Global Journal of Management and Business Research: A
Administration and Management
Volume 23 Issue 4 Version 1.0 Year 2023
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Income Components in the Italian and International Experience: From the Contraposition between Ordinary and Extraordinary Costs and Revenues to the Contraposition between Income Components Extraneous or not Extraneous to the Business Activity up to the Negation of Any Contraposition between Types of Costs or Revenues

By Prof. Maria Silvia Avi

Abstract- The costs and revenues recognised in the profit and loss for users outside the company have evolved in various countries and at the level of international accounting standards concerning the juxtaposition of large aggregates of negative and positive income components. Over time, there was talk of costs and revenues without any contraposition whatsoever, even going so far as to state that a profit and loss was perfectly valid with three items recorded in such a document: total costs, total revenues, profit or loss for the year. Over time, this situation has completely changed both in Italy and internationally. In the 1990s, the profit and loss governed by the international IAS and the profit and loss governed by Italian civil law presupposed the contraposition of extraordinary costs and revenues. After this contraposition had been eliminated at the international level, discussions began in Italy about whether the contraposition between extraordinary and ordinary income components could be replaced with another contraposition using the term 'extraneousness' or 'not extraneousness' to the company's activity.

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GJMBR-A Classification: JEL: M41

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Strictly as per the compliance and regulations of:

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Keywords: ordinariness of revenue costs, extraordinariness of revenue costs, extraneousness of revenue costs, non extraneousness of revenue costs to business management.

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I. The Typicality of Income Components: Core Versus Non-Core Activities: Preliminary Considerations [1]

Before addressing the issue of the contraposition between cost and revenue types in the context of communication destined for third parties external to the company, the writer considers it appropriate to point out how a profound discordance can be identified between the contraposition identifiable in the profit and loss of public financial reporting and the contraposition between costs and revenues destined to reclassify profit and loss for internal company management purposes. Whereas in the document intended for external company management, over the decades, there has been an evolution from the lack of contraposition between income components to the contraposition between ordinary and extraordinary components, to the subsequent juxtaposition of parts extraneous and not extraneous to business operations, and finally to the absence of any juxtaposition between costs and revenues of an ordinary nature or not extraneous to business operations and those of an extraordinary nature or not extraneous to business operations, in the reclassification used internally by the company for information and management purposes, we have witnessed, over time, the use of a single juxtaposition based on the characteristic business activities. Despite

[1] To facilitate reading, I have decided not to include in the text, except in exceptional cases, the names of the scholars who have dealt with the subject under analysis. I have opted not to indicate all the terms of the scholars in the text because this would have meant a continuous interruption of the reading of the complete sentence in which I express my thought. References are placed at the end of the article

Global Journal of Management and Business Research (A) Volume XXIII Issue IV Version I Year 2023

the passage of time, for decades at the company's internal level, there has been a contraposition between costs and revenues pertaining to characteristic operations and non-characteristic costs and revenues. This contrast has not changed over time and has always remained the reference point for all analyses carried out to understand the company's income situation, the results of which are exclusively communicated to the company's internal management.

Suppose one wishes to investigate the performance of the company's typical activity by separating costs and revenues into characteristic and non-characteristic. In that case, the reclassification of profit and loss must be developed in such a way as to separate the management areas according to whether or not they belong to the 'core' of the activity that identifies what can define as characteristic activity. Suppose the analyst aims to develop an integrated analysis to maximise the communicative and informative effectiveness of in-depth analysis of financial statement data. In that case, companies must adopt an integrated system of study.

An analysis scheme can be called 'integrated' when it forms an actual system. It should be remembered, in this respect, that the concept of a system is based on the interrelation of several elements. The system will have the further connotation of "integration" if, between the various aspects and a correlation expressible in substantial terms, an inter-connection of a "terminological" nature can also be identified. Only in such interconnection is it possible to speak of an analysis system. To provide a complete, exhaustive and, above all, understandable picture of the company's situation, there must be real conceptual integration at the level of substance and form.

From a substantive point of view, integration must be developed as only in the presence of such a characteristic can the conceptual scheme of analysis cover every area that requires further investigation. Formal integration is indispensable if the analysis results are to be understood and communicated effectively. The use, for example, of the same terms identifying similar concepts appears to be an indispensable element if the analysis is to be understandable to all those it is intended for. To connote different ideas with different phrases seems equally important to correctly understand the results obtained from the in-depth analysis of accounting data.

Integration, therefore, means the construction of a unified scheme that permeates each step of the analysis.

For analysis by means of indices, in the opinion of the writer, it is appropriate to adopt a scheme that:

1. Contrasts typical activities with non-core activities.
2. Integrates with the economic-financial ratios, in both substantive and formal terms, and with the cash flow statement scheme to be adopted.

The profit-and-loss reclassification that provides the most significant utility for information and management purposes is, without doubt, the 'cost of sales and revenues' reclassification.

While in the case of the balance sheet, the most commonly used reclassification is based on the differentiation of the maturities of accounting items of an equity and financial nature, in the context of the profit and loss reclassified to cost of sales and revenues, the re-aggregation of things is carried out according to a logic that is based on the demarcation line between core and non-core activities.

Revenues are therefore subdivided into typical and non-characteristic revenues; likewise, costs that are not typical are contrasted with characteristic costs.

The juxtaposition of characteristic revenues and characteristic costs makes it possible to determine an aggregate of extreme informative relevance: The operating income from typical operations (Rogc), otherwise known as GOP (Gross Operating Profit).

This sub-aggregate represents the profit or loss of the typical business activity.

At this point, the reclassification in question does not contrast ordinary activity with extraordinary activity but rather, characteristic activity with non-characteristic activity.

This does not appear to be the appropriate place to elaborate on this differentiation, which is well expressed in Exhibit I.

Typical activity means the core business of the enterprise, i.e. the activity for which the enterprise was established. The core business, therefore, represents the focus of the company's activity. Maximising the profitability of this activity should, barring the occurrence of pathological situations, constitute the primary objective of business activity.

As can be understood from what has been said so far, precisely identifying the demarcation line between core and non-core activities is an indispensable condition for the GOP aggregate to be meaningful and informative.

Concerning the non-core part of the company's activities, it can be briefly stated that four distinct managements can be identified in this area:

1. Asset Management
2. Financial Management
3. Non-Core Management by definition
4. Tax Management.

Concerning the content of each section of the non-core business, the following brief remarks can be made:

1. Asset management refers to all income and expenses arising from investments, constituting

invested capital, which are not used in the company's core business. As noted in the preceding pages, capital assets include two sub-aggregates, referred to as short-term assets and long-term assets, within which those asset items must be included, respectively, due within the financial year or beyond the next financial year, not utilised in the company's core business.

Examples include civil buildings, securities and participations. Suppose such non-characteristic asset items generate income or such investments require incurring costs. In that case, the negative and positive income values must be included in the asset management of the non-characteristic business activity.

2. All income and expenses arising from receivables or payables of a financial nature are to be included within the scope of financial management. These amounts consist primarily of interest income and expenses on current bank accounts or other financial debts and receivables.
3. Concerning non-recurring operations by definition, it must be emphasised that the aggregate under consideration is often improperly identified with the term 'extraordinary income and expenses'. However, the aggregate of extraordinary income/expenses does not coincide with the aggregate of non-recurring items by definition, as it is possible to identify numerous accounting values that, although ordinary, identify income items of a non-recurring nature (e.g. capital gains/losses arising from the sale of fixed assets connected to the normal replacement of assets within the production process).

   The aggregate 'non-typical income and expenses by definition' must include items that, by their intrinsic nature, cannot relate to the performance of typical activities. We mean, for example, all capital gains/losses and contingent assets and liabilities of both ordinary and extraordinary nature
4. Tax management identifies income taxes for the year.

   This item makes it possible to determine how much income tax has affected income before tax, i.e. calculated gross of this cost.

Neither taxes nor property taxes should therefore be included in this aggregate. The former is because they identify sums paid to obtain identifiable services, as opposed to taxes paid to enjoy a range of services provided by the public entity. On the other hand, wealth taxes are not included in tax management because the requirement to be met with the identification of this aggregate is the determination of the percentage of produced income subject to taxation.

From the analysis of the non-characteristic profit and loss items, it is clear that the part of the profit and loss that identifies the characteristic activity is made up of all the company 'areas' that allow the performance of the activity for which the company was established.

By characteristic activity, we do not mean transformation activity in the physical-technical sense (or production activity in the strict sense), but the combination of the latter, of administrative, commercial and procurement and research and development activities.

To maximise the informative capacity of profit and loss, characteristic costs must be re-grouped according to 'the area of use of the production factor being recognised'.

What matters in the reclassification to cost of sales is the destination of the input entered into the business. On the other hand, the origin of the cost is of no importance, an element on which, on the contrary, the civil law reclassification provided for by Articles 2425 et seq. of the Civil Code is based.

The aggregates that can be identified as part of the typical business activity are the following:

1. Production Costs
2. Administrative Costs
3. Commercial Costs
4. Research and Development Costs
5. Overhead Costs.

1) The aggregate "production costs" comprises all costs concerning which production factors are used in the production area of the enterprise.

This area may be further detailed if necessary to fulfil particular information purposes.

