

Implementation of accounting standards: effects on business activities in Kosova

Msc.Mensur AJETI

Msc.Egzona HASANI

Msc.Fatlind MORINA

mensur.ajeti@yahoo.com

Abstract

Small and Medium Enterprises sector in SEE (South Eastern Europe) countries are the main engine for the economic development, reduction of unemployment and fiscal sustainability in these countries. Due to this reason the standards of accounting should give clear and transparent information for local as well as international investors.

The main aim of this paper is to address the challenges of implementation of accounting standards in South Eastern Europe, specifically in Kosovo. Among the main economic challenges in transition countries is the development and implementation of accounting standards in line with international framework of accounting.

Furthermore, in this paper are presented the results of a survey on which 50 respondents have been included in order to analyze the implementation of international accounting standards in Kosovo. Among the respondents have been certified accountants, SME managers, managers of banks and insurance companies as well as tax administration officials.

Finally are given some recommendations that should be undertaken by local authorities in Kosovo in order to ensure the implementation of accounting standards.

Keywords: accounting standards, SME, transition countries.

1. Introduction

Nowadays, the importance of the application of Accounting Standards is increasing more and more in all modern economies.

The overall economic development of a country, among other things, requires a sufficient, reliable and important information on making economic decisions by investors, managers, state administrators, etc.

One of the many problems that must be solved during the transition period for countries such as Kosovo, is the issue of the development of accounting, which should be able to provide a transparent and reliable information for national and especially foreign investors and to determine the level of accountability of managers in decision-business entities.

Kosovo is characterized by the dominance of small and medium enterprises, therefore, it is required to find a suitable arrangement for these businesses. The level of organization of accounting inherited from the past is not compatible with market requirements, and it is necessary to be advanced.

The application of International Accounting Standards will directly affect the economic development of the country. They also influence the management of state bodies, as authorities who control and monitor public and private companies.

The purpose of this paper is to provide an overview of the development of accounting in Kosovo, the needs and problems that currently appear along with accounting development and also, the current trends in the world.

2. The development of accounting in Kosovo

The level of economic development reflects the existing of different types of accounting that is closely associated with the need to have different users for accounting information.

In a developing accounting of a country, various factors affect not only economic area but also legal, social and cultural, too, and not just accountants but also the users of accounting information. The changing of these factors has resulted in a change in their impact on the development of accounting.

Accounting development experiences in different countries, but also in Kosovo, attest to the changes that the accountability has come across as a result of the impact of various factors that affected the presentation and development of accounting, as changing forms of identification in accounting, then, changing accounting duties, etc.

In general accounting adjustment before 1998s in Kosovo was characterized by the appearance of a uniform accounting form because for enterprises, especially large ones, increasingly was hindered keeping accounting records and making important economic decisions. To avoid changes and diverse accounting record keeping and also within decision making has come up the uniform or equal accounting. Then this uