

Basic Accounting in European Projects

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Abstract

In this article is analysed the problem of the accounting assessment within the projects financed from grants/non-refundable funds. The article aims to gather all the directives and regulations which are used for the accounting records in relation with the structural funds. In addition, it is aimed the identification and stressing of the main aspects of the european funds accounting. The researching methodology consists of both the qualitative method, and the quantitative one, highlighting the characteristics theoretically, but also practically, from a descriptive conceptual perspective.

Keywords: structural funds, beneficiary, distinct analytical accounts, Management Authority, prefinancing, reimbursement

JEL Classification: M40, M41, F21, F36

1. Objectives

A first objective of this paper is revealing main theoretical aspects of accounting in structural funds. The second objective is represented by the description of the major aspects in the accounting organisation, in order to make this study an information paper for the potential beneficiaries of the European projects. The last objective of the paper can be considered that one about a summary of the accounting regulations and rules which aim the recording of the accounting information.

2. Introduction

The definition of the word „fund” comes from French language, where it means monetary mean, financial resource. The word „structural” comes also from the French language, where it refers to organisation, structure and that take into account the development. Attaching the two words we got the composed term „structural funds”, which as it show even the name, signifies the financial means used to favour the development. As European Union considers, the promoting of the progress, aims to reduce the disparities in development of different regions to finally get a steady level of state savings.

The accounting of the projects financed from structural funds is strongly referring to all the records realised within the activities undertaken within the projects. This raises the need to apply legal regulations harmonized at EU level, but also the proper use of analytical accounts. In an ascending trend, the implementation of the projects with structural funds needs a proper accounting, to avoid the emergence of financial or legal repercussions on beneficiaries.

The European funds accounting became with the accession of Romania to the European Union, in 2007, a requirement for companies and institutions wishing contracting projects financed by structural funds. However, this came as a challenge, on the background of EU integration, being a new field, that was based only on the previous experiences of the neighbouring countries. It took the development of precise measures of well-established rules to cope with change in accounting. The European funds accounting can become a trap generating multiple errors. The multiplicity of features in the recording of accounting information in this field, inexperience and appropriate regulations are the main obstacles to drawing up the accounting documents of companies (Iacob, Ionescu & Avram, 2011; Țogoe, Avram & Avram, 2014; Avram, Avram & Avram, 2014).

3. Theoretical issues regarding the structural funds

The compound term „structural funds” comes from: the plural „funds” comes from the French word „fonds” and it means financial resources, means, and „structural” term comes from the French word „structural”, signifying organization, for development. In accordance with definition provided by the Explanatory Dictionary of Romanian, for the two parts of the phrase „structural funds” we could use the significance of financial means offered for development. The Trilingual Explanatory Dictionary of the European Union (Bărbulescu & Răpan, 2009, p. 357) characterizes the structural funds as a part of regional development policy of the European Union. This type of funds is used for growing the development grade of the regions in order to reduce the disparities between different parts of the European Union.

Name Structural Funds emerged with the Treaty of Rome in 1957, benefiting from over the years of about 90% of the Community budget, compared to the Cohesion Fund, which was funded by only 10%. As investments directions for the structural funds there are five main axis, respectively: reducing the disparities between the developed regions and the ones there to be developed; the conversion of the declining industrial areas; removal of long-term unemployment; labor market integration of young people; the promotion of the so called rural development.

During the programming period 2007-2013 there were used four structural funds: European Regional Development Fund, abbreviated as ERDF (used for reducing disparities between regions and to strengthen economic and social cohesion); European Social Fund (hereinafter referred to as ESF) , dealing with economic and social development of countries, supporting their national politics; European Agricultural Fund for Rural Development, EAFRD is the fund which finances all directions in the competitiveness of agriculture, rural development and environmental protection; European Maritime and Fisheries Fund, EMFF, which, as it shows its name refers to the decreasing of the fishing effects over the environment, but also the improvement of the fishing activities.