By way of example, it should note that in the hotel business, the total aggregate "production posts" would be characterised by a reduced information capacity resulting from the fact that the real value does not identify the operating area of use of the production factor. For this reason, the aggregate "production costs" in the tourism sector are generally further broken down into Food & Beverage costs, Room Division costs and MOD (Minor Operating Department) costs.

From these brief considerations, it is clear how the aggregate "production costs" can be subject to further adjustments should the entrepreneurial reality within which it is analysed require them.

Regardless of any further subdivision by sector, it must emphasise that inventories must also be included in this aggregate.

However, the overall summation of all inventories would lose important information about the composition of production costs.

For this reason, it is appropriate to distinguish inventories of:

a) Raw Materials
b) Work in Progress
c) Finished Goods.

For-profit and loss to fully express its informative capacity, each aggregate of inventories must be treated differentially in accounting terms.

Regarding raw materials, it should be noted that the algebraic sum of opening inventories plus purchases minus closing stocks gives the value of the consumption of materials used in production.

This value has a much higher informative capacity than simple purchases since, for example, an inter-temporal comparison of raw material purchases or planned purchases with realised investments might not suggest significant considerations.

The increased purchase of raw materials may be due, for example, to voluntary stockpiling, which, not having caused consumption, has increased stocks; a circumstance which, if on the financial side, may cause negative effects on the amount of requirements, on the economic side does not entail any consequences at the level of income management of the production activity.

Consumption, on the other hand, is an entity of primary importance in the company's management.

An increase in consumption as a percentage of sales constitutes an element from which to draw a negative judgement on utilising the production factor in question. The addition may be due, for example, to the rise in the purchase price of the input, to an increase in the consumption of the input in quantitative terms, or even to theft or deterioration within the company.

Regardless of the cause, knowing the consumption trend is always essential information.

That is why profit and loss are reclassified to 'cost of sales and revenue'., the consumption of raw materials is shown separately from all other items.

The consumption of ancillary materials must also be shown explicitly, as this item allows an analysis of the use of these inputs.

Concerning inventories of work-in-progress, on the other hand, the sum of these values and the total industrial costs, including the consumption of raw materials, provides the price of the finished product.

A separate discussion must be made about semi-finished products. These can be:

1) Of Purchase
2) Internal Production

Semi-finished purchased goods are to be treated in the same way as raw materials. Therefore, the entry "consumption of purchased semi-finished products" will appear for these factors. In contrast, semi-finished work-in-progress, although having different physical characteristics from work-in-progress, re-present unfinished items that have been the object of internal production. Therefore, semi-finished work-in-progress should be included in the cost of goods sold alongside work-in-progress.

The algebraic sum of the cost of the finished product and the opening and closing inventories of finished goods or merchandise finally leads to determining the value of the product sold, also referred to as the Cost of Sale.

To complete the analysis of the Cost of Sale, we wish to point out the correct reclassification of an item that often misleads the analyst: internal constructions.

Consider, for example, the internal construction of an industrial building. This value represents a positive income component, not because it constitutes revenue but because it indirectly adjusts costs used in internal construction.

This role as an indirect cost adjustment causes internal construction to be deducted from the cost of the finished product in the reclassified profit and loss.

Since the costs to be adjusted are of a production nature, internal constructions are to be shown in the cost of the finished product with a negative sign, irrespective of the purpose of the internal construction contract.

In termini sintetici, il costo del prodotto venduto può essere così sintetizzato:

COST OF SALE
consumption of raw materials
+ consumption of ancillary materials
+ consumption of semi-finished goods
+ industrial costs
+ rem. Initial work in progress
+ rem. Initial semi-finished products of internal production
- (final work in progress)
- (rem. of semi-finished goods produced internally)
-(internal construction)

COST OF FINISHED PRODUCT
+ rem. In. Finished products
- (rem. Finished products)

COST OF SALE

1) Concerning administrative costs, it is evident, also from the wording used, that all income items about the administrative sector of the enterprise should be included in this annexe.
2) In the business costs aggregate, all business costs incurred so that the goods and services produced by the enterprise can be marketed should be recognised.
   Both fixed costs, such as advertising, for example, and variable costs, such as, for example, commissions granted to representatives, are to be included here.
3) The fourth aggregate concerning research and development costs is not characteristic of every industrial enterprise. This item is identified only in enterprises where research is of considerable importance.
4) In the aggregate overhead costs are to be included in those costs that the parent company charges, off-balance sheet, to branches or subsidiaries without monetary consideration in return.

This transaction does not impact the income and assets of the subsidiary or branch as it does not represent an operating transaction relevant to general accounting purposes. This is why these costs are only charged to the profit and loss reclassified for internal purposes without passing through the accounts of the subsidiaries or branches.

This transaction cannot, therefore, be regarded as unlawful and detrimental to the minority shareholders of the companies, as it only represents an accounting entry made for the internal valuation purposes of the general management of the branches/subsidiaries.

Overhead costs are recognised exclusively in the financial reporting of the parent company, which will offset these negative income elements against the positive income elements arising from the participation in the other group companies.

The parent company, however, generally considers that it must "pass on" these costs to the branches or subsidiaries since every activity carried out in the holding company is conducted so that the units or subsidiaries can, in turn, carry out their production activities. For this reason, the costs or part of the costs of the parent company are passed on to the branches or subsidiaries for accounting purposes.

The most frequently used reversal parameter is the turnover of the branches or subsidiaries. Units with a higher turnover are charged with a high Overhead Cost as they are considered more likely to absorb increased costs.

The presence of Overhead Costs causes the non-reclassified financial reporting profit to differ from the reclassified financial reporting profit. The discrepancy between the two values derives from the presence, in reclassified financial reporting, of a cost that does not exist in non-reclassified financial reporting.

From the above, it can be understood that overhead costs can only be included if the analysis is performed within the company.

The knowledge of such "virtual" costs is not accessible to users outside the company who, in the hypothesis in which they wish to carry out the profit and loss analysis, will necessarily have to content themselves with recording in the reclassified document the costs present in the public financial reporting of the company under study.

As noted, the separation of core and non-core activities makes it possible to determine the aggregate Profit represented by the operating income from core operations, otherwise referred to as GOP.

This aggregate, while representing an indispensable element of knowledge for the income analysis to be carried out, does not provide a sufficiently clear and explanatory view of the company's income situation.

To ensure that the reclassification of Profit and loss, carried out according to the criterion of 'cost of sales and revenue', can provide helpful information on company management, it is, therefore, necessary to identify further sub-aggregates with their peculiar informative capacity.

The first of these sub-aggregates is the so-called Gross Profit. This value derives from the contraposition between core revenues and the cost of the product sold.

Gross Profit essentially represents gross industrial profit net of production costs only. In the context of the analysis, this aggregate, interpreted together with the operating income from ordinary operations, provides a dimension of profitability related to pure production activity.

However, gross Profit and operating income from ordinary operations are not the only sub-aggregates or gross profits in the context of business profit analysis.

For such an analysis to be complete, it is necessary to identify a further aggregate that shows the performance of what is termed 'operating management'.

Operating management, in this context, derives from the sum of the operating income from ordinary operations, the revenues and costs from asset management, and the revenues from financial management. This sum results in determining the so-called operating income, otherwise referred to as Operating Profit.

As opposed to operating activity, there is, of course, what is called non-operating activity.
The latter activity consists of the following:

1) Costs of financial management, which are not included in the operational activity because

operating income is interpreted as the income flow from invested capital.

Since invested capital represents the total of the company's assets, while financial expenses constitute the cost of liabilities, the interest expenses must not affect Operating Profit because, otherwise, the operating profitability resulting from this erroneous inclusion would determine the determination of a meaningless hybrid value.

2) Non-operating income and expenses by definition
3) Costs of tax management.

Summarising what has been said up to this point, it can therefore be stated that in the context of Profit and loss reclassified to "cost of sales and revenues", there is a dual contraposition core business vs non-core business//ordinary business vs non-ordinary business.

To clarify the relationship between the two types of activity, the following summary is provided.

For this purpose, the profit and loss diagram that, for integrated business analysis (Avi, 2019), is considered complete and exhaustive is as follows.

Profit and Loss by Integrated Information System

1. Charactetistic
Charactetistic Revenue
Cost of Sale
Gross Profit
(Administrative Costs)
(Commercial Costs)
(Research and Dev. Costs)
(Overhead cost)
Gross operating Profit (GOP)
Non Characteristic
Revnue from asset non charactetistic
(costs from asset non charactetistic
Financial management
Operating Profit
(financial management costs)
revenues from non-operating activities by
(rCost from non-operating activities by definition)
Ante tax Profit
(Tax)
Net Profit

Since the objective of this scheme is to investigate the performance of the typical business activity, the contraposition between expenses and revenues is based on whether the income components belong to or are excluded from the so-called area of characteristic management.

This contraposition has never found any reference in our legislation. In fact, at a civil law level, due to the influence of international standards, those who draw up financial reporting have always been forced to set costs and revenues against each other in other ways, which will be discussed in greater detail in the following pages.

Legislative Decree No. 127/91, which substantially modified our legislation on financial reporting concerning the pre-1991 period, was welcomed by most scholars and practitioners as a legislative event marked by favourable positive elements insofar as it was characterised by "innovative" information potential, aimed above all at harmonising financial reporting at a European level.

Despite the fact that the content of Legislative Decree No. 127/91 has been the subject of numerous circumstantial criticisms, many authors have pointed out that an appreciable element of the legislation in question could be identified in the fact that it, as a rule deriving from a supra-national will, should have led to an accounting harmonisation, and therefore, to a comparability of the values contained in the various European financial statements.

In reality, however, this did not always happen.

The initial interpretative difficulties (later, as we shall see in the following pages, at least partially overcome by the issuance of national accounting standards issued to disseminate correct interpretations of the concept of ordinary and extraordinary nature of costs and revenues) concerning Legislative Decree 127/91 have sometimes represented a serious obstacle, not only to the global and European standardisation of financial statement disclosures but also to the 'harmonisation' and comparability of the financial statements bound by companies operating in our country.

An element that, especially in the past, has certainly been an obstacle to the harmonisation and comparability of financial statements and, following the entry into force of IRAP, to an unequivocal and objective determination of the basis of the new tax is to be found in contrast between ordinary and extraordinary income elements provided for in Article 2425 of the Civil Code.

The separation of ordinary and extraordinary management presented (and perhaps still does) a pronounced interpretative problem.

For this reason, to homogenise the interpretation of the concept of ordinary activities, the national accounting standards intervened on two different occasions: firstly, document no. 12, Composition and layouts of the financial reporting of mercantile, industrial and service companies was issued in 1977 and definitively updated by the OIC in May 2005.

This was followed in 1998 by Principle I 1 Interpretation Series, which the OIC also updated in May 2005. These accounting standards addressed, among other things, the problem of identifying the dividing line between ordinary and extraordinary items of income.

The forerunner of these standards was the International Accounting Standards Committee (IASC), which, in Document No. 8, updated for the first time in 1993, explicitly established the method of separating costs and revenues from ordinary operations from income components of an extraordinary nature.

In 2003, the IASC issued a new version of Principle No. 8 and Principle No. 1, completely changing the international landscape of separating and recognising ordinary and extraordinary income components.

In the following pages, the evolution of the concept of ordinary and extraordinary income components will be discussed in detail. The potential development of the issue in our country will be highlighted.

II. Ordinary and Extraordinary Management: Historical Excursus of the Evolution of Doctrinal Positions and Legislation in Italy

While the contrast between typical vs non-typical costs and revenues does not pose any particular interpretative problems, the demarcation line that separates the 'ordinary' from the 'extraordinary' area is characterised by a large 'grey' area that presents a problematic nature that has already been underlined in the past by numerous scholars of business economics.

Onida, concerning this contrast, pointed out how "classification is made - both in doctrine and in practice - with criteria that are not infrequently dissimilar: thus, for example, income components that do not derive from the usual or typical activity of the enterprise or that are not repeated periodically or regularly, or that appear unpredictable, are sometimes considered extraordinary" (Onida, 1951). Already several decades ago, a great Maestro emphasised clearly and unequivocally how doctrine interpreted the ordinariness /ordinary nature of income items in a profoundly differentiated manner.

Before examining the different theoretical positions expressed by Italian scholars, it is worth emphasising how the distinction between ordinary and extraordinary income components was made by the doctrine concerning both operating income and overall business income, i.e. the total income determined throughout the life of the business.

"There are income components to be included among the extraordinary ones when referring to business income and among the ordinary ones when referring to overall business income. For example, the revaluation of a plant dictated by the fact that high depreciation charges had been calculated in the preceding financial years constitutes an extraordinary component of income in the financial year in which it is made (since it represents an adjustment of costs of the previous years), but not of the overall income of the enterprise. For this calculation, the revaluation enters as an ordinary component since it is a normal fact that the plant must have an impact on the overall economy of the undertaking for a value equal to the original value (possibly increased by capitalised costs) less any realisation value at the time of elimination of the assets from the undertaking; that is, for a value equal to the sum of the depreciation charged in different financial years, less the revaluation surplus and the realisation value' (Vivarelli, 1986).

In most cases, however, the contraposition between ordinary and extraordinary income components occurs concerning the income earned during a financial year.

In this regard, one may recall how Zappa considered it essential to contrast ordinary and extraordinary income components to assess an enterprise's economic situation. According to this author, 'ordinary is the income that results from the operations in which the company's profit-making activity is carried out according to the usual lasting order of things. On the other hand, extraordinary are components of income that are essentially notable, occasional, not destined to renew themselves, because the circumstances from which they derive are sporadic and non-recurring" (Zappa, 1954).

Zappa points out, however, at the same time, how it is not easy to enunciate, in an analytical and specific manner, the dividing line between ordinary and extraordinary management. The author emphasises how this depends on the company's peculiar activity. The scholar also points out that the following cannot be used as a discriminating element between ordinary and extraordinary business activity:

1) Nor the regularity or periodicity with which the transactions intended to be recorded in the accounts occur
2) Nor the possibility of a forecast
3) Nor the speculative nature
4) Nor the greater or lesser degree of inherent risk.

Although the view expressed that it is impossible to precisely and analytically determine the dividing line between extraordinary and ordinary income and expenses, Zappa attempts to identify five categories of unquestionably extraordinary income.

1) Variations resulting from an exceptional order of business on the part of the administration or from unusual individual operations,
2) The variations fortuitous is due to chance or the conjuncture; of these variations, under the name of contingencies and non-existences, it is sometimes desired to make a category of extraordinary income components
3) Changes adjusting costs and revenues recognised in past years, when the accounts expected to be accrued already extinguished,
4) The recognitions that could be placed in class 3, which recognise differences between the account values already attributed to specific fixed assets, the actual proceeds from their sale, when, due to a change of use, they become part of the liquid assets
5) Variations resulting from changes in the criteria applied to the valuation of assets" (Zappa 1954).

Despite the fact that the scholar had pointed out a demarcation line, albeit generic and not stringent, and had simultaneously identified five categories of unquestionably extraordinary income and expenses, he expressed the opinion that the distinction and contrast between ordinary and extraordinary costs/revenues often encountered serious obstacles at both practical and theoretical levels , not only because of the difficulty of identifying a separation criterion valid for all entrepreneurial entities, but above all because, understanding the company as a unitary system, whose income is the indistinct and overall result of management, it could be arbitrary to distinguish and contrast income components in various categories that are different from each other.

Amodeo, carrying out an analysis partially different from the previous scholar, interprets 'extraordinary and unpreordained events' as a particular 'group of phenomena extraneous to management, which must be accounted for in a single account called 'contingencies and non-existences' (Amodeo, 1970).

A partially different opinion is expressed by Ferrero, who, addressing the issue of reclassifying profit and loss for internal management purposes, identifies 5 management macro-areas, which can be summarised as follows

1) Characteristic or typical management, in relation to which operating investments and related negative operating income components are identified, also known as the operating area. This area includes every operating operation interrelated to the characteristic or typical business activity;
2) Non-operating management area, which in turn is subdivided into:
a) Financial management, understood as the set of transactions carried out during the financial year and connected to the financing and liquidity policies of the company management;
b) Atypical management, interpreted as the set of transactions not related to the company's core business and which therefore identify investments, costs and revenues belonging to an autonomous area;
c) Extraordinary area, which can actually cover both the operating area and the area of atypical business

activities. In this area, the author includes all non-recurring operations producing positive and negative effects, the highlighting of which satisfies the need not to alter the meaning of the results of ordinary operations, whether operating or typical;

d) Area of tax charges including income taxes for the year.

A further approach regarding the contrast between ordinary and extraordinary income elements has been expressed by De Dominicis, who argues the need to separate components of an ordinary and extraordinary nature to better interpret the company's situation. In particular, this author believes that the purposes of this distinction can be summarised as follows:

1) To correctly judge the economic result achieved in given financial years
2) To control management
3) To set and control sales prices
4) Calculating partial or analytical economic results of individual products or product groups
5) Making cost-effectiveness judgements on implemented productions
6) To calculate the income available for consumption or to be allocated to other production activities
7) To evaluate the economic development of the economy in question by comparing incomes in the different years (De Dominicis, 1966).

De Dominicis, identifies the dividing line between ordinariness and extraordinariness of income components in the character of the periodicity of costs and revenues. "For the condition of periodicity to occur, it is necessary and sufficient....... that components of income, i.e. revenues and costs, can be repeated in the future, insofar as they derive from a permanent source or productive force, i.e. labour, capital or both" (De Dominicis, 1966).

Therefore, the occasionality and non-frequency of occurrence identify the extraordinary components, while the character of recurrence and periodicity defines the ordinary cost or revenue.

To precisely identify the extraordinary elements, the scholar makes a list, albeit not exhaustive, that gives an insight into his basic theory regarding the ordinariness and extraordinariness of income components. According to the author, income components arising from:

1) Random events
2) Occasional transactions
3) adjustments to costs and revenues of previous years
4) Disposals of factors of production.

Based on this identification of costs/revenues, the scholar identifies four categories of extraordinary items of income.

a) Costs/revenues of chance events
b) Realised gains and losses
c) Revaluations write-downs
d) Other adjustments to costs/revenues of previous years.

As can be seen from the above definitions, De Dominicis places particular emphasis on the circumstance that income is closely linked to production and, in essence, derives from this process. For this reason, this author, through the juxtaposition of characteristic accessory management and extraordinary income components, set himself the objective of comparing, on an inter-temporal and inter-spatial level, the economic efficiency and effectiveness of production characterising the enterprise under attention.

Other scholars have also adopted this author's opinion. Gabrovec Mei, in fact states that "the phenomenon of the extraordinary is not additional: there is no extraordinary business activity, but only the possibility of measuring the income impact of the occurrence of extraordinary events concerning the two fundamental classes of characteristic and accessory activity" Gabrovic Mei,,1992).

In addition to the positions mentioned above, it must remember that part of the economic doctrine holds that "the distinction between ordinary and extraordinary is not always (is) easy...... generally, to simplify the problem, the following threefold distinction is made.

a) Values arising from unusual events
b) Values relating to carry-overs from previous years
c) Values relating to changes in valuation criteria.

Finally, some assert that ordinary activities are to be understood as those usual and continuous activities, or potentially, understood in a realistically broad sense, which the enterprise carries out to achieve its purposes. Da quanto sopra riportato, si può comprendere come, fra gli studiosi italiani, non sia individuabile un'opinione unanimemente accettata in merito alle caratteristiche che devono individuare gli elementi ordinari e gli elementi straordinari di reddito.

The contrast between ordinary and extraordinary costs and revenues is left to the personal and subjective opinion of the scholar, who sometimes delves into the issue of separating the various types of income components.

As we have been able to highlight briefly, Italian scholars' positions on identifying the ordinary area to be set against the extraordinary part of operations are highly varied. As we shall see later, in this regard, it may be helpful to refer to international standards, even though, as we shall see in the following pages, the international position certainly does not help to resolve the problematic nature of the separation between ordinary and extraordinary components, or rather, at present, the IAS-IFRS standards fix the issue at its root by imposing the recognition of all costs and revenues in the ordinary area of company management.

The distinction, therefore between ordinary and extraordinary, at present, is characterised by two elements:

1) If we probe the doctrinal opinions, we can see that there is an extensive grey area that makes it very complex to place items in the proper management area correctly
2) If we refer to the current international standards, there is no longer an extraordinary area as everything must be included in ordinary management.

Both in the event, therefore, that one accepts the existence of such a juxtaposition, and if one adheres to IFRS standards and, in essence, rejects the possibility of extraordinary income components, it is easy to understand how the division between ordinary and extraordinary costs/revenues does not identify a proper juxtaposition to investigate the profitability performance of companies. The difficulty of re-classification on the one hand, or the non-existence of a reference aggregate (extraordinary items) on the other, prevent a complete, exhaustive and, above all, meaningful analysis from being carried out.

Despite this, there is no doubt, however, that as long as our legislation refers to the separation between ordinary and extraordinary income components, it is necessary to try to understand the dividing line between these values, both from a purely theoretical-doctrinal point of view and from the point of view of the provisions included in national and international accounting standards.

III. Ordinary and Extraordinary Management: Current Civil Law Aspects (Prior to Current Reform) and Economic Aspects National Accounting Standards in Italy and IAS no. 8 before the 2003 Reform

The issue of the separation between ordinary and extraordinary income elements, although it has always aroused interest at the doctrinal level, became the subject of particular scrutiny when, with Legislative Decree 127/91, the articles of the Civil Code concerning the structure of financial statements were amended.

While in the period before 1991, the issue concerning the separation between ordinary and extraordinary income elements represented, in our country, a subject of academic studies focused on the IAS international standards, after the Fourth Directive came into force in Italian law, this contrast began to become a qualifying element for the legitimacy of financial statements. For this reason, the topic started to arouse interest among scholars and the preparers of financial statements.

In this regard, it is worth noting how the identification of the discriminating line of typicality (interpreted as belonging to the activity for which the company was set up)/typicality of the financial reporting items leads to the determination of two different sets concerning the result obtainable if the demarcation line is made to coincide with the possibility or otherwise of forecasting (interpreted as an enabled programme of values) the costs and revenues themselves.

The two classifications then lead to different aggregates concerning those identifiable if the discriminating element is made to coincide with the repetitiveness (understood as the repetition over time of the income element)/occasionality of the values themselves. It is possible to identify typical occasional factors (e.g. a one-off training course for employees), just as it is conceivable to recognise atypical repetitive costs and revenues (e.g. applications with them to a non-real estate company). The possibility of foreseeing a positive income event in advance does not necessarily lead to the value classifications mentioned above. The predictability of a value does not appear to be superimposable on either the concept of typicality or the concept of repetitiveness over time of the income element.

These brief considerations highlight the absence of a shared demarcation line between ordinary management and extraordinary operations. Without a strict and unified specification of reference criteria, the contrast appears permeated by an aura of vagueness that undermines its basis.

In transposing the Fourth Directive, the Italian legislature has imposed the subdivision in question in a manner open to specific criticism.

Since the juxtaposition between ordinary and extraordinary values implies a different placement of data in profit and loss, and since the informative capacity of the financial reporting itself is linked to the correct reclassification of these amounts, it is believed that the explication of the criteria for the breakdown of the accounts should find space, not in the report attached to legislative decree 127/91, but in the decree itself, for example happens for the identification of values belonging to current assets rather than fixed assets (Article 2424 bis I paragraph I of the Italian Civil Code).

The circumstance that the guidelines for contrasting ordinary/extraordinary income elements were contained in an accompanying report rather than in the articles of the code allowed, for several years, the preparation of financial statements drawn up with different criteria concerning the dividing line that had to be drawn between ordinary and extraordinary costs /income.

Before the introduction of the regional tax on production activities, a tax that only affected ordinary costs/revenues and which gave rise to the need for a complete and analytical understanding of what was to be understood by an extraordinary income component, the term ordinary/ordinary was often given the meaning of everyday language by operators. In non-accounting terminology, such a term is often associated with the repetitiveness of events. Therefore, the occasionality /repeatability of management operations appeared to be the only element to which financial reporting writers essentially referred.

It should note, however, that this circumstance was not connected to an in-depth analysis of the various doctrinal theories on this subject but was, instead, frequently attributable to a substantial lack of knowledge of the interpretative problems raised by Italian legislation.

Perhaps, in this case, the conditional is obligatory; directly in the law, the basic principle of classification of ordinary and extraordinary income items could have promoted a wider dissemination of knowledge of the intrinsic problematic nature of the civil law positioning of such things.

The Italian legislator's choice regarding the contrast between ordinary and extraordinary elements of income indicated in the report attached to Decree 127, is summarised in the following principle: 'the adjective extraordinary, referring to income and charges, does not allude to the exceptionality or normality of the event, but rather to the extraneousness of the source of the income or charge to ordinary activities'.

Identification of ordinary and extraordinary areas of management:

CIVIL CODE IN FORCE FROM 1991 TO 2015
E) Extraordinary income and expenses 20) income, with a separate indication of capital gains on disposals whose revenue cannot be entered under no. 5 21) expenses, with a separate indication of capital losses whose accounting effects cannot be entered under no. 14, and taxes relating to previous years. There is no explicit reference in the civil law articles in the strictly regulatory sphere. Art. 2425 of the Civil Code, therefore, separated ordinary and extraordinary items of income without providing a precise definition of these terms

REPORT ACCOMPANYING LEGISLATIVE DECREE 127/91
"the adjective extraordinary, referring to income and charges, does not allude to the exceptionality or normality of the event, but to the extraneousness of the source of the proceeds or charge to ordinary activity".

This explanation, on a superficial reading, may seem tautological. Indeed, the report defines extraordinary as what is not ordinary without giving a comprehensive, unambiguous and precise indication of what should be considered ordinary items of income. This apparent shortcoming has been pointed out as one of the leading causes for limiting the informative capacity of financial reporting for publication.

On the other hand, a less superficial reading shows how the explanation is not tautological at all but makes a blank reference to well-known but prevalent overseas concepts not specified in the report itself.

As noted in the preceding pages, the doctrinal opinions of Italian scholars on the concept of ordinary and extraordinary income components of financial statements are varied and diverse.

Given the variety of doctrinal opinions expressed on this subject and the lack of a shared and unanimous interpretation of the concept of ordinary or extraordinary income components, it became necessary to refer to generally accepted accounting principles.

However, the Italian situation in 1991 was characterised by the lack of accounting principles that addressed this issue analytically. For this reason, the only point of reference, although we shall see that it did not apply to the Italian situation due to incompatibilities with the civil code articles, was the representation of international accounting standards.

It should note that the definition of the extraordinary item indicated in the report attached to Legislative Decree 127 was characterised by an undeniable 'terminological analogy' concerning what was established by IAS standard No. 8 in force at the time.

This principle states that 'whether an event or transaction I distinct from the ordinary activities of the enterprise is determined by the nature of the event of the transaction about the business ordinarily carried on by the enterprise rather than by such events are expected to occur'.

The consideration of the analogy identifiable between the provisions of IAS No. 8 in force in the period considered here and the content of the report attached to Legislative Decree No. 127 could have led to the erroneous conclusion that, to settle the dispute concerning the correct interpretation of the phrase "ordinary activities", it would have been sufficient to transpose, automatically, into Italian law what was established by the international standards.

The Italian legislator rejected such a solution since Article 2425 established that taxes relating to previous years must always be indicated in item E21 - extraordinary expenses -. IAS No. 8, on the contrary, on the recognition of determinant errors, which may also concern the calculation of taxes relating to previous periods, established that these do not necessarily fall within the income elements of an extraordinary nature. The inclusion of prior-year taxes by the civil law legislator within the extraordinary area was one of the elements based on which it was possible to deny the possibility of the complete transposition of IAS into national law. This, however, was not the only element preventing the automatic and uncritical translation of international standard No. 8 into Italian reality.

In this regard, it must be emphasised that IAS No 8 (before the 2003 reform) dealt with two particular issues:

1) The modification of accounting principles
2) The correction of errors

In addressing both issues, IAS No. 8 (pre-2003 reform) assumed two potential accounting treatments for the above transactions:

a) Benchmark treatment: the effects of the change in accounting policy or the determinative error are reflected in the initial equity reserves;
b) Allowed treatment: the effects of the change in accounting policy or the determining error are charged to profit and loss so that the consequences of the change are reflected in net income for the year.

The key feature of the benchmark treatment was that any adjustments resulting from the change in accounting policy or errors must - obligatorily - be recognised as a change to the opening balance of retained earnings, i.e. the reserves in the opening balance sheet.

Even the comparative information of the previous year concerning the closing year must, as far as possible, be revised in light of the change in accounting principles. Therefore, according to this methodology, the financial reporting for the year, including the comparative information for previous years, should have been presented so that the change relating to earlier years adjusts the opening balance of the retained reserves of the first year presented. If the reference treatment of IAS No. 8 had been adopted, the recalculation of comparative information did not involve the shareholders' correction of the financial statements approved in previous years. This recalculation only represented additional information in the financial reporting of the closing financial year.

IAS No. 8 before the 2003 reform, after illustrating the reference treatment, explained the so-called allowed treatment, i.e. the treatment that, while not representing the recommended methodology, identified what constituted an 'acceptable' criterion for international standards. According to the allowed treatment, the adjustments resulting from the change in accounting policy or the determining errors were to be included in determining the profit or loss for the financial year ending without, in this case, modifying the retained earnings at the beginning of the financial period.

The comparative information should have been presented without any adjustments. The relative information adjusted according to the reference treatment, if practically feasible, would be entrusted to a pro-forma document.

This consideration led the Consob (Communication No. 99016997 of 11/3/99 and No. 990 59009 of 30/7/99) and the Banca d'Italia (Communication of 3/8/99) to intervene with explanatory circulars and communications on the treatment to be applied by listed companies and credit institutions respectively.

Consob and the Banca d'Italia agreed that the accounting treatment 'preferred' by IAS No. 8 was not applicable under Italian law.

The recording of the effects of the change in accounting policies on the opening balances of equity reserves contradicts the dictates of Articles 2423 and 2423 bis of the Italian Civil Code. In particular, it must be remembered how the application of the benchmark treatment, with the change in the initial amount of the reserves included in the balance sheet, would conflict with some fundamental rules of our legislation that can be summarised as follows:

– First, the financial statements are characterised by the principle of continuity, according to which the opening balance sheet must correspond to the closing balance sheet of the previous financial year. Although, formally, the adjustment of the reserves would take place in a financial year after the one in which the new criterion should have been applied, and therefore the opening balance of the funds in question would correspond to the closing balance of the previous financial reporting, however, the substance of the adjustment would indicate the opposite;
– Secondly, it should be borne in mind that, under Italian law, revenue reserves are formed by a

resolution of the shareholders' meeting simultaneously, even if separate from the approval of the financial statements. If the methodology recommended by IAS No. 8 were to be applied, the shareholders' meeting called upon to approve the financial reporting of the year in which the adjustment is implemented would find itself supporting a change in reserves that occurred without the shareholders' meeting's previous resolution.

For these reasons, it can be said that the benchmark treatment has never been applicable within the Italian legislative reality.

In light of these considerations, document No. 29 CNDC-CNR (CNDC-CNR (CNDC-CNR (CNDC-CNR (CNDC-CNR (Consiglio nazionale dottori commercialisti e revisori contabili - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Certified Public Accountants and Auditors) took a position preventing the application of the benchmark treatment from IAS No. 8 before the 2003 reform. The national accounting standard also stated that the effect of a change in accounting policy did not change the initial values of retained earnings/reserves but was to be reflected in the profit and loss and classified as an extraordinary component of the result for the year.

This position reiterated what had been established in two previous CNDC-CNR (National Council of Chartered Accountants and Auditors) documents. Accounting Principle No. 12 Composition and format of financial reporting for the financial year of commercial, industrial and service companies, already in 1994 identified extraordinary costs/revenues as income components resulting from changes in the accounting principles adopted, a circumstance also reiterated by the CNDC-CNR - I 1 Interpretation Series issued in 1998.

Of particular importance was the consideration that, even if the preparer of the financial statements had opted for the application of the treatment allowed by IAS No. 8 before the 2003 reform, according to the international standards, the values to be recognised in financial reporting should have been entered under ordinary income items and not under extraordinary income and expenses, as the view of the ordinary /extraordinary nature of operations in IAS No. 8 provided that such costs/revenues should, necessarily, fall within the ordinary area.

Interpretative Document 1, on the other hand, listed in Section E the costs and revenues considered above. From here, there was an unbridgeable difference between the concept of ordinary/ordinary applicable in our country and the same theoretical reference used in the IASC.

At the time of the enactment of Legislative Decree No. 127/91, no national accounting standards had yet been issued to support ordinary management. The incompatibility between the Italian Civil Code and IAS No. 8 in force in the period considered here, however, was already identifiable by considering the location of taxes from previous years, which, for the IASC, had to be entered in the area of ordinary management, whereas, for Article 2425 of the Civil Code, they had to be entered in the area of extraordinary charges.

From these considerations derived the impossibility of interpreting Italian civil law employing automatic transposition of the postulates indicated by the International Standard Committee.

The decision not to transpose principles drawn up in different countries into the Italian reality was applauded by most business scholars. Many authors agreed and still agree that applying principles that can fully share in the context of a given economic, social and political reality may not lead to equally positive results when carried out in structurally different countries.

Bearing these considerations in mind, the Italian legislator deemed it appropriate to reread, in a partially differentiated key, what had been established by principles and business economics that were influenced by the experience of foreign countries.

A reading of IAS No. 8 shows how the hypotheses in which the possibility of the occurrence of an extraordinary income element can be glimpsed are extremely limited. According to the view of the standard in question, ordinary operations include only the activities performed by an enterprise as part of its ordinary operations and the other activities related to the former, committed to support its ordinary operations or which are acquired as a result. In identifying operational examples in which an extraordinary element of income would be substantiated, the principle itself refers to natural events, such as earthquakes, or exceptional circumstances, such as expropriation for public utility.

One can understand how the acceptance in our country's legislation of such a restrictive interpretation of the concept of extraordinary would have caused two consequences:

- The positive one would have consisted in the adoption, by the preparers of financial statements, of homogeneous accounting behaviours since the space left to interpretation would have been so limited as to render almost null any differentiation in the classification of transactions;
- The negative one would instead have concerned the informative meaning of the intermediate aggregate A-B provided by Article 2425 of the Civil Code. A corresponding increase in the ordinary area would

have necessarily countered the restriction of the extraordinary area. Such an interpretation makes almost all income values flow into the ordinary air, weakening the informative sign of the differential aggregate identified above. According to the IASC view, the extraordinary aggregate would have been intended to identify a tendentially empty whole since the probability that events connected with expropriations or natural disasters would have to be accounted for within a business is, fortunately, low. Such an accounting would therefore have limited the informative value of the so-called 'ordinary income' in that this aggregate, instead of fulfilling the function of intermediate values to which it is deputed, would have substantially identified a summary differential aggregate which, given its composition, would have collected within it almost all the costs and revenues of the financial year. Tali considerazioni si rinvengono anche nella versione indicata nel documento n. 12 CNDC-CNR (CNDC-CNR (CNDC-CNR (CNDC-CNR (CNDC-CNR (Consiglio nazionale dottori commercialisti e revisori contabili - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy - National Council of Chartered Accountants and Auditors in Italy, sostituito in parte da principi contenuti nel documento I 1 *Serie interpretazion.*

In Document No. 12, the commission had opted for a detailed accounting of values that helped safeguard the informative capacity of the 'ordinary' A-B aggregate. As mentioned above, the document stated verbatim that the accounting of capital gains and capital losses should be carried out in such a way as "not to distort the technical meaning of the intermediate value indicated by the legislator as the difference between value and cost of production".

The national accounting standards, in document No. 12, identified extraordinary items as those values that derived from transactions or events that had a significant effect on the structure of the company (e.g. sale of company branches of a considerable part of shareholdings); or that were connected with the sale of civil real estate or other assets not instrumental to production, commercial or service activities and not about financial management.

According to the CNDC-CNR document No. 12, ordinary costs and revenues were to include, among other things, "income and charges represented by capital gains and losses relating to the sale of capital goods used in standard production, trade or services activities that are disposed of as a result of technical and economic deterioration, and of a low significance concerning all capital goods used in standard production, trade or services activities and in any case of an amount such as not to distort the technical meaning of the intermediate value indicated by the legislator as the difference between the value and cost of production." If significant amounts had marked the values, ordinariness would have automatically turned into extraordinariness without any possibility of differentiated interpretation.

As can be understood from these notes, the original definition of the ordinariness/extraordinariness of income elements accepted by National Accounting Standards document No. 12 appeared to be characterised by two factors:

Firstly, national accounting standards emphasise the relevance of the source of the income or expense. In this view, the start of the event to be accounted for represented the discriminating element between ordinary and extraordinary activities. Subsequently, however, Document No. 12 emphasised that the "insignificance" or "materiality" of the cost of the income constituted a further element of judgement.

Capital gains of minor capital losses were to be entered in aggregates A and B, in contrast to income and expenses that were significant in terms of value concerning all company assets, which, obligatorily according to the accounting principles, had to be entered in the statutory aggregate E.

This stance on accounting principles had two consequences:

* On the one hand, the attempt to avoid the drastic reduction of the informative capacity of the A-B aggregate that would have unduly derived from the inclusion in the ordinary values of "polluting" elements such as, for example, income from occasional charges of a significant amount, appeared praiseworthy
* On the other hand, it is not possible, however, to avoid noting how this rule of conduct, subsequently modified precisely because of its illegitimacy, presupposed the application of a reclassification criterion that indirectly, created differences in recognition according to the values considered, the CNDC-CNR principle No. 12 provided that the same event could give rise to extraordinary values or ordinary items depending on the amount involved. For example, the sale of real estate would have created an ordinary value if the gain or loss was small or, conversely, would have had to be recorded as an extraordinary item if the income or expense was significant.

The principle thus presupposed that a transaction of the exact nature, qualitatively identified (sale of real estate), could be made to fall either under ordinary or extraordinary management, depending on the amount involved.

This does not create any theoretical problems since, from this application, a concept of extraordinary related to the exceptionality of the amount transpires.

The question remained, however, as to whether the application of this principle could be said to be consistent with the wording of the law, or rather the content of the report attached to Legislative Decree 127, which explicitly stated that the exceptionality of amount could not be considered a relevant element to identify extraordinary items of income.

Reading the civil law articles and the report accompanying the decree, one understands that the legal reference is to be understood because the source of the income component is the discriminating element that requires a specific classification of the cost or revenue involved in the accounting entry.

Document No. 12 provided that the exceptionality of the amount was only relevant for values that could be entered under items A5, E21, or B14-E21.

However, the law requires that operating grants and write-downs be recognised in items A5 and B10, regardless of the figure. Therefore, both of these items must always be regarded as values that are, for all intents and purposes, part of ordinary business.

It can be understood at this point how the position initially adopted by the National Council presupposed the application of a graduated principle depending on the items taken into account. For operating grants and write-downs, what would be relevant for reclassification would not be the amount but solely the qualitative-managerial source of the transaction put in place by the company, whereas, for other values (e.g. capital gains and losses). However, the source of the transaction was the same; different placements depended on the amount involved, which therefore represented, to all intents and purposes, a discriminating element for recognition.

This circumstance raised doubts as to the complete legal legitimacy of principle No. 12 since, based on the content of that document combined with the legislative provisions concerning, in particular, operating subsidies AND fixed asset write-downs, the accounting items would, in essence, have been reclassified according to different criteria.

It is well known how the relevance attributed to the values that, alternatively, according to this original position of the Consiglio Nazionale di Dottori Commercialisti - Collegio dei Ragionieri, could have been placed within the scope of ordinary extraordinary management, was intended to ensure that the differential aggregate A-B could have a management significance.

While sharing this concern, however, the principle outlined in Document No. 12 laid the foundation for a legal illegitimacy of the postulate indicated in the code itself regarding the dividing line between ordinary and extraordinary items of income.

In commenting on CNDC-CNR Accounting Principle No. 12 in the past, it was pointed out that the attention of the preparer of financial reporting should not have been focused on the amount but exclusively on the source of the income or expense. Therefore, an unambiguous reclassification of the income element should have matched a single source.

This interpretation was supported by Document No. 12 itself. The accounting principles stipulated that contingencies and non-existences relating to estimated values that did not result from errors (e.g. surpluses of premium reserves, guarantee reserves and risk reserves) should, in any case, be recognised in item A5. Explicit considerations regarding the contingency amount did not influence this entry.

The question then arose as to why the 'insignificance' of the value should interfere with recognising only capital gains and losses and not other income items.

It was always affirmed that the source of income and expenses should assume the role of the only relevant element for statutory reclassification since it appeared illegitimate to apply accounting behaviour that, in the total absence of analytical specifications of the law, provided for the application of different postulates or methods of recognition depending on the item being recognised in the financial statements. It has always been argued that each item mentioned in financial reporting should be made according to the same 'accounting rules'.

According to this interpretation, which does not contain any elements of incompatibility with civil law, capital gains and losses connected with the physiological turnover of fixed assets should always have been interpreted as ordinary income elements, even if significant amounts marked them.

The inconsistency of Accounting Principle No. 12 concerning the ordinariness/extraordinariness of capital gains and capital losses was pointed out by the National Council of Accountants and Bookkeepers in Principle I 1 Interpretation Series.

In that interpretative accounting principle of document No. 12, a significant change was made concerning what had previously been established, a change that many scholars missed as being inconsistent.

However, in the writer's opinion, this change represented a quantum leap in national accounting standards. It allowed the elimination of a principle that could have cast doubt on the legal legitimacy of the principle itself and, thus, its application in the Italian civil law context.

In principle, I 1 Interpretation Series, any reference to the relevance of the amount of capital losses and gains was eliminated.

As had been hoped for in the past, the accounting standards have ensured that the recognition of capital losses or capital gains is linked, regardless of the amount involved, exclusively to the source of the transaction from which the income or expense arises. Therefore, the quantitative-monetary level of the trade no longer has any relevance for the correct legal classification of capital gains or losses.

The placement of the accounting entries must be made with exclusive reference to the source of the income or charge, and therefore free from any consideration of the relevance of the amount, in addition to fully respecting the civil law dictate, has allowed the achievement of an elementary, as much as desirable, objective of a tax nature.

Total objectivity' can hardly be counted among the characteristics that characterise the taxable base on which income taxes are calculated. One thinks, for example, of the subjectivity of the concept of entertainment expenses, a cost that is, in fact, frequently the subject of tax recovery.

If, however, on the one hand, such 'absolute objectivity' cannot be achieved - for reasons intrinsic to certain balance sheet items - on the other hand, it appears desirable that the efforts of all scholars and tax operators be focused on achieving a common objective identifiable in the maximum possible reduction of any element that may represent an obstacle to the 'certainty' and 'objectivity' of the determination of the taxable base. " Inequivocability ", even if necessarily tempered for the reasons mentioned above, represents every taxpayer's elementary and ineliminable right.

The letter of Articles 4, 5, and 11 of the decree establishing the regional tax on productive activities, interpreted in the light of the statements contained in document 12 CNDC-CNR, contained elements that, if underestimated, could have led to a gradual move away from the objective of 'certain' determination of the IRAP taxable base.

When the law establishing the tax was enacted, the tax legislature had underestimated the scope of the interpretative doubts concerning the dividing line that could be drawn between ordinary and extraordinary activities.

If, on the one hand, as explicitly provided for in the legislation, it was inevitable that the taxable base of the regional tax on productive activities should not be affected by extraordinary operations, on the other hand, it was equally clear that the determination of a tax that could not be subject to possible recovery by the tax authorities presupposed the precise and unequivocal identification of the taxable base.

The automatic shifting of the principles contained initially in Document No. 12 of the National Council of Chartered Accountants did not seem to identify the correct solution to overcome the objective determination of the identifiable dividing line between ordinary and extraordinary costs and revenues.

Document No. 12, concerning the different collocation of the items related to the amount of the same, referred to a principle that appeared to be intrinsically not determinable objectively.

The 'insignificance concerning the totality of capital goods used for normal production activity' did not delimit the elements of ordinary income in a sufficiently precise and unambiguous manner. Such a situation would probably have created a potential mass of tax recoveries at the time of assessment with a consequent possible group of appeals to the tax commissions.

The reference, even if not shared by all scholars, of the accounting standards to the 'insignificance' of values could, therefore, only raise critical considerations regarding the lack, within this concept, of a hypothetical 'total and absolute objectivity'.

The in-depth analysis of financial reporting as an instrument of information to the outside world and the study of the document as an instrument of taxation leads to the rejection of the acceptance that such subjectivity can find a place within the scope of civil and tax law. For these reasons, the lack of connection between the ordinariness and extraordinariness of the elements of income and the 'relevance of amount' that the pieces themselves represented was the only way that could comply with the civil law dictate and, on the other hand, correspond to the elementary need for certainty in determining the tax base.

Precisely to satisfy this need for objectivity and certainty in determining extraordinary items of income and, consequently, defining the concept of ordinary activities, the accounting standards intervened with the I 1 Interpretation Series.

According to Principle I 1 Interpretation Series updated in 2005, the following were to be considered extraordinary items of income:

a) Charges, capital gains or losses on transactions with significant effects on the structure of the company:

* Corporate restructuring charges;
* Capital gains/losses arising from transfers of businesses and business divisions, mergers, demergers and other extraordinary corporate transactions;
* Capital gains or losses arising from the sale, including exchange, of a significant portion of the equity investments held or fixed-income securities held;
* Capital gains and losses resulting in general from operations of an extraordinary nature, reorganisation, restructuring or downsizing of production;
* Capital gains or losses arising from expropriation or nationalisation of assets;

b) Capital gains/losses arising on the disposal of civil furniture and other assets not instrumental to production activities and not related to financial management;
c) Capital losses from revaluation write-downs of an extraordinary nature. Only revaluation write-downs deemed to be extraordinary. It should note that revaluations of equity investments recognised in profit and loss in the application of the provisions on valuation by the equity method are not extraordinary and should be recognised in item D 18, as specified in document two one of the accounting standards;
d) Out-of-period income and expense arising from events unrelated to the operation of the business:

* Thefts and losses of assets (financial assets, securities, participations, various warehouse assets) of an extraordinary nature. The related insurance exchanges constitute extraordinary contingent assets. In large-scale distribution companies, thefts of goods are recurrent and constitute an ordinary course of business, which, if I read them on the lower value of inventories;
* Losses, damage to goods due to extraordinary natural events such as floods, earthquakes, accidents etc... Also, in this hypothesis, related insurance addresses constitute extraordinary components;
* Donations received, in cash or in kind, which does not constitute contributions with the financial year described in item A5;
* Charges for fines, penalties and penalties arising from exceptional, unforeseeable occasional events;
* Charges from disputes of an extraordinary nature, not about normal business operations. For example, those relating to civil real estate, transferred business branches, corporate restructuring /reconversion, extraordinary corporate transactions such as mergers, demergers, etc.;
* Loss or acquisition of definitive title to deposits if they are extraordinary;
* Various indemnities for breach of contract;

e) Income components relating to prior years:

* Adjustments of costs and revenues of previous years for omitted or incorrect accounting entries;
* Adjustments of costs and revenues of previous years due to errors in recognition of operating events and, in particular due to the application of incorrect accounting principles (e.g. omission of provisions, and error in capitalising costs, etc.);
* Adjustments of costs and revenues for discounts of a non-financial nature, rebates, and premiums related to purchasing sales in previous years;
* Contributions to capital account for past instalments relating to previous years;
* Not extraordinary, on the other hand, change due to accounting estimates that are always subject to change.

f) Extraordinary items resulting from changes in the accounting principles adopted. These are the income effects of adopting a new and different accounting standard.
g) Taxes relating to prior years. Under express legal provisions, all direct and indirect taxes, with related accessories, penalties and interest, relating to previous financial years and deriving from descriptions on the tax rolls, payment notices, assessment and adjustment notices, decisions of tax commissions, agreements entered into with the tax authorities, amnesty applications, judicial settlements, etc., must be recognised under item E 21 - Extraordinary charges, in a specific sub-item. If not paid during the financial year, their counterpart in the balance sheet could be either liability item B2 - provision for taxes - or item D11 - tax debts, as specified in Document No. 19.

Concerning the identification of ordinary values, it may be recalled that the National Accounting Standard I 1 Interpretation Series updated by the OIC, Organismo Italiano di contabilità- Italian accounting body, an organisation that took the place of the CNDC-CNR, in 2005 emphasised that the following values, among others, should be entered in item A5

a) Income from ancillary operations, especially real estate and agriculture, such as rental income from land, buildings, plants, machinery, royalties from patents, and furniture. Ordinary losses are recorded under item B14 Between income from trademarks, royalties, and income from farm management;
b) Capital gains from selling capital goods used in the ordinary services business. This must be alienation deriving from the physiological replacement of assets due to the technical and economic deterioration they suffered in exercising the normal productive activity of the enterprise. If these conditions are not met (e.g. disposal of capital goods for a downsizing of the business activity by conversion of production), the capital gain is extraordinary in nature and must be recognised under item E20. Reversals of writedowns, within the limits of cost, following previous writedowns of tangible fixed assets and receivables recorded in the current assets and cash and cash equivalents fall under item A5 if the earlier writedowns were registered under item B10. Capital gains arising from the sale of securities, participations or other financial assets do not fall under this item, which, if ordinary, are recorded under items C15 or C16;
c) Contingencies and non-existences relating to estimated values that do not derive from errors, i.e. caused by the regular updating of estimates made

in previous years (e.g. amounts of provisions for risks and charges revealed both on the guarantor and the condition made);

d) Sundry revenues and income of a non-financial nature. These are revenues and income not recognisable under other headings, such as reimbursement of expenses penalties owed by customers, etc... This item includes revenues for the definitive acquisition of deposits for companies operating in markets where the payment of deposits after each contract, whether explicit or preliminary, is customary, such as, for example, for car dealerships or construction and sale companies of various types, insurance reimbursements should also be included, when they repay claims that have not led to the recording of extraordinary charges. In the latter case, instead of insurance reimbursements, they constitute extraordinary income to be recognised under item E20.

The following items, among other things, are to be included in item B14:

a) Costs arising from ancillary operations such as, for example, maintenance management costs of civil furniture, management costs of any farms that cannot be allocated to other items, maintenance costs of repairing machinery leased to third parties;
b) Capital losses on the disposal of capital goods used in the ordinary course of commercial production of services. The replacement of capital goods, tangible assets, must be physiological and occur, as noted for item A5, due to the technical and economic deterioration suffered by the assets in the exercise of the regular production activity of the enterprise and not due to an extraordinary event. Otherwise, capital losses will be extraordinary in nature and must be recognised under aggregate E:
c) Out-of-period losses relating to estimated values that do not result from errors. These are upward adjustments to costs caused by the normal updating of estimates made in previous years, such as insufficient provisions for risks and charges, and losses on receivables related to working capital not covered by previous write-downs.

Finally, it should remember that the CNDC-CNR accounting standard No. 29, updated by the OIC in 2005, addressed the issue of recognising extraordinary income and expenses.

In particular, it analysed the accounting consequences of extraordinary transactions and events.

The economic result for the year could be significantly affected by extraordinary events that, even if they occurred during the year and therefore about the same year, may, if their effects are not identified and quantified, not allow a correct view of the company's economic performance and may significantly alter the assessment of the company's profitability under normal conditions.

According to the CNDC-CNR national standard No. 29, updated by the OIC in 2005, events or transactions were to be considered extraordinary when both of the following conditions were met

(a) The events are causal and accidental, and the transactions, whether or not related to such events, are outside the ordinary course of business. The extraordinary nature of the event or transaction is to be determined according to its nature in relation to the ordinary activities of the enterprise. Accordingly, circumstances which, although accidental and non-recurring in their occurrence or amount, are connected with the ordinary course of business are excluded;
(b) The events or transactions are infrequent. In connection with the preceding, it should note that the ordinary activities of the enterprise should not be confused with its characteristic activities. Ancillary activities ordinarily carried out by the enterprise to supplement its income or because they are connected in various ways to the enterprise's main activity can often take place. The economic effects of incidental and non-recurring activities will be recognised, depending on their nature, under production value and costs or financial income and expenses.

Strikes, on the other hand, were not to be considered extraordinary events or operations, even if they were of a significant entity, since they were part of the business risk, profits and losses from exchange rate fluctuations, losses on receivables, even if they were of a significant entity, and the settlement of disputes if they were of a recurring nature and pertinent to the ordinary management of the business.

Regarding correctly placing items related to extraordinary transactions and events, the amended national accounting standard OIC 29 considered it proper to include them under extraordinary income and expenses.

IV. Ordinary and Extraordinary Management in International Standards: IAS 8 and IAS 1 Post 2003 Reform

As noted in the preceding pages, the contrast between extraordinary income and expenses and ordinary costs/revenues at the time of the enactment of Legislative Decree 127 had, as its only point of reference, IAS standard No. 8 before the 2003 reform.

Although this international standard could not be applied to the Italian situation due to incompatibility with national legislation, it constituted a point of reference to identify the dividing line between ordinary and extraordinary activities.

The fact that the international principle addressed this issue implied recognition of the importance of separating the income elements connected to ordinary management from those in-terrelated to extraordinary management operations.

The current evolution within the IASC seems to lead to opposite considerations.

In 2003, the IASC updated IAS No. 8 and IAS No. 1.

Changes regarding ordinary/ordinary income and expenses:

Object of Amendment	IAS No. 8 Updated 1993	IAS No. 8 With Amendments Approved In 2003
Change of Accounting Principles	Choice between Benchmark Treatment (Recommended) and Allowed Treatment (Only Allowed)	Obligation to Apply the So-Called Benchmark Treatment and Prohibition to use the Previously Defined Allowed Treatment
Detection of Determinant Errors	Choice between Benchmark Treatment (Recommended) And Allowed Treatment (Only Allowed)	Obligation to Apply Benchmark Treatment and Prohibition of using the Previously Defined Allowed Treatment Principle
Separation between Ordinary and Extraordinary Items of Income	Ndication of the Definition of Ordinary Activity and then, Residually, Determination of the Extraordinary Area of Income	Elimination, in Profit and Loss, of the Contrast between Ordinary Income and Expenses and Extraordinary Items of Income. Every Expense And Income will be Considered as Ordinary.

As far as principle No. 8 is concerned, it is already clear from the title of the updated IAS that the issue of separating ordinary and extraordinary income has undergone a profound evolution. The original title of IAS No. 8, 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies', had changed to 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The elimination of the reference to costs and revenues for the period indicated a desire to address no longer the issue of separating ordinary and extraordinary management.

In explaining the proposed changes to Statement No. 8, the International Committee had highlighted its intention to remove certain parts of Statement No. 8 that concerned the presentation and recognition of revenue costs in profit and loss. Hence the change in the title of IAS No. 8. These appropriately amended paragraphs were re-proposed in IAS No. 1 Presentation of Financial Statements in force in the period under review.

In that standard (IAS 1 post-reform 2003), the IASC took a completely different position from that resulting in the original IAS No. 8 revised in 1993.

In paragraph 85, it states that an entity should not present income and expenses as extraordinary items either in the statement of profit and loss or in the notes.

An analysis of these concepts shows how the IASB eliminated the dividing line between ordinary and extraordinary activities.

In this new international view of management, everything that occurs within the scope of business operations must therefore be considered ordinary.

No operation carried out within management can any longer be considered extraordinary under the revised accounting standards.

IAS No. 1 post-2003 reform points out that, in particular circumstances, the nature and amount of cost and revenue items may suggest that they are shown and illustrated in a unique way, when their relevance is such that they represent a characterising element for the understanding of the financial and income situation of the enterprise.

However, this does not mean suggesting a separation between ordinary and extraordinary activities. Any business transaction that falls within the ordinary course of business activity may assume, for example, due to the exceptional entity that characterises it, relevant importance in the context of corporate disclosure.

Therefore, IAS No. 1 post-2003 reform did not prevent, and does not prevent even today, the highlighting of particular income elements by nature or entity, but denies that an area of management that can be defined as extraordinary can be identified.

This stance is in fact, part of a path that the IASC had already taken in previous years. In fact, in the opinion of the writer, having identified, in the original IAS No. 8, an extraordinary area as restricted as that specified by the international standard (and entities connected with earthquakes or expropriations for public utility) meant, in essence, considering that the absolute majority of the transactions carried out in the company's management sphere were connected with ordinary activity.

This indirectly meant downgrading the extraordinary area's relevance in favour of the ordinary area, even though there is no doubt that the original IAS

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No. 8 contained a very precise definition of ordinary activities and, residually, an extraordinary management area could therefore be identified.

The position set out in the documents issued in 2003 represents, in reality, a return to the origins of the economic business theory expressed by Italian doctrine. As noted in the preceding pages, while tackling the subject and proposing a subdivision between ordinary and extraordinary elements of income, Zappa considered it reasonable to make an essential premise for the study that he would later carry out.

The scholar pointed out how the distinction between ordinary and extraordinary income components was often impossible from a practical point of view due to the difficulty of identifying a reclassification criterion valid for all companies. After pointing out the functional problem of separating ordinary and extraordinary costs /income, he highlighted a theoretical obstacle to such a juxtaposition. Zappa pointed out that the enterprise was a unitary system in which income was the complex and indistinct result of the company's production. With this phrase, the author intended to emphasise the arbitrariness and artificiality of the claim to isolate income components in pre-constituted categories opposed to one another. "To discuss without limits the appropriateness of attributing ordinary and extraordinary, principal and accessory income components,....... (it means, note of author) distracting from the formation of income those values that one wants to judge as belonging to past years..... All this means easy consent to alterations and the obscuring of financial reporting" (Zappa, 1954).

V. From Extraordinariness to Extraneousness and, Subsequently, to the Simple Abolition of the Extraordinary Elements of Profit and Loss

At this point, it is necessary to understand the consequences of the amendments to IAS 1 and 8 approved in 2003.

On the one hand, Italian legislation (which was reformed in the first decade of this century) imposed, with Article 2425 of the Italian Civil Code, the separation of the ordinary from the extraordinary area and, on the other hand, prevented the treatment imposed by IAS 8 post-2003 reform from being applied in our country.

Obviously, given this particular situation of incompatibility of rules, the question arises spontaneously regarding the development of external communication of Italian companies.

Concerning the issue concerning the mandatory treatment under IAS 8 post-2003 reform concerning the recognition of changes in accounting principles and the recognition of errors, there were no proposals to amend the regulations.

It was, therefore, impossible, as it conflicted with Italian doctrinal and regulatory principles, to adopt the treatment IAS considers mandatory.

On the other hand, concerning the contrast between ordinary and extraordinary elements of income, towards the middle of the first decade of this century, doctrine began to hypothesise a different difference between negative and positive income components.

In the bill that was supposed to change the profit-and-loss structure, the terms 'extraordinary income and costs' disappeared altogether, and, in their place, the concepts of income and costs unrelated to the activity were introduced.

This change, as is evident, incorporates the evolution introduced in 2003 by the IAS standards, following which the concept of extraordinariness was radically eliminated from the 'international economic vocabulary'.

According to the draft under discussion, Article 2425 of the code should be 'rewritten' as follows:

1. + revenue from sales and services
2. + /-changes in inventories of finished goods and work in progress
3. +/- change in inventories of contract work in progress
4. + increases in fixed assets for internal work
5. + other revenues
6. - costs of raw materials, consumables and goods for resale
7. +/- changes in inventories of raw materials, consumables and goods for resale
8. - personnel and other service costs
9. - depreciation and write-downs of non-current assets
10. - write-downs of current receivables and other current assets
11. - other costs and expenses

A) Operating profit (loss)

12. + interest income, dividends and other financial income
13. - interest expense and financial charges
14. +/- foreign exchange gains/losses
15. + positive changes in value of financial instruments
16. - negative changes in value of financial instruments
17. +/- gains/losses on disposal of fixed assets
18. + income from non-operating activities
19. - non-operating expenses

B. Profit (loss) before tax

C. Profit (loss) for the year

If the bill had been approved, in Italy too, there would no longer have been a contraposition between ordinary and extraordinary items of income. Still, revenues and costs would have been distinguished between items pertaining to characteristic activities and income components extraneous to the activity.

The accompanying report does not go into detail concerning the correct interpretation of 'extraneousness' to the activity. On a practical level, therefore, companies will include in items 18 and 19 everything that is not explicitly indicated in items 1 to 17. To avoid the improper use of the terms 'non-operating items' and to prevent the preparation of non-comparable profit and loss accounts due to the various potential interpretations of these terms, everyone hoped that the legislator, in the report accompanying the new law, would dwell analytically and not superficially on the exact performance that must attend the preparer of financial reporting in identifying so-called non-operating revenues and expenses.

The bill that envisaged the juxtaposition between elements extraneous to business operations and parts not extraneous to business activities was not transformed into law, and therefore, the juxtaposition between elements extraneous to business operations and elements not extraneous to business activities was never applied at the Italian national regulatory level. With Decree 139 of 2015, profit and loss was transformed into a document with no contraposition between extraordinary and ordinary elements simply by abolishing the two items that included the negative and positive elements of income of an extraordinary nature or instead defined as extraordinary in nature. In the current state of the art, all negative and positive items of income are ordinary, exactly as in IAS 1, which refers to the profit and loss structure. In the opinion of the writer, the elimination of the contraposition between ordinary and extraordinary items was welcomed as, in reality, the contraposition, as mentioned above, did not provide any interesting information for third parties outside the company. The writer also believes that it was very positive that the bill providing for the extraneousness of costs and revenues to the business activity was not transformed into law as the concept of extraneousness to the business activity would have remained a generic, superficial concept and, therefore, difficult to interpret objectively. At present, therefore, all elements of costs and revenues are of an ordinary nature. This circumstance, which, on the one hand, makes it easier to prepare financial statements, on the other hand, means that all non-characteristic elements by definition, such as capital gains and losses and contingent assets and liabilities, are included in the aggregates at 5 EB 14 in particular, which also contain characteristic costs and revenues connected with the typical business activity. This means that the profit and loss currently in force in Italy cannot be used effectively to perform a reliable financial reporting analysis since both characteristic and non-characteristic costs can be included in the same item. In the items of which positive income components are comprised, characteristic non-characteristic capital and even financial revenues can be included.

VI. Conclusions

From what has been said in the preceding pages, it can understand how the regulatory evolution of the concepts connected to negative and positive income components has been rather substantial, unlike what has happened in the context of the management analysis of financial reporting, which has never deviated from the contraposition between characteristic and non-characteristic elements. The current situation, at least in Italy, which, however, reflects the status in most countries that refer to the IAS/IFRS international standards, means that there are no extraordinary items but only ordinary costs and revenues, but that the various items envisaged by the legislator may contain elements connected with the performance of the company's typical activity and costs and revenues not related with the company's typical activity, which makes it easy to understand how, this consideration, leads to the impossibility of a complete analysis of financial reporting from outside the company, since in the absence of information on the analytical content of the items in the financial statements, it is impossible to implement an analysis by indexes and flows that would allow a complete analysis to be carried out and that would make it possible to understand the actual situation of the company. External users have seen, over time, improvements in corporate reporting. Still, although this is undoubtedly the case, they cannot carry out a complete financial reporting analysis due to a lack of information.

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