

Standardization of Accounting in Kosovo

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Abstract

The level of economic development has effected on presenting of different types of accounting, where such presentation is closely connected with need that have different users of accounting information. On the development of accounting in a country different factors affect not only economic but also legal, social, cultural, and not just accountants, but also the users of accounting information. Changing these factors has resulted in a change in their impact on the development of accounting.

Accounting should be able to provide transparent and reliable information for domestic investors, especially foreign and to determine the level of accountability to and the directors of enterprises in business decision making. Kosovo has inherited from the past a level of organization of accounting and its role, which is not suitable to market demands and new his reports. But this level is not appropriate for the strategic goals of European Integration and western of country.

Overall economic development of the country, also, requires sufficient information, reliable and important on making economic decision by investors, managers, by administrators of state, etc. Together with other economic development and management, the development of an accounting system is capable to provide necessary information and reliable in decision making, constitutes an important factor. Also foreign investors to take decisions to invest in Kosovo are interested, inter alia, and for obtaining reliable and coherent information with IAS/IFRS, enabling them to making correct decision and involvement of this information in their financial reports consolidated.

The role of accounting information is important, not only for foreign investors or large enterprises, but also to those small and medium enterprises, because of it provides important information for stages of decision-making as planning control and evaluation. Kosovo is characterized by the prevalence of small and medium enterprises, and for this reason therefore required to find a suitable arrangement for these businesses. Regulation of accounting in accordance and in coherence with IAS/IFRS and directives of the European Community is one of the tasks that must be fulfilled for European Integration and Western of Kosovo.

Key words: Standardization of accounting, financial information, financial statements, financial reports, international accounting standards.

1. Introduction

Actually, taking in consider the new developments in the accounting field that are happening in Europe, which are in the implementation of international accounting standards (IAS), also in Kosovo is being built a new base of financial reporting in light of international standards, which requires business units to report to their base. These standards are implementing at national level and in consistent with IAS, which came as a requirement of the users of accounting information to ensuring their interests. In terms of international cooperation, Kosovar businesses should have new access toward the internationalization to entrepreneurship and creation of numerous economic and trade relations. In this case, based on the current level of economic development, should be created in the first infrastructure and business environment, to produce real information to increase the reliability and attractiveness of our country in international plan.

2. The need for international standardization of accounting

What will be the economic system, nearly all countries of the modern world, there exists the need for some regulation, which is due to the overall collection of laws, regulations and standards. Globalization of the economy, increasing trade relations, investment, the need for foreign capital and capital markets, have requested and require the use of a broad economic information, which is more than necessary for decision making. If the information is built on the same basis and principles, regardless of origin, he certainly has as effect in making successful business decisions. Within these information the important role and separate has information that comes from accounting through financial statement published.

The main aim in this case is that all financial statements of businesses in different countries to speak the same language. Their same language and transparency of information that they provide, increase the values of decision-making and efficiency in the international market. For this purpose were designed international accounting standards (IAS) or as currently called International Standards of Financial Report (IFRS)¹. They represent the rules adopted by the international professional accountancy and other professional organism authorized to deal with the accounting treatment of transactions in the most accurate.

The existence of these standards enables that user of accounting information to various businesses, regardless of where users are located or where these businesses operate. But the existence of differences in economic development in social and cultural development of different countries, ensuring the use of the same accounting standards to international level, it was not and it is not an easy process.. Just as these problems of differences in the early period of development of international standardization movement were more evident and generally environment was not prepared to accept these standards, the main focus of the Board of international standards first was preparing of standards that provide a harmonization of accounting rules in international range.

But over time, with rapid economic developments in international range, with increasing of globalization of the economy and the growth of culture in terms of recognition and acceptance of IAS, it was necessary to leave from harmonize and to move to converging, to the same goal of accounting rules in international range. The converging differs to harmonization precisely by asking questions for solutions in the field of accounting and financial reporting at the same time and through a unique process anywhere in the world aims at getting a single response and high quality. Because of the importance of information to be built on the basis of common rules for the construction of financial statements in the current world economy grew rapidly in the development of IAS and their acceptance by an increasing number of countries and professional organism, within which are also created specialized institutions for their preparation in a fairly high level. Therefore, based on the role of international accounting standards, which is large enough role than stated above, it appears that the need for international standardization of accounting in Kosovo is necessary, perhaps their application has effected in the ability and competence of businesses to prepare financial statements transparent, reliable for all users.

