opportunity and value of provisions should be disclosed in the explanatory notes to provide full information to interested parties. This work focused in particular on the analysis of provisions, because over time, provisions have been difficult to interpret due to their subjective and cashless nature, and these features describe their vulnerability to manipulation. The research objectives of the authors are aligned along the following lines: on the one hand, to present the aspects concerning the recognition and valuation of provisions, i.e., to detail the main peculiarities of provisions, according to IAS 37, and, on the other hand, to analyse the implementation of the international standard IAS 37 „Provisions, contingent liabilities and contingent assets” in entities listed on the BSE. Another objective is to detail the specifics of provisions, i.e. the recognition and measurement of environmental provisions under IAS 37. Thus, the authors aim to analyse the presence of provisions reported by entities listed on the BSE, as well as the areas in which these items are of significant importance. The part allocated to the research methodology aims at a three-year analysis, from 2019 to 2021, of BSE-listed entities on the implementation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" by these entities, by presenting the values and reported elements of provisions. The subject under review is a topical one, of interest to all stakeholders, and has been extensively analysed, with different views expressed on the importance of provisions within a company, both nationally and internationally.

Key words: provisions, recognition and measurement, IAS 37-Provisions, contingent liabilities and contingent assets, listed entities, Bucharest Stock Exchange - BSE .

JEL classification: M41, M48.

1. INTRODUCTION

Corporate management is directly involved in the preparation and publication of accounting information, which is why managers must act with care and responsibility when presenting accounting data. In many cases the data presented are partly based on estimates, using relevant, objective and calculated reasoning. The equity of an entity reflects the wealth of its owners, which is, in effect, the residual interest of the shareholders in the assets of the entity after deducting liabilities. In determining shareholders' net assets, all liabilities of the entity must be taken into account, including uncertain or contingent liabilities such as provisions. A thorough understanding of provisions is essential for a user to understand an entity's operating performance and use it as a basis for measurement (Sintea, 2016, 209). This paper has focused in particular on the analysis of provisions, as historically provisions have been difficult to interpret due to their nature as subjective and cashless, and these characteristics describe their vulnerability to manipulation. The main objective of the theoretical part of the paper is to describe the theoretical aspects of the recognition and measurement of provisions, and in order to achieve the proposed objective, the authors have detailed the particularities of provisions, i.e. the recognition and measurement of environmental provisions under IAS 37, even though the IASB considers that environmental reports presented outside the financial statements do not fall within the scope of IFRS (IAS 37, iasplus.com). The

application part is directed towards an analysis over a three-year period, from 2019 to 2021, of entities listed on the Bucharest Stock Exchange, from the point of view of the implementation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" by these entities, specifically the presentation of the amounts and reported elements of provisions (IAS 37, iasplus.com). In addition, taking into account the information collected, the authors will also use a graphical presentation of the areas, in which the elements that make up the provisions are of significant importance.

The classification of provisions as a liability has severely limited the freedom to create them from an entity's perspective because provisions must meet all the criteria contained in the definition of a liability. The provisions for these items also allow for creative accounting practices and can lead to substantial gains due to these uncertainties (Zicke and Czermin, 2014). Providing relevant information to users of financial statements is one of the objectives of financial reporting, but we must also establish that some of the information presented is also based on management judgement (Ciuhureanu, 2021). Provisions are one of the main outcomes of these management judgments and intentions, and their recognition and presentation requires interpretation of probabilities, key assumptions and estimation uncertainty (Suer, 2014, 391).

Known as some of the most enigmatic and strategic items in a company's financial statements, this category of liabilities is a major issue in shaping an image and reputation for the company. Thus, some liabilities can only be measured using a substantial degree of estimation, which is why some companies define these liabilities as provisions (Feleagă et al., 2010). The concept of liabilities is narrowly defined to include only amounts that can be determined without estimation, such provisions are not considered liabilities (IAS 37, iasplus.com).

The IASB considers that environmental reporting outside of financial reporting is outside the scope of IFRS, despite many companies operating in areas of interest where environmental factors have a significant influence on their performance. However, the IASB guides the recognition and measurement of items in financial reporting related to environmental protection, and there are numerous standards and interpretations within IFRS related to topics such as sustainability. The development of sustainability principles with awareness of their impact within the business is becoming increasingly important in accounting and financial reporting, leading to calls for globally recognised sustainability reporting standards and harmonisation of reporting. Building on previous research on IFRS and environmental accounting, there is also corporate hype about the information made available to users, lack of sustainability of reported information, and companies' non-compliance with IFRS requirements on insufficient size of provisions and environmental contingencies (Jose, 2017), thus debating important issues regarding the recognition and measurement of environmental provisions under IAS 37 (IFRS, ifrs.org, IAS 37).

