

## INTERNATIONAL ACCOUNTING STANDARDS AND ALBANIA IMPLEMENTATION: THE CHANGING ACCOUNTING ENVIRONMENT

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### Abstract

Accounting provides useful information to decision makers, thus as the business environment has changed so have the accounting standards that govern the presentation and disclosure of information. International Accounting Standards are central to this concept. International standards were first developed in the late 1960's but they have reached their zenith of importance in today's economic and business environment. It is also evident that governments and policymakers recognize this change. This point was made publicly when the European Council of Ministers passed a resolution requiring all EU companies listed on a regulated market to prepare accounts in accordance with International Accounting Standards for accounting periods beginning on or after 1 January 2006. This decisive change was met with great furor in the accounting profession as well as in corporate boardrooms. The International Accounting Standards Board welcomed the resolution; pleased that the EU was among the first major "nation-states" to take the initiative and embrace international accounting standards. The EU recognized the many benefits of requiring the implementation of international accounting and auditing standards. Moreover, the Securities Exchange Commission (SEC) recently voted on a roadmap that requires U.S. public companies to use International Financial Reporting Standards by 2014. In light of the interests and activities of companies and users of financial information becoming global, the SEC released a statement declaring its involvement and support to develop a globally accepted, high quality financial reporting framework. The benefits of international accounting standards can be financial, economic and political. Preliminary evidence suggests that companies, lenders, and investors would prefer a convergence of domestic accounting standards with international accounting standards to create a quality financial reporting framework. Although there are significant benefits to implementing international accounting standards and it is increasing in importance there are still many challenges to further development and authoritative implementation. To best understand these challenges one must look at the factors that influence the development of accounting regulations. Such factors can include, social and cultural values; political and legal systems; business activities and economic conditions; standard setting processes; capital markets and forms of ownership; and finally cooperative efforts by nations. These factors if properly understood can mitigate or even eliminate the challenges to international accounting standards. International accounting standards are important today and will most certainly become more important for the future as they are further developed.

**Keywords:** Accounting Standards, Measurement Issues, Harmonization

### Introduction

Financial reporting has long been guided by the dictates of national standards. The accounting community has always been in agreement as to the importance of official standards to ensure the reliability and relevance of financial information. In addition to each country's national standards; accounting officials and educators sought the development of international standards. However the international standards have taken nearly 20 years to reach their zenith in the financial world. Only in the past seven years have international standards reached prominence with some countries adopting the international standards in place of their own standards. Historically, the United States has been most adamant about maintaining its own U.S. Generally Accepted Accounting Principles (GAAP), however recently the SEC has agreed to the use of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). To best appreciate this momentous decision and its implications one must first understand the differences in how standards developed in various countries, the history behind the development of International Standards, the benefits of international standards, and challenges of implementing international standards within the US, due to major differences between U.S. GAAP and IFRS. (SEC Release 2008)

### Development of National Standards

The creation of national accounting standards can be influenced by a variety of factors some of them political, and some of them due to the legal or tax system. Mark Wahrish identified the following five influential factors: cultural factors, legal/political factors, economic factors, educational factors, and capital market factors. However, Gerhard Mueller identified only four elements: state of

economic development, business complexity, political persuasion, and some reliance on a particular system of law. The American Accounting Association's 1975- 76 International Accounting Operations and Education committee established eight factors including objectives of financial reporting, clients, and education/training/licensing. Thus even within the accounting field there is no consensus on all the factors---more factors can be identified and the factors can be grouped differently than Wahrish's or Mueller's grouping. (Wahrish 2001 and Mueller 1967). Much research has been conducted to substantiate the link between cultural environment and standard setting philosophy. Accounting researchers have used cultural relativism to link cultural values to the development of accounting standards. Jaggi hypothesized that managers from different countries have different value sets which can impact the reliability of financial information. Hofstede developed a model for culture in which he outlines four main dimensions. These points are: (1) professionalism vs. statutory control, (2) uniformity vs. flexibility, (3) conservatism vs. optimism, and (4) secrecy vs. transparency. Legal and political factors provide a much more substantial influence on standard development and implementation than cultural values provide. Throughout the accounting literature exists a variety of standard setting models grouping countries based on legal/political similarities. Most of these models seek to divide countries based on whether or not they are common law or code laws states. The models also include the variations of tax law, and whether the countries focus on socialism or capitalism. Although this division is not perfect it does yield a model that loosely groups similar countries. For example, 'common law' countries such as England, United States, Canada, Australia and New Zealand are in one group; whereas 'code law' countries such as France, Germany,