Most of the projects financed with structural funds are the ones from the first category, of ERDF, which is the most comprehensive. With this fund were created numerous jobs, infrastructure, and support for SME –s and the development on the regional plan. The operational programmes financed mostly by ESF are HRDOP (changed as POCU) și OPACD (transformed in POCA). The operational financed with structural funds can be regional or sectoral. During the programming period 2007-2013, these were called as it follows: SOPIEC (Sectoral Operational Programme for Increasing Economic

Competitiveness); SOP TI (Sectoral Operational Programme Transport Infrastructure); SOEP (Sectoral Operational Environment Programme); HRDOP (Human Resources Development Operational Programme); ROP (Regional Operational Programme); OPTA (Operational Programme for Technical Assistance); OPACD (Operational Programme for Administrative Capacity Development).

During the programming period 2014-2020, these suffered few changes regarding their names: Competitiveness Operational Programme - COP; Operational Programme Large Infrastructure - OPLI; Operational Programme Human Capital - OPHC; Operational Programme Administrative Capacity - OPAC. There were two programmes which kept their previous names, respectively: ROP and OPTA.

4. Regulation of accounting in relation with the structural funds

Accounting information for the organization of accounting at European level, use the following laws and regulations:

- The EU Regulations with the following numbers: 1301/2013, regarding FEDR; 1304/2013, regarding FSE; 1305/2013, regarding FEADR; 508/2014, which regulates FEPAM;
- Regulation on common provisions of the four Structural Funds, no. 1303/2013, as amended by EC Regulation. 1839/2015;
- The accounting law no. 82/1991, amended and updated in february 2014;
- OMPF no. 3055/2009, reprinted in 2014, under the no. 1802/2014;
- OMPF no. 1752/2005, regarding the approval of accounting rules, in accordance with the European directives;
- For the public institutions, it will be taken into account in performing the accounting also by the OMPF no. 1917/2005, updated as OMPF 2169/2009, on the methodology for organising and conducting the accounting of public institutions;
- For companies that do not have profit organizations will be taken into account OMPF 1969/2007, on accounting regulations for non-profit legal persons Pentru persoanele juridice care nu au scop patrimonial, se va lua în calcul și OMFP 1969/2007, cu privire la aprobarea reglementărilor contabile pentru persoanele juridice fără scop patrimonial;
- Fiscal Code, with subsequent amendments;
- GEO no. 64/2009 on the financial management of structural instruments and their use for the convergence objective;

- GEO no. 63/1999 regarding the management of the grants funds allocated to Romania by EU;
- Labour Code, for operations related to payroll;
- Instructions issued by the Management Authorities or the Intermediary Bodies.

Depending on the work done by the contracting company of the project, may be used more laws and additional regulations, regarding the: procurement, participation in tenders, employment of personnel in various age range indicated in the Applicant's Guide, created for each operational program.

5. The activity reflected in the projects accounting and rules related with the recording of accounting information

5.1. Activities reflected in the accounting

Analytical accounting of projects financed with structural funds is a necessity for companies receiving funding through grants, Whereas accounting records must be provided with accurate, complete and accurate data that can provide at any time of project implementation, a clear picture on activities realised (Avram, 2010). It is recorded in the accounting any operation linked by the beneficiary's activity, either we talk about the partnership leader, or it refers to the partners (in case we talk about a project developed in partnership). The accounting reflects activities, such as:

- relation with the providers (receiving and paying of the bills)
- relation with the clients (issuing and collecting of the bills)
- internal relations of the company (recording of project staff salaries, the payment of these salaries, as well as the transfers related to these salaries towards the state budget and the state social insurance budget)
- the assets generated by the project (delivery or periodically inventory of these);
- other receipts and payments (the settlement of the project staff's travels, contracts for creditation of the company by the shareholders, settlements between shareholders, settlements between partners, incomes generated inside the project, loans);
- any financial corrections at the contractor, at the project level, received from the Management Authority or from the Intermediary Bodies or between the beneficiary and partners (registration and payment);
- registration of the prefinancing applications, the reimbursements applications and the payments applications;

- registration of receiving the pre-financing amounts, those of reimbursement or payments requested as claims, but also the account statements related to these ones.