The development of environmental or green accounting is a widely analysed topic, and concerns about it have existed for decades, failing to cover many of the environmental challenges (Nicholi, 2022). Large companies had to publish under Directive 2014/95/EU reports on the policies they follow in terms of environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and anti-bribery, objectives that include benefits for companies, investors and society (Directive 2014/95/EU). Better performance, lower financing costs, better relations with consumers and stakeholders, and disclosure of transparent information on social and environmental issues are some of the major benefits for companies, which will have to disclose more transparent information on environmental issues such as: the actual environmental impact of their operations (e.g. greenhouse gas emissions, air pollution and water use) and therefore investors and stakeholders could benefit from more adequate information on environmental performance and provisions made by companies (PWC, 2008). On the other hand, ESG - Environmental, Social and Governance, principles of integrated reporting, principles that refer to environmental, social and governance issues, showing how, social and environmental performance together with good governance contribute to high financial performance (Mihalciuc, 2021). Corporate sustainability reporting improves corporate reputation, leads to increased trust of customers and other stakeholders, improves governance and attractiveness to investors (Directive 2014/95/EU). We are now in the context of a new change, in terms of sustainable reporting, which

will take effect from 2024 through a new EU Directive on sustainability - the Corporate Sustainability Reporting Directive (Directive 2464/2022). The scope of companies required to report is extended under the CSRD to a larger number of European and non-European listed companies operating on EU regulated markets. The CSRD will require companies in scope to report sustainability issues in accordance with the detailed set of disclosure standards developed by the European Financial Reporting Advisory Group - EFRAG (Directive 2464/2022).

When we refer to an environmental provision, we are referring to a liability of uncertain timing or value, used to cover risks related to environmental costs, such as clean-up costs, decommissioning or remediation costs that companies will be exposed to in the future. IAS 37 specifies that a relevant calculation of the present value of the environmental provision is one based on the estimated future cash flow and the discount rate. Thus, companies may use different discount rates in order to achieve different results in the present value of the environmental provision through the same estimated cash flow (IFRS, ifrs.org, IAS 37).

The oil and gas industry, due to the internationalization of transactions has international regulations and laws that refer to the decommissioning of assets at the end of their production life, and accounting standards in different countries treat mandatory accounting and reporting of provisions for decommissioning costs (Abdo and Mangena, 2018). This is because, there are situations where decommissioning or environmental remediation work at the end-of-life of a plant or other facility to take into account the terms of operating licences or stated policy and past practices of the entity (Abdo and Mangena, 2018). An entity that promises to remediate damage will have the possibility to create a constructive obligation, more precisely a liability if we refer to IFRS (PWC, 2008). By applying IAS 37, many oil companies, particularly oil and gas operators, are required to disclose current and past oil and gas operating assets and liabilities, along with a plan to phase out these assets once what these items are deemed unprofitable (Sookdeo, 2002). As long as IAS 37 recognises obligations in the form of penalties or clean-up costs for illegal environmental damage, companies will need to make such provisions for decommissioning costs related to an asset that may lead to various environmental damage (Jose, 2017). Environmental protection, employee safety and social equity are the three major dimensions that a Companies operating in the oil and gas industry need to consider for sustainable development (Fleacă et al., 2014). The oil and gas industry is one of the most challenging topics for provisions, as it operates in difficult and remote terrains, and estimating the best value of the current liability resulting from a past event can be difficult (Lavi, 2016, 35- 86).

2. LITERATURE REVIEW

By creating provisions, entities ensure that all liabilities are included in the financial statements. As provisions are a category that affects both the amount shown in the statement of financial position and in the income statement and other items of profit or loss, they are a category of items that can shape the picture of a financial statement. The inclusion of provisions in the category of liabilities has limited the freedom of companies to create them because a provision must meet all the requirements contained in the definition of a liability (Poniatowska, 2017, 8). A number of techniques are practiced in accounting related to revenue recognition, tax deferrals and contingent items that will lead firms to those aspects of profitability. According to International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision should be recognized in the financial statements when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation created. (IAS 37, iasplus.com). It follows that provisions for one-time events, such as restructuring, environmental clean-up, lawsuit settlement, are valued at the most likely value, while provisions related to guarantees, customer reimbursements, are valued at an expected value based on expected probability (Du et al., 2016, 1). In these situations, provisions should be valued at present value, using a pre-tax discount rate, in order to assess the current market value of money over time and the risks associated with the liabilities (Nandakumar et al., 2010).