Egypt and Taiwan form another loose group. It is important to note that even within these groupings most models provide for further divisions. The legal differences between the various groupings are relatively easy to identify. Moreover, tax law has a unique impact on accounting standards and regulations. In some countries, notably the U.S., the tax law is a distinct and separate code of regulations from general accounting practice. In other nations, the tax law and accounting regulation are the same. This is important because tax law has a significant influence on how businesses and individuals behave. (Washrisch 2001). The political environment naturally segues from the legal environment. Accounting literature is in agreement that the political environment specifically stability and extent of freedom can and does influence accounting doctrine. For example the level of freedom and civil liberties in a country has a direct influence on the extent of financial information disclosure; evidence shows that less free countries have less extensive disclosure. People that do not have the freedom to choose their own government and support or oppose business policies will not have the necessary tools or resources to establish transparent accounting. Although these statements are logically sound, significant empirical evidence is still being sought by researchers to further support the validity of these statements. Economic factors along with the availability and variety of capital markets also impact the national accounting profession. Obviously nations differ in their economic systems, some are categorized as capitalist, or capitalist-statists, while others are capitalist-socialist or socialist (Gastil 1978). Economic development includes growth as well as the social and structural changes that accompany it. A more developed economic system requires an accounting structure that captures the necessary relevant information about the productivity and performance of various sectors. This is clearly evident as the most comprehensive accounting systems are present in countries with the greatest extent of economic development. Another aspect of the economic factor that is especially significant is the structure of capital markets. Much research has been done to study the effect of capital markets on accounting standards. Capital formation be it through public financing, private investment or foreign private investment are necessary ingredients for economic development. All the relevant financial information to motivate private investment or validate public financing relies on accounting data. Accounting data is pivotal in creating a level of confidence for working capital market structure. Thus the structure of capital markets influences the nature of accounting standards in different countries. For example in Germany, most of the financing for capital markets came from creditors, mainly banks, this is reflected in it accounting goals. The main purpose of financial reporting in Germany is protection of creditors and capital maintenance. However, in the U.S., where the capital market is equity based, the main purpose of financial reporting is the protection of investors. The dominance of equity financing in the U.S. created an accounting structure concerned with fair presentation and full disclosure but in Germany, accounting is concerned with calculating

distributable income, i.e., making sure creditors get their payment.

### **International Standards**

Different countries with different accounting practices is an accepted situation, however it is not without its disadvantages. As the idea of global corporations and markets without borders began to become a reality, members of the accounting profession realized the need for international standards. In 1971, the International Accounting Standards Committee (IASC) was formed. It was a loosely formed committee at the behest of accounting boards from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, and U.K. It had a similar framework to that of the US Financial Accounting Standards Board (FASB) as well as the British and Australian frameworks. At about the same time the international professional activities of accountancy bodies from different countries organized under the International Federation of Accountants (IFAC). The IASC and IFAC operated tangent to each other. However IFAC members were automatically members of IASC. With this structure, IASC would have autonomy in setting international accounting standards and publishing discussion documents relating to international accounting issues. From the 1970's the IASC issued roughly forty standards; that went largely unused by most large corporations and countries with already established accounting systems. Its greatest progress was in Europe and with developing or newly industrialized countries. For example in the 1990's Italy, Belgium, France and Germany all allowed large corporations to use International Accounting Standards (IAS) for domestic financial reporting. Yet in large part, the IASC found itself in a situation where it issued standards but had no power of enforcement, thus no real authority.

### **Benefits of International Standards**

Most of the various national financial regulatory and standards setting bodies agree that there are numerous concrete benefits to implementing international standards. The SEC explicitly stated this as far back as 1988, in a policy statement that reads "all securities regulators should work together diligently to create sound international regulatory frameworks that will enhance the vitality of capital markets". Capital markets are one area that can benefit greatly from uniform standards. Currently companies desiring to issue stock via capital markets in different countries must follow the different rules of each country. This creates significant barriers to entry because meeting the varied financial reporting requirements leads to considerable increased costs. Moreover divergent standards also create inefficiencies in cross-border capital flows. Uniform reporting standards will lead to decreased cost of capital because internationally accepted standards will expand the base of global funding without the penalty of additional reporting costs. This will eliminate cost as a barrier to entry and encourage investors to pursue access to foreign markets; which will lead to increased efficiency in cross-border capital flows. In addition to eliminating excess cost, another benefit of global standards is that they will

eliminate duplication of effort formulating accounting standards. Global standards facilitate a concentration of accounting experts committed to formulating standards to meet information users' needs; standards that have a global approach instead of a narrow national focus. Also international standards could lead to greater agreement between accounting and economic measures. One aspect central to the benefits of using global standards is harmonization. Standard setting officials and accounting researchers stress the importance of differentiating 'standardization' of the rules from harmonization. An easily understood definition of harmonization provided by Wilson(1969) is: The term harmonization as opposed to standardization implies a reconciliation of different points of view. This is a more practical and conciliatory approach than standardization, particularly when standardization means the procedures of one country should be adopted by all others. Harmonization becomes a matter of better communication of information in a form that can be interpreted and understood internationally (p.40). An intrinsic benefit of harmonization is that it does not force the elimination of national standards, which could be met with significant nationalistic opposition. Harmonization through the use of global standards will enhance the comparability of financial statements across borders; thus providing a better quality of information for investors and creditors. However, some developing countries are hesitant to embrace harmonization for fear that accounting standards will be dominated by standards from developed countries specifically U.S. GAAP(Nobes 2006).

#### **Albania Implementation of IFRS and Major Differences**

In contrast to many other countries have adopted international accounting standards for all entities, or some other countries have implemented public interest entities, international accounting standards and all other entities have continued to accounting adjustments national existing in our country was without reasonable and settled in the law "On Accounting and Financial Statements" to be used two types of standards.

1. International accounting standards .
2. National accounting standards.

#### **-International accounting standards apply:**

a. By listed companies in an official stock exchange securities and their affiliates, subject of the consolidation, accounts.

b. From commercial banks, financial institutions, like banks, insurance and reinsurance, securities funds value and all companies licensed to conduct securities investment, even when they are not listed in a securities exchange.

c. By entities other major not listed on a stock exchange securities official when they exceed the limits set by the Council of Ministers for the revenues and number of employees.

-Currently these limits are: Annual income 1.25 billion money and the number of employees over 100 people, for the past two years. Inclusion of clause (c) the law was a result of the lack of an active stock exchange in our

country. If there was an active exchange these entities can be listed the stock exchange and included in paragraph (a). National accounting standards applied by all other entities that implement the above law. We thought that we chose the best way of establishing accounting and related financial statements, and while respecting Seventh Directive and EC Four. Initially, the national accounting standards were prepared and were announced by Finance Minister on 15.06.2006, mandatory for application on 01.01.2008. National accounting standards were originally developed 14 and consistent with international accounting standards applied by the entities to small and medium size (of those that do not apply IAS, IFRS). National accounting standards are simpler, more understandable and less costly to implement. At the same time will be a valuable experience for those entities that would be eligible to apply in future international accounting standards. National accounting standards were developed and compiled in a period of time, leaving enough to ambjentuar them and to prepare for their implementation. International accounting standards were translated under the responsibility of the CCC and was announced by Finance Minister on 05.05.2008, mandatory for the date 01.01.2008. For the implementation of National or International Accounting Standards had a big responsibility and a qualified, not only by the National Accounting Council, but also by professional associations, the regulatory and supervisory bodies, and University Institutions. While being prepared and published a whole ancillary literature personalities of academic and professional. It should be mentioned that in terms of publications have a deficiency in terms of International Accounting Standards publication. We are trying that in 2011 will be published including the International Accounting Standards and the changes until 2010.

#### **SHORTCOMINGS**

Implementation of Standards for a number of economic units was characterized by a low level of preparation of financial statements preparers. Another part of entities with considerable sensitivity to the importance of implementing standards and legal obligation to do so had difficulties and problems dealing with:

1. Problems the transition, the transition from existing arrangements in accounting standards.
2. Measurement, evaluation and presentation of the elements of financial statements.
3. New financial statements

#### **Problems of transition.**

They had to do with the handling balance of the previous elements, which will have a new accounting treatment during the next. Applies to mention a few: Referring conversion differences, entities had in their voices the asset or liability values considered and standards should make another accounting treatment. With the new standards differences in conversion element would be the statement of income and expenditure. Also we can mention and startup costs and the expansion. They were significant voices of

the asset, while the new standards should make another accounting treatment.. These problems are more difficult due to entities that apply FRS being that these changes will be reflected retrospectively, which means to correct the previous years, while the entities that will implement the National Accounting Standards these changes will be reflected in prospectively, which means not to touch the previous period.

### **Problems of measurement, evaluation and presentation.**

They had to do mainly with the new concept of evaluation of elements of financial statements. Mainly problems fair value. Refer value fixed assets and equipment, as there is no active market for them, then the problem of presenting their fair value is a problem for these units economic. While use of alternative modes requires a high qualification relevant staff that deals with the design of financial statements. Referring to intangible assets and liabilities, little is made of entities to present them at fair value. In this effect has been insufficient training of staff, and the culture of reporting that has been known as leaning towards fiskut reporting purposes. In this context entities have not made serious efforts to make a statement as true and correct position and financial performance. Problems encountered in the design of new financial statements. New financial statements that differ from previous ones primarily created problems with the formal side of their development. The tradition of presenting information in a certain way created problems of adjustment. Already some concepts should be inverted as:

- a) The two financial statements and certain three reporting formats for tax purposes, the standards developed five mandatory financial statements, including the annexes to the financial statements and explanatory notes
- b) Rating of balance sheet items, which rank in the balance sheet would be the opposite of previous, submission
- c) Submission of property and equipment in the balance would be for the net book value.
- d) Filling of statement of revenue and expenditure would be on a single statement (by nature or by function) are already presented several items in their net value (allowing compensation).

### **Other problems raised for discussion and evaluation**

In this year was developed and distributed by the Standards Board for discussion of international financial reporting standards (IFRS) for small and medium enterprises (SMEs). We've got, we translate and we make comparisons with national accounting standards and have noticed:

1. Both are consistent with international accounting standards .
2. There are important differences.

National Accounting Council, as the only professional body, with authority to draft MRS and other accounting rules, after receiving and opinions of stakeholders, will formally express its opinion regarding the above standard. Preliminarily, we can say that we will continue to implement the MRS after a 4-5 year period because:

a) We have national standards as mentioned above in two levels:

- For small units of medium
- For microunits.

b) Entities have two years that have invested in their implementation and are still fully unenvironment.

c) There is an opinion expressed by the European Community to make mandatory the given treated as above we conclude that Albania is on the implementation of international and national accounting standards that are consistent with the first, are making progress in this way. An important contribution to this achievement has given the Ministry of Finance and the Government which have been ready to resolve any proposal made by the professional bodies connected with the simplification and modernization of accounting information, but still so far has not become effective.

### **Measurement Differences**

- Often different amounts will be recognized for the same type of activity under U.S. GAAP and IFRS mostly due to the measurement amounts or methods applied. The different methods allowed for measuring inventory cost provide a comprehensive example of this phenomenon. U.S. companies can use a variety of inventory costing methods, including LIFO; but IFRS does not allow the use of LIFO. Thus a foreign company that lists in the U.S. can use , LIFO but it would have to restate is financials to meet international standards. Other measurement issues can arise from differences in the market cost used in lower of market or cost method to restate the value of inventory and the use of fair values as opposed to cost in measuring assets. In spite of formidable and numerous differences, FASB worked with IASB in the early 2000's to develop a convergence plan. The plan was based on six initiatives:
  - -Short term convergence project focuses on differences between U.S. GAAP and IFRS in which convergence can be easily achieved in the short-term by selecting the higher-quality standard.
  - \_ Convergence research project involves the FASB staff researching all the differences between IFRS and U.S. GAAP; and then grouping these differences based on resolution measures.
  - \_ Monitoring IASB requires the FASB to monitor IASB projects based on the interest level generated by the project. This provides an efficient method of identifying those international standards that generate the most debate, thus helping the FASB identify any differences and convergence opportunities early.
  - \_ Joint Projects initiative combines the efforts and resources of the FASB and IASB staff on a congruent time schedule.
  - \_ Liaison IASB member on site at the FASB offices facilitates quicker meaningful discourse and coordination between the two bodies.
  - \_ Explicit consideration of convergence potential in board agenda decisions ensures the FASB considers

opportunities for convergence when discussing or considering new measures.

### Conclusion

The adoption of global or international accounting standards is an idea that has patiently waited in the wings for decades. The increasingly global nature of the business environment coupled with the complexity of financial dealings propelled global accounting standards into the limelight. The EU nations and many other nations have adopted IFRS; at the same time others are working towards such a goal. Yet this climate of progress and camaraderie does not mean opposition is nonexistent. The greatest opposition to IFRS is largely political but many proponents of IFRS see this obstacle as easily diffused. Indeed, leaders from the G20 countries have established their support for developing a single set of high-quality global accounting standards. The FASB/IASB convergence plan has been one of the greatest advantages in helping IFRS gain a foothold. U.S. GAAP and IFRS are the prominent and most widely used accounting standards. If the convergence project leads to future agreement between these two standards sets, global financial reporting will be based on one set of standards. Thus the ultimate goal of international reporting will be achieved, and international standard will be an idea whose time has finally arrived.). To reach the correct and full implementation of IAS / KAS have thought to commit as follows:

1. Under the learning process of career education should be a process which starts in school and during exercise continues his unending.
2. Professional organizations and continuing training and qualification of preparers and auditors of financial statements should be considered as primary in their work, with updated programs with changes in treatment standards by the relevant responsible bodies and reflecting on them problems arising from practices and seeking solutions
3. Encourage and stimulate individual works of accounting

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educators and professionals as well as organizations and various professional organizations.

4. Be given special importance to the business environment sensibility about the importance of the implementation of accounting standards. The business community, especially senior management should understand that their financial statements are made only to the tax office, but also for many other users. Correct application of accounting means treating the whole and not a few of them. In this context, we think a much more efficient solution business awareness towards mandatory implementation of accounting standards would be an additional change in the Law "On Accounting and Financial Statements" that has to do with setting the corresponding penalties violation of his cases. Liberal spirit of law enforcement in this case does not help in the integration process since the lack of penalties is one of the reasons why standards have not been implemented at a fraction of entities.

5. Set up and operate the necessary structures professionally capable to resolve problems dealing with assessments and revaluations of assets as required by standards

6. To increase the limits for classification of entities making appropriate changes in law to bring them closer to those of other countries in the region, which will bring a cost reduction for business information. Currently these criteria in terms of turnover, we have several times lower than in the region, while those of the EU have more .

7. To expand and further intensifies cooperation and exchange experience with counterpart organizations in the region in the field of accounting. The realization of the objectives mentioned above and should be accompanied with the necessary funds, funds which may be provided by the state or by international bodies such as the REPARIS. It should be noted that this organization has provided funds to various areas including accounting, but still so far has not become effective .

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