In projects involving a beneficiary and one or more partners, it is essential to initiate a project partnership agreement, for each of the participants to be informed of the share of its participation in the project. It is also important, as according to the axis chosen to clearly know the percentage of funding from the structural funds, the national budget and own shareholding. These details are mentioned in the financing contract signed by the beneficiary, partner/partners and the Management Authority/the Intermediary Body in the region where the project is implemented.

The percentages of funding, detailed after sources, are used whenever an application is submitted for reimbursement. The calendar of the reimbursement/payment applications is named „Estimated chart regarding the submission of the Reimbursement Applications and the Payment Applications”, that is respected by all the participants at the project and it is modified by official letter sent by the beneficiary to the Management Authority/Intermediary Body, whenever it appears a change in activity, which prevent compliance with the original timetable.

5.2. Rules for registration in accounting in the framework of the projects

In working with European funds, it is needed both a special attention, and certain general rules, that can be met at each contract. A first condition is represented by the knowledge and understanding of the laws that apply to that project. It is also necessary to fully comply with the conditions stipulated in the grant agreement concluded with the Management Authority/Intermediary Body. The second rule is that one that, both at the beneficiary, and at the partners too (if it is the case), registration, presentation and the keeping of the documents related to the project separately from the company, just to avoid the risk of confusion from users of information (Domnişoru & Vinătoru, 2009). These documents can be verified by all the specialised bodies, whenever it is considered to be necessary.

Within 30 days of the signing of the contract, the beneficiary must inform the Managing Authority by notification, regarding on how it intends to keep the project accounts: by separate analytical accounts, which may or may not include the number, the date the financing contract and an acronym that lead to the identification of the operational program of which the project is a distinct part. In addition, in notification should be indicated the way of

archiving the justifying documents (Iacob & Drăcea, 1998). For projects in partnership, it is necessary that after compiling documents to be approved by the partners chartered accountant / auditor beneficiary to ensure data accuracy and impartiality of the check. The beneficiary is responsible for a proper registration in accounting, both concerning himself, and also his partners. In determining erroneous entries, the beneficiary must pay back the amounts and penalties resulting from them if they have already been repaid.

The statements related to the project are kept on distinct analytical accounts, on financial resources types and on each and every contract. It is important a strict accounting of the pre-financing from the date of its receipt until the refund, indicating the ways of using (Avram & Avram, 2014).

Eligible expenses must be separated from those not eligible in order to be registered separately, therefore the Management Authority/Intermediary Body could know very clearly how much must be covered from its funds. For the eligible expenses, their justification is required by proper documents. If it is necessary additional documents could be requested. If those documents are refused by the beneficiary/partners, the expense can be categorised as ineligible and not included in the payment.

The expenses declared not eligible can be found only in that company accounting, but not in the project accounting, because they are totally covered from their own financial resources. Another important rule is to use different analytical accounts in the balance for both project work and analytical accounts for each investment objective funded and sources of funding. In order to avoid the incorrect understanding of the accounting documents, it can be produced different documents: on the company and on the project (Iacob, Ionescu & Goagă, 2007).

Supporting documents and records must be kept within a period clearly defined: in case of the programme HRDOP 2007-2013, these must be kept for 3 years from the date of official closure of the programme, respectively, the end of the year 2021; if we talk about SOPIEC 2007-2013, it is the obligativity of keeping the documents for 5 years from the date of official closure of the programme.

The main supporting documents used for the accounting registration are the following: invoices, delivery notes, certificates, payroll, time sheets, technical specifications, minutes of receiving the declaration for non deductible VAT (Bratu & Drăcea, 2002). The timesheets of the partners employees (within the projects that involve partners) must be approved also by the beneficiary project manager. These are accompanied by the activity reports, which detail the monthly activity of the experts and where the number of hours must be the

same with the one from the time sheet of that expert. Also, the time sheets are centralised at the partner level in the document called „Colective Time Sheet”.

The best option for the accounting organization in the project is to record the system used by the branches that do not have legal personality (Avram & Avram, 2014). In case of the beneficiaries with partners, to facilitate accounting, you can use the principles of consolidation, leading to financial statements on the entire project. The analytical accounts use data by the partners pointed out to the beneficiary the providers with which it maintains commercial relations, as well as the signed contracts and the acquisitions generated by the contracts signing (Ștefănescu, 2005; Feleagă & Feleagă, 2007).