Although there may be an inherent risk, provisions will meet the criteria for recognition in financial reporting, i.e. the existence of an obligation at the end of the reporting period and the possibility of an outflow of resources that will be required to settle the liability (IAS 37, iasplus.com). The standard urges that estimates of provisions should be made prudently to avoid deliberate understatement or overstatement of liabilities (Mielcarz et al., 2016). When referring to the term obligation, the standard refers both to a legal obligation, which may result from a specific contract or from legislative provisions, and to an implicit obligation (Mielcarz et al., 2016), of clear assumption of certain responsibilities, an obligation established by past practice, by promoted policy or effectively by a current statement with a certain degree of specificity (Feleagă et al., 2010). In order to observe the probability of the occurrence of an obligation, given a probability greater than 50%, a probabilistic test can be applied (Elliott and Elliott, 2011). IAS 37 excludes obligations and contingencies arising from financial instruments within the scope of IFRS 9 „Financial Instruments”, insurance contracts with policyholders IFRS 17 „Insurance Contracts”, even if IAS 37 applies to an insurance company's non-callable liabilities, items covered by another standard such as IFRS 15 „Revenue from Contracts with Customers” that bring into question those enforceable contracts; IAS 12 „Income Taxes”, applies to current and deferred income tax obligations; IFRS 16 „Leases”, applies to lease obligations; and IAS 19 „Employee Benefits”, applies to pension and other employee benefit obligations (Nandakumar et al., 2010).

The recognition of provisions and the presentation of contingent liabilities bring up issues of creative accounting through the lens of management judgment applied in accounting estimates. Thus, these contingent liabilities can mislead users of financial and accounting information, with a long-lasting impact on company performance and financial position (Lopes and Reis, 2019). IAS 37 also refers to those categories of provisions for so-called 'onerous contracts', which require a company to take into current profit the full cost of fulfilling contracts that continue into the future under defined conditions (IAS 37, iasplus.com), this aspect may constitute commercial difficulties for a company (Mackenzie et al., 2014, 422). With the entry into force of the standard, the recognition and evaluation rules according to IAS 37, the financial reports according to IFRS of the companies, presenting terms based on the definition found in IAS 37, were codified. In addition, the standard has succeeded in clarifying certain misconceptions about the term *"provisions"*, which are required by this standard are *"liabilities"*. *"Provision for impairment"* and *"provision for doubtful debts"* represent adjustments to the book value of assets. (Mirza et al., 2008, 317). Before the introduction of IAS 37, companies used provisions, liabilities and contingent assets, as relevant practices to equalize earnings, but in the same type actually representing abusive practices, from an accounting point of view, leading to major problems for companies. This practice was used in particular by new managers of companies, who made large provisions for restructuring in the first year, with the effect of reducing profits, and then cancelled the provisions made unnecessarily in subsequent years, thereby increasing the company's result. Thus, users of financial statements had difficulty determining the actual profits of companies because of this practice (Okafor et al., 2021).

In financial reporting, those estimates are practiced, which lead to probable results, through those reliable estimates of a clear obligation, given by the recognition of a provision (Mackenzie et al., 2014, 429). When referring to the best estimate of the expenditure required to settle an obligation, we refer to that amount, which an entity will reasonably pay to settle the obligation at the reporting date, these estimates being influenced by management's judgment entity, supplemented by previous experiences and expertise (Rees, 2010). In measuring a provision, the liability is determined by weighting all possible outcomes with their associated probabilities, resulting in that expected value (Feleagă et al., 2010). The standard suggests using expected value as the benchmark for estimating the provision because it allows uncertainty to be incorporated and quantified in the estimation of the obligation (Mielcarz et al., 2016). The enterprise has no present obligation for those future expenses if it can avoid incurring them, and in this case is not required to recognize a provision (Tram-Anh Le, 2019).

When making the assessment of a provision, several future events should also be taken into account such as those that may foresee reasonable changes in the application of existing technology,

ignoring possible gains from the sale of assets, and possible legislative changes only if it is practically certain that they will be adopted (IAS Plus, IAS 37). IAS 37 has been criticized from the outset for its lack of clarity and the fact that it is difficult to interpret due to both presentation and recognition criteria, which has led to the implementation of different reporting practices (CECCAR, 2013). Recent research documents, diversity in the amount and accuracy of disclosures, with discount rate levels being treated, for example, as an absolute accounting choice because IAS 37 contains little explicit guidance and management perceives disclosures that are not explicitly required as optional (Paananen et al., 2021).