¹ IFRS issued by the Board for International Accounting Standards IASB, an independent organism that sets standards, with headquarters in London. IASB announced in 2001 that its accounting standards would be called IFRS – International Financial Reporting Standards. Also in April 2001, the IASB declare that will adopt all IAS issued by the IASC, and the term IFRS also includes IAS, as well as all relevant interpretations. In other words, IFRS are standards and interpretations used by the International Accounting Standard Board (IASB).

3. Advantages of International Standardization of Accounting

Advantages if stick of IAS are:

- financial reporting in different countries is homogeneous;
- Financial reporting is more quality, and what is important, increases its reliability, because a reliable financial reporting by the users of its influence in the development of capital market and economy in general. So capital will move in the direction of those markets better investment terms no matter where these markets are located;
- Use a unique language in accounting leads on understanding of financial reporting by investor's way, creditors, and others, especially those that are foreign and improve decision-making affecting them. If the investors will receive the best decisions you will have a placement of price of capital better in relation to the risks and consequently will have a more fair distribution of resources among different investment opportunities and competitive;
- Standardized financial reporting gives us the possibility of comparing the financial statements of a country with those of another country because they have access to the application of accounting rules;
- Financial reporting in conformity with international accounting standards(IAS) also prevents various scandals that have been identified in several global corporations, which filed financial statements with false information, and consequently these information users took the wrong decisions, which cost grater. Since financial statements prepared for their use by many economic units worldwide, in different countries, international accounting standards(IAS) contribute to narrowing the differences between these countries, demanding the harmonization of rules, procedures regarding the preparation and presentation of financial statements. With the application of international accounting standards, financial statements expected to be transparent, so that users, who are generally assumed to be investors and creditors, be able to fully understand the nature of financial reporting of the company.
- Because financial statements prepared for their use by many economic units entities worldwide in various countries, IAS contribute to narrowing the differences between these countries, seeking the harmonization of rules, procedures relating to preparation and presentation of financial statements. With the application of IAS, financial statements expected to be transparent, so that their customers or users, in generally assumed to be investors and creditors, to be able to fully understand the nature of financial report of enterprises. Consistent accounting will reduce the costs for preparation of financial statements for multinational companies and, more importantly, facilitates and assists the work of analysts and investors and other users of business results. This has always been known as a good idea.²
- The international standardization of accounting benefits accounting regulatory organism of different countries. Now they will find a same communication language and the same rules which will determine based on their regulatory requirements. In these regulatory organisms will mention commissions of capital markets, organism of market surveillance of banking, insurance and the market in general.

4. The existing accounting standards in Kosovo, their implementation and need for their change

Application of IFRS for Kosovo represents a challenge on its way to European integration and beyond. The aim of the developments reforms and provided to take place in Kosovo in terms of developments in the field of accounting is to improve the accounting adjustments in order to increase transparency and credibility of financial information, to better respond to need market and to protect public interests and the state.

² Barry J.Epstein, Abbas Ali Mirza, Interpretation and Application of International Accounting Standards, 1999

The developments of accounting and accounting information is very closely related to the existence of political conditions, legal and institutional are still lacking in our country and which remain to be more development in the future, because to be effective in applying the accounting standards, they necessarily have the force of law or seek other regulations. A financial stability of the system based on national law. Also the culture of accountants and users of financial reporting is a factor that affects the level and pace of development of accounting.

Currently in Kosovo, accounting to the conceptual framework of IAS provided the criteria for maintaining a genuine financial report, as well as basic principles for presenting financial statements. In Kosovo has been accepted accounting implementation of two packages: international accounting standards and accounting standards of Kosovo, which are designed in coherence with international accounting standards.

The Board of Financial Reporting in Kosovo³, in October 2001, issued accounting standards of Kosovo, which are simplified versions of their equivalent international accounting standards. Kosovo accounting standards were modified to fit the Kosovo business environment, and the result is the structure of Kosovo accounting standards.

For Kosovo, this was and is still a challenge for integration, which is intended to improve the accounting adjustments in order to increase the transparency and credibility of financial information, to better respond to market needs and simultaneously protect the interests of public and state. Also, it is important that business owners and managers understand that they are primary users of financial statement, so the early adoption of accounting standards of Kosovo will give them the best financial information in a similar format that the most of the world use.