To include the expenditure in a request for payment is necessary supporting documents (payroll, invoices) to be issued no more than 3 days before the date of application for payment in order to be considered eligible. It is also necessary that, when forwarding the request for payment for verification and acceptance must be submitted and proof of payment to suppliers or staff account the percentage of funding that the beneficial, according to the contract signed with the Intermediary Body (Florescu, 2012).

In a request for reimbursement is required only expenditure incurred and paid during the eligibility period and which can be supported by documentary evidence (Budica, 2010; Puiu, Budică, Ochetan & Budică, 2012; Chan & Hsu, 2016). Each request for reimbursement must meet the estimated schedule for the submission made by the beneficiary in collaboration with its partners (Body of Expert and Licensed Accountants of Romania, Guide on accessing accounting, taxation, auditing and managing projects with European funding, 2011).

The deadline for submitting applications for payment and reimbursement requests indicated by the IB beneficiary. For projects in partnership, it shall inform partners wishing date of receipt to, so they can carry out the verification and centralization before their dispatch to the specialized body (Deegan, 2013). Every request for reimbursement, payment or reimbursement related to the request for payment shall be produced annex to the instructions issued by the Managing Authority / Intermediate Bodies, which differ depending on the operational program in which the project falls. These annexes, projects with multiple partners are prepared by each partner, then sent to the recipient, which centralizes and makes the appendices in one copy for the entire project (Modrák, Dima, Kot & Bunaciu, 2011).

6. Mistakes in accounting records from within the projects and the consequences of these mistakes

From the lack of information about the structural funds field, but also from the lack of experience, can appear a lot of mistakes, which must be identified in order to be avoided. From these mistakes, the most common are the following:

- Requiring the payment of an amount which includes the whole value of a supporting document (invoice, payroll), without lowering the percentage to be paid by the beneficiary;
- Requesting to reimburse some invoices which had not been entirely paid before;
- Requesting to reimburse a certain amount from an invoice and recording in the analytical account related with the project of a different amount of the one requested at the reimbursement;
- The general administration expenses are not pointed out in distinct analytical accounts;
- The expenses with the staff don't include into the accounting in addition to the salaries, also the travellings, accomodation and meals;
- The amounts received as pre-financings or the amounts provided by reimbursement are not recorded into accounting;
- The buyings book is not attached to the purchasings performed, and the sellings book is not attached to the sellings performed;
- There aren't entirely attached the accounting notes/accounts sheets related to the expenses requested at the reimbursement, but also the balances in relation to the corresponding periods of reporting the reimbursement requests;
- The lack of payment documents or the presence of accounting documents which are not completed or legibly (Domnisoru, 2011; Othman et al., 2016);
- In case of the invoices that include VTA, the lack of the certificate issued by NAFA;
- In relation with the salary expenses, the state budget payment and the social securities state budget payment, it is met as a common mistake, the non-transmission to the specialised body of the 112 Statement, regarding the obligations of payment the social contributions, income tax and nominal records of the insured people.

In economic activity, as well as in everyday life, a mistake is always followed by adverse effects which may affect the smooth running of the project.

Consequences arising from errors listed above cause financial damage that can lead, sometimes to the ending of the beneficiary activity (Bratu, 2011; AbuAssi & Alkorashy, 2016). Among them can be highlighted: extension of the period for examining applications for reimbursement, as a result of insufficient or inaccurate information and documents; financial corrections percentage for various expenses eligible or ineligible amounts in question; the amounts already paid in the previous reimbursement requests are recovered by the Management Authority/Intermediary Body partially or totally; suspected fraud can be reported in the case of invoices deliberately made wrong or inconsistent with reality, which is why the investigation is triggered by the Anti-Fraud Department.

7. Conclusions

The conclusion reached is that the novelty of the Structural Funds can be considered a challenge but also a trap regarding the accounting of data from projects. In order not to encounter obstacles in the accounts of projects financed from European funds, it is necessary that the chartered accountant or accountant involved to have a culture legislative sufficient and updated and correlate these laws with practical experience and mistakes made earlier by others to prevent and avoid the occurrence of errors with significant effects.

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