In the structure of the balance sheet, we find on a distinct position the provision that was recorded, and for each category of provision, in the explanatory notes, the nature of the obligation must be described, the recognized value of the amounts of the provision at the beginning and at the end of the period, the situation of the additional provision recorded, the amounts used and the amounts not used and carried forward in the period under review, as well as the increase in the present value of the provision as a result of the time effect and changes in the discount rate, possible indications of uncertainty regarding the amount or timing of the exit of the provision (Lagrange et al., 2015). When it is not possible to correctly estimate the value of an obligation, it cannot be recognized and is presented as a contingent obligation (Georgescu, 2005). As for a contingent asset, it will be given by a possibility of the emergence of an asset, due to the gain determined by future events, which cannot be controlled by the company. In the case of a contingent liability, the treatment specifies that the recording of a liability is made when probable, with recognition occurring before the contingent asset (Okafor et al., 2021). Examples of contingent liabilities may include: pending or threatened litigation, claims and assessments, and product warranties and defects (Schiff et al., 2012). A contingent liability is defined as a possible obligation arising from a past event and the existence of which depends on the probability of the occurrence or non-occurrence of an event beyond the firm's control (Alibhai et al., 2018, 418-420). The reduced possibility of outflow of resources incorporating the economic benefits to settle the obligations, but also due to the lack of probability of measuring the value of the obligation with sufficient reliability lead entities to the non-recognition in the financial statements of these items (Mielcarz et al., 2016). A contingent liability will not be recognized in the balance sheet, but in the explanatory notes to the financial reports. (IFRS, ifrs.org, IAS 37).

The creation of provisions can be due for various reasons, provided in IAS 37 and also respecting the general accounting principles. According to International Accounting Standard No. 37, provisions are divided into provisions for single events such as restructuring, ground-clearing, onerous contract provisions, provisions for divestitures, provisions for environmental costs, lawsuit settlements and provisions for large populations of events such as guarantees and customer refunds (Nandakumar et al., 2010). Referring to two essential principles, that of prudence and accrual accounting, it is important to take into account future payments, more precisely future expenses, taking into account the obligations that exist before the end of the year (Dick, 2010, 101).

Based on the literature and given the purpose of our study, the following research hypothesis is formulated:

H1: *Provisioning meets the recognition criteria to reflect the entity's financial position at a point in time.*

3. RESEARCH METODOLOGY

Today's business is focused on corporate behavior, constantly oriented towards financial position and performance, on the one hand, and on the other hand, to shareholders and other stakeholders (Mihail and Micu, 2021). Also, the globalization process has contributed to the need for companies to prepare and disclose financial information as relevant as possible, being used by a wide range of users to make decisions (Răpan et al., 2022). In economic activities, quality information is the focal point of progress, leading the company's management to reliable decisions (Todea et al., 2014).

In order to attract new users of information and to benefit from financing, many enterprises turn to stock exchange listing. Currently, all listed companies in the European Union are required to prepare consolidated financial statements in accordance with IFRS (Vrejoiu, 2022). The national accounting regulations (O.M.F.P. 2844, 2016) which comply with IFRS, apply to companies that admit securities to trading on a regulated market.

The recognition of provisions as liabilities and their establishment on account of expenses in the annual financial statements affects both the financial position and the performance of the enterprise. When recognizing provisions in financial reporting, it is appreciated to identify an asymmetry, that is, the company cannot record the increase in the value associated with the assets or the decrease in the liabilities, even if they are obvious. Thus, provision accounting makes available to the company the possibility of presenting information on risks and potential losses, with all the negative consequences associated with these elements (Dicu and Mardiros, 2015).

The present study aims, on the one hand, to analyze the presence of provisions in companies from BSE, for the analysis years 2019, 2020 and 2021, and on the other hand to identify the areas in which provisions are of significant importance. From the total of 82 companies from BSE, the financial and banking companies were eliminated and the information presented by the remaining 61 companies was used, which by sector of activity are divided as follows: 33 companies - manufacturing industry (54%), 10 companies - services (16%), 7 companies - energy-oil (11%), 4 companies - chemical-pharmaceutical (7%), 4 companies - construction (7%), 3 companies - trade (5%). Thus, as far as research methodology is concerned, it is both qualitative and quantitative. The qualitative research aims at analysing the types of provisions constituted by the companies included in the sample, for the period investigated, while the quantitative research is limited to the analysis of the evolution of the size of provisions over time in the companies under analysis.

By sector of activity of the companies in the sample, both similarities and major differences can be observed in terms of the categories of provisions constituted. In the oil energy sector, provisions for decommissioning predominate to a significant extent, while in the manufacturing industry provisions for environmental restoration, provisions for litigation and other provisions predominate.

Taking into account the importance of the environmental concerns of the companies, the authors resort to the presentation of the aspects regarding the existence of environmental provisions within the analyzed companies.

It is known that the wealth of the owners of an entity is represented by its equity, i.e. the assets of the company after deducting debts. However, to determine the shareholders' net worth, all its debts, including uncertain or doubtful debts, must be taken into account, including provisions. In other words, as a matter of prudence, the entity's net worth should be presented at the lowest value that can be realised. Accounting professionals are caught between prudent managers and imprudent shareholders. The latter in principle want high earnings, but sometimes they can be risky and in the future they can be considerably reduced. In these circumstances, the prudent person principle allows a smoothing of the result over several periods, as it takes into account all possible risks and can allow a gain (even if smaller) to be achieved in each reporting period. Excess provisioning is not desirable either, as the annual financial statements should reflect the financial position of the entity at a point in time and not its financial position in the future. In other words, the only liabilities to be recognised at year-end are those that exist at that date, i.e. they are present liabilities and not future liabilities. Next, the results of the processing carried out on the recognition of provisions of entities listed on the BSE on the main market capture the share of provisions according to the companies' business, by type of provision, as well as the share of the most common provisions in the energy and manufacturing sectors in order to opine to what extent their recognition is considered relevant.

4. RESULTS AND DISCUSSION

From the analysis of the values of the provisions reported by the companies on the BSE, the authors observed that the value of the provisions reported by these companies is significant, thus

indicating an important presence of provisions in the structure of these companies. In the conducted study, there are also companies in which provisions have an insignificant value or equal to 0, such as Artego S.A., ElectroArges S.A., Electrocontact S.A., Farmaceutica Remedea S.A., Prefab S.A., UAMT S.A. and Ves S.A.. A visualization of the share of the value of provisions according to the field of activity in total provisions is presented in figure no. 1

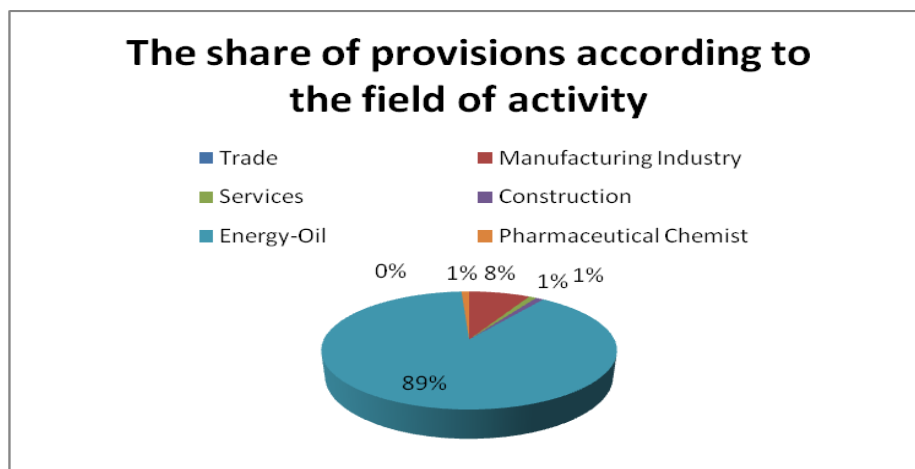


Figure no. 1. The share of provisions according to the field of activity

Source: Own elaboration using data from Bucharest Stock Exchange

According to figure no. 1. in the energy-oil field, the largest weight of the provisions reported by the companies is found, respectively 89%, followed by the manufacturing industry with a weight of 8% and services, construction and pharmaceutical chemicals, with a weight of 1%. The percentage of 89% present in the oil energy sector comes mainly from the value of the provisions of the company OMV Petrom, which recorded a value of these elements of 7,789,113,616 lei in 2019, 8,613,730,354 lei in 2020 and 7,244,044,122 in 2021.

The oil and natural gas industry in Romania is the key source, due to the geographical position of the country through the accessibility of the ports on the Mediterranean Sea and the transport systems of the states of Central and Eastern Europe (Mihalciuc and Grosu, 2021). The operations of oil and gas companies have a substantial impact on the environment and society, communicating information on decommissioning costs and environmental provisions made available by these companies will help assess society's ability to fulfill its obligation to the environment and the planet, being able help to reduce the concerns of stakeholders, which would lead to the improvement of the company's reputation in the eyes of the public (Abdo et al., 2018).

The value of 8% registered in the case of companies with the field of activity in the manufacturing industry is due to the significant number of companies that operate in this field and are listed on BSE, respectively 38, compared to only 7 companies in the case the oil energy field.

The total value of the provisions is given by the types of provisions established within the enterprises, and their share is presented in figure no. 2.

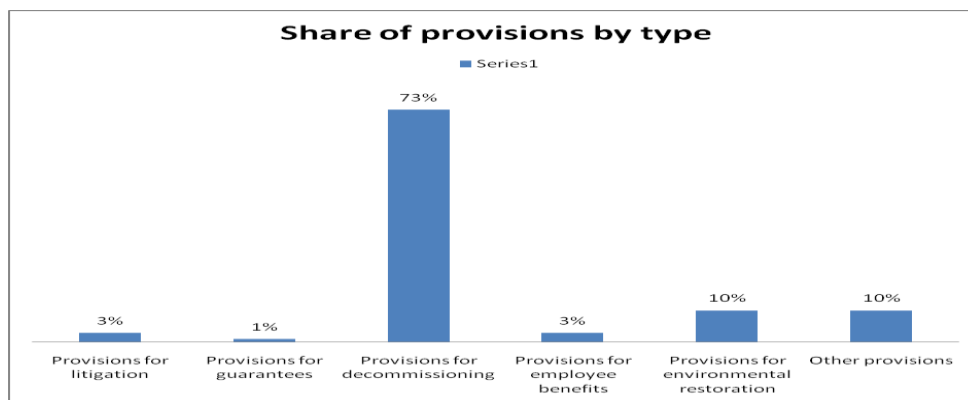


Figure no. 2. Share of provisions by type

Source: Own elaboration using data from Bucharest Stock Exchange

Thus, according to figure no. 2., within the entities listed on BSE, provisions for decommissioning have the largest weight of 73%, followed by provisions for restoring the environment with a weight of 10% and other provisions with a weight of total of 10%. Provisions for litigation, provisions for employee benefits and guarantees have an insignificant weight. The high percentage of 73% of decommissioning provisions is justified by the fact that entities operating in areas that may affect the environment are required to establish such provisions in line with environmental protection requirements.

Depending on the field of activity, the entities constitute different types of provisions, which is why we have carried out a broader analysis of these elements within the companies in the energy-oil field and in the manufacturing industry presented in figures no. 3. and 4.

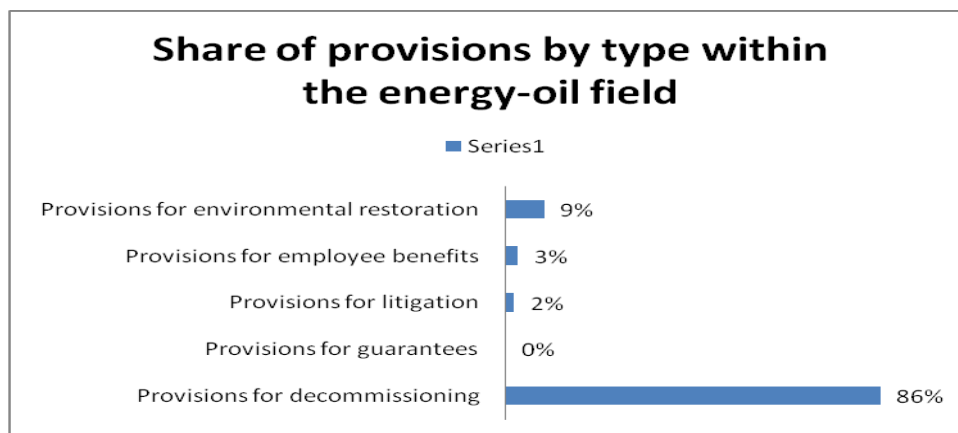


Figure no. 3. Share of provisions by type within the energy-oil field

Source: Own elaboration using data from Bucharest Stock Exchange

According to figure no. 3, within the entities in the energy-oil field, provisions for decommissioning prevail with a weight of 86%, followed by provisions for environmental restoration and other provisions with a weight of 9%. As previously noted, decommissioning provisions account for the largest share (86%) of all provisions made by energy-oil entities (representing only 11% of the sample analysed), further evidence of compliance with the requirements for achieving sustainable development objectives.

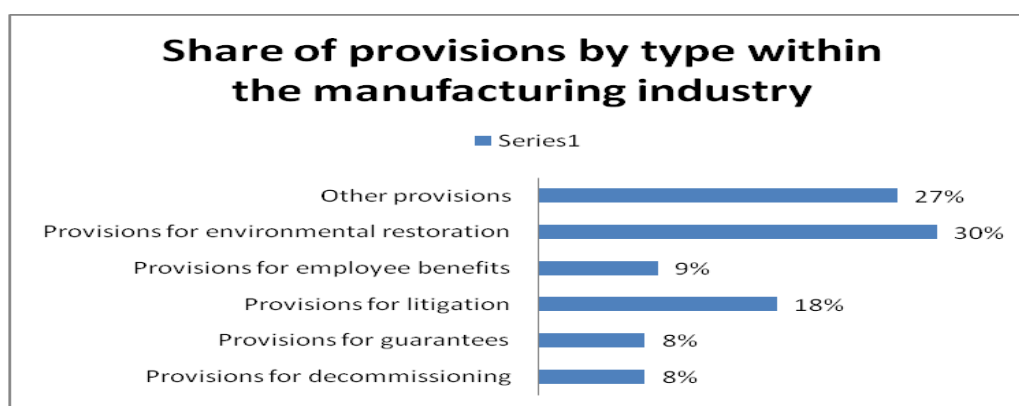


Figure no. 4. Share of provisions by type within the manufacturing industry

Source: Own elaboration using data from Bucharest Stock Exchange

According to figure no. 4. within the entities in the manufacturing industry, provisions for the environment are most often set up with a weight of 30%, followed by other provisions with a weight of 27% and provisions for litigation with a weight of 18%. And in manufacturing, the highest percentage is held by provisions for environmental restoration, classified as environmental protection measures. The presence of environmental provisions is due to the company Nuclearelectrica S.A. because it constitutes annual provisions for obligations regarding the Intermediate Burned Fuel Depository (DICA), respectively for obligations regarding other low and medium radioactive and non-radioactive waste. To carry out a more thorough analysis of these elements, the authors presented in table no. 1., a ranking by field of activity, of the first companies, with the most significant values.

Table no. 1. Presentation of companies listed on BSE with significant values among provisions

Field of activity	Company name	Value of provisions 2019	Value of provisions 2020	Value of provisions 2021
Energy Oil	OMV Petrom SA/SNP	7,789,113,616	8,613,730,354	7,244,044,122
	Romgaz SA/SNG	527,671,590	728,892,947	635,608,341
	Rompetrol Rafinare SA/RRC	342,060,438	297,034,901	356,577,370
	Transgaz SA/TGN	72,239,710	75,794,781	67,446,364
Manufacturing industry	Nuclearelectrica SA/SNN	324,422,722	340,312,211	367,124,504
	UCM Resita SA/UCM	233,771,668	232,605,508	43,177,792
	Aerostar SA/ARS	119,018,703	115,641,480	131,829,181
	IAR SA/IARV	69,994,375	55,584,221	53,730,595
Services	Transelectrica SA/TEL	70,017,850	91,564,358	51,688,960
	Conpet SA/COTE	14,482,079	11,259,657	8,769,079
	Electrica SA/EL	9,073,129	13,114,674	15,891,697
Chemical-pharmaceutical	Zentiva SA/SCD	17,688,212	17,197,603	8,384,870
	Antibiotice SA/ATB	7,149,401	13,528,900	3,853,530
Construction	Condmag SA/COMI	12,658,880	14,451,128	10,294,928
	Cemacon SA/CEON	11,325,556	10,115,976	13,877,496

Source: Own elaboration using data from Bucharest Stock Exchange

According to the centralized information in Table 1, the companies that register the highest values for provisions are those in the energy-oil domain, respectively OMV Petrom S.A., Romgaz S.A. and Rompetrol Rafinare S.A., followed by the manufacturing industry, Nuclearelectirca S.A., UCM Reșita S.A. and Aerostar S.A. and Chemical-pharmaceutical represented by Zentiva S.A. companies. and Antibiotice S.A. The image of companies operating in the energy-oil industry is of complex importance, all the more so as Romania holds a dominant position in South-Eastern Europe, by ensuring the maintenance of a relationship with the main stakeholders (Fleacă et al., 2014). Thus, in the component elements related to provisions for OMV Petrom S.A. there are retirement benefits and other similar obligations in the amount of 170.05 million lei for 2021, provisions for decommissioning and restoration in the amount of 6,253.93 million in 2021 and other provisions in the amount of 888.40 million in 2021. The category of other provisions includes environmental provisions, other personnel-related provisions, litigation provisions and other provisions.

From the analysis of the reports of selected companies, only 5 companies present provisions for the environment, namely Cemacon SA, Nuclearelectirca SA, OMV Petrom SA, Rompetrol Rafinare SA and Zentiva SA. Companies present a detailed description of these items in their financial statements, providing important information for potential investors. Cemacon S.A. Company has established provisions for the environment due to the fact that it also carries out mineral resource exploitation activities (clay) and is obliged to carry out environmental restoration expenses related to the exploited perimeters (bvb.ro/infocont/infocont22/CEON). The company Nuclearelectirca S.A. constitutes annual provisions for obligations regarding the Intermediate Burned Fuel Deposit (DICA), respectively for obligations regarding other low and medium radioactive and non-radioactive waste. The environmental provisions related to the company OMV Petrom S.A. are estimated by the management based on the list of environmental projects that the company is obliged to fulfill, representing the best estimate (bvb.ro/infocont/infocont22/SNP). Due to involvement in refinery and petrochemical activities, Rompetrol Rafinare S.A. is obliged to bear environmental restoration costs. The company's environmental policy is in accordance with existing legislation and complies with any obligations resulting from environmental or operating permits. According to the financial statements, the value of the provisions is divided into two elements, namely provisions relating to the Vega Lagoons and provisions relating to the Vadu Boxes (bvb.ro). Zentiva S.A. Company recognizes an environmental provision when water and soil contamination occurs and there is a legal obligation to decontamination, or it is recognized when there is an implicit obligation, if the company's policy is to carry out decontamination works, even if there is no legal obligation ([bvb. ro](http://bvb.ro)).

Given the above hypothesis: Provisioning complies with the recognition criteria to reflect the entity's financial position at a given point in time, it could be seen that at the level of the sample analysed, the provisions set up are in line with the object of activity and reflect the justified application of the principle of prudence, the business judgment being in line with this principle, both in terms of types of provisions by object of activity and in terms of their share of total provisions.

From the theoretical and applied aspects presented in the paper, we believe that this research topic can be further developed also from the perspective of auditors' views on how to set up provisions. Thus, it would be interesting to investigate in further research to analyse the audit reports for companies listed on the BSE, in order to ascertain to what extent the opinion of financial auditors, regarding the recognition of provisions, is in line with management statements in this direction.

5. CONCLUSIONS

In the scientific approach of the present paper, the authors resorted to the presentation of general notions regarding IAS 37 "Provisions, contingent liabilities and contingent assets", paying particular attention to the definition of key concepts, the issues addressed and the scope of

applicability of the standard, as well as the description the criteria for recognizing provisions, namely the present obligation, past event, probable outflow of resources incorporating the economic benefits and the reliable estimate of the obligation. From the applied study carried out as part of the work regarding the presence of provisions, in the companies listed on the Bucharest Stock Exchange, a significant presence of these elements was found among Romanian companies, presenting the value of provisions, related to the years 2019, 2020 and 2021 among of the 61 companies, from which financial and banking companies were eliminated. Following the analysis, it was found that the highest values were recorded by the entities that have an oil or energy field of activity, which results in a significant presence of provisions for guarantees granted to clients, for litigation, provisions for employee benefits, as well as provisions for the environment. The study also registered companies that do not present any elements related to IAS 37, which highlights the still enigmatic nature of these types of liabilities.

Synthesizing all the information, both theoretical and applied, presented in the paper, we appreciate that the provision of relevant information to stakeholders, which aims at the recognized value of provisions, is also based on the reasoning and intentions of the management, their recognition and presentation requiring the interpretation of estimation probabilities. From the point of view of management's professional judgement, it is important to pay particular attention to the way in which provisions are set up or excess provisions are made, i.e. the type of provision set up, which should be objectively related to the companies' business, as such inappropriate estimation judgements could lead to a manipulated result for the year. Then, a provision made can only be used for the purpose for which it was originally recognised. Covering expenses from a provision that was originally recognised for another purpose hides the impact of two different events. The professional judgement used by those responsible for recognising provisions must take into account the qualitative characteristics of the information presented in the annual financial statements. In other words, contingent liabilities cannot be recognised in the statement of financial position. Our study also has limitations, primarily due to the small sample, but also to the fact that variables such as changes in management and the influence on provisions could be added. These issues may be considered in future research.

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