This also means that banks, other financial institutions and potential investors will be able to understand financial statements of business of Kosovo more easily. The reason for adoption of Kosovo accounting standards is also to improve management and business make it easier for financially way. Keeping data according to Kosovo accounting standards is major step towards joining the global economy. Also should be noted that fulfill of the standards and manner of preparing financial reporting, must be combined with relevant knowledge by competent person. To ensure successful application of accounting standards by the business, it is necessary that accountants, directors and managers of these businesses to study and understand them.

Their study is more than necessary because a good knowledge of international accounting standard brings, obviously, an accurate and correct implementation of Kosovo accounting standard. Having these all considered, carried out needs and explained why these standards are applied, then why it is necessary for their implementation. The need for modification or amendment of existing accounting standards and their replacement with international standards is seen in many points that reflect priorities that offer very large international reporting standards.

³ Regulation no. 2001/30 to establish the Board for Financial Reporting in Kosovo, 29.10.2001. This regulation is now replaced with the new Law on Accounting, Financial Reporting and Auditing, no. 04/L-014, 28.07.2011, Article 5 concerning with the implementation of IFRS, IAS, KAS and 9 international auditing standards). With this law the Board for Financial Reporting in Kosovo (BFRK) is replaced by the Kosovo Financial Reporting Council (KFRC).

International accounting standards provide a regulatory framework for the construction of financial statements. A very important principle under these standards is that having in mind that accounting information should faithfully present transactions and other economic events that he intends to present, it is necessary that they be accounted for and presented in accordance with their content and economic reality, and not only according to their legal form. Contents of information are not always the same with that which is apparent from their legal form. This means that priority should be given economic content on legal form. Also, the financial statements are completed according to international standards, where, normally, a full set of financial statements include a balance sheet, an overview of income, a reflection of monetary movements, an overview of capital movements. They may also include and additional statements and information based on the, or issued by them, which is expected to be read together with these statements. Although each digest provide different information from the others, none of them can not serve a single purpose or provide all the necessary information for the specific needs of users. For example, a statement of income gives an incomplete aspect of financial results if not used together with balance sheet and statement of monetary movements.

Retrieved on general international accounting standards together with those of Kosovo as part of their modified brought a new spirit of financial reporting in Kosovo, which in itself is not limited reporting, and make to increase the flexibility of accounting regulation, all this in creating a suitable economic climate and more attractive for investment and capital inflow.

5. What is the current level of understanding regarding the importance of financial reporting conformity with IAS in Kosovo?

The financial reporting in accordance with international accounting standards play a major role and very important for thrift of accounting and realistic presentation of financial statements. Obviously, such a fact fully understood and assessed, when it reached the highest level of implementation of these standards, whereas developmental stage which we are, one thing I think that is only beginning to be understood positively by accountants, with development opportunities in the future. This can be understood by comparing of data from respondents accountants, employees of tax administration and directors of companies⁴. From this analysis approximately given us the opportunity to get acquainted closely at what level are currently when is the questions about the possibility of real presenting of financial statements in conformity with international standards.

Regarding this of canvass on the question how important is the role of financial reporting in conformity with international accounting standards for regular accounting and presenting real financial statements, we have these data from the abovementioned categories surveyed : accountants, including those independent and those employed in business stated 89%, that such reporting plays a major role an has an effect in real presenting of financial statements, while only 6% of them state that such role is smaller. Also 97% of tax employees are such positive opinion and 88% of the directors of companies believe such a fact (see diagram 1).

⁴ 400 people were surveyed: Selected campon: 212 employed in trade (75.5%), service (8%), manufacturing (1.9%), post (1.6%), banks (9.9%), insurance companies (0.9%), L.L.C.(1.9%). Except them are also interviewed 59 independent accounting and auditing , 35 employees in tax administration, 8 employees in the Chamber of Commerce, and 86 directors in small, medium and large (73.2%) , in the bank (12.7%),insurance companies (9.3%), post (4.6%).

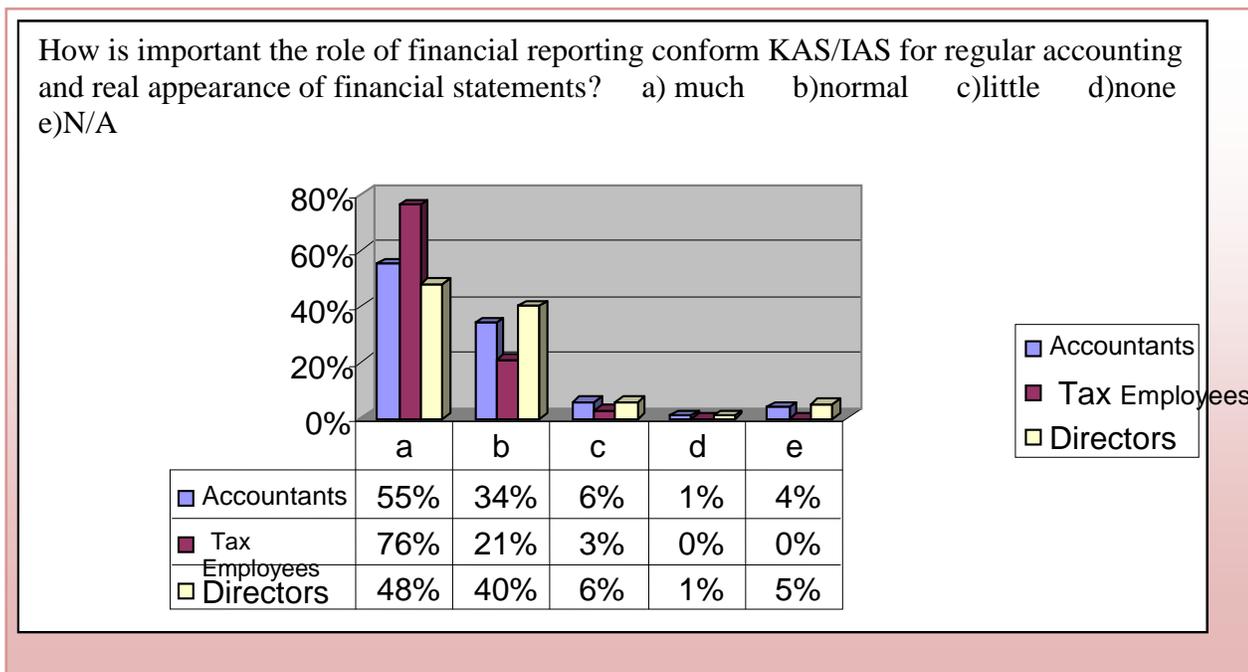


Diagram 1

If we compare the data abovementioned between accountants, tax administration employees and directors, it shows that everyone has positive thoughts and approximately the same percentage of really thinking about financial reporting, which is already developing in our country in accordance with international standards, helps thrift and realistic presentation of financial statements.

Conclusions and recommendations

Conclusions

- Globalization of economy, development of capital markets, financial reporting rules demanded the same, comparable.
- The need for economic entities to register a financial information and reliable quality. This is realized through the formulation of accounting standards in Kosovo coherence with international accounting standards and their application correctly. Reporting quality and reliable management and impacts on users of accounting information in making effective decisions.
- Quality and reliability of financial reporting is determined by the existence of professional accountancy organism and the recognition and study of IAS (IFRS) and relevant accounting rules.
- Application of IAS enables the unification of financial reporting and transparency for all users of accounting information.
- Financial reporting according to IAS is understandable not only for accountants but also for others, including potential investors and outside of Kosovo.
- Application of IAS also allows comparability of financial reporting businesses in Kosovo with those of other states, which facilitates joint investments and other forms of cooperation.

Recommendations

- Based on the large role that has international accounting standards in financial reporting (is analyzed in the paper) to recommend further steps in Kosovo towards promoting, recognizing and

implementing the international standardization of accounting as a necessary need, because the ability and effect business competencies to prepare financial statements credible, transparent and readable for all users.

- Analyzing the challenges arising from the successful implementation of IAS's, should to find the key that leads to the realization of such work. Recommended continuous institutional support, to help implement and monitor of the implementation of IAS, in order to face high levels of economic development that aims to have Kosovo present and to the future, and opening its doors to international markets with very dynamic factors, such as positive incentive to development.
- Also recommended still work in the approximation of accountants with KAS as part of modifying the IAS's. This is achieved through different distribution of brochures, seminars, more work by local organizations that deal with financial reporting regulation, and other similar forms.
- Recommended that followed constantly the changes and moves of International standards. To update KAS, naturally adapting Kosovar business environment, to review their translation, which is probably inadequate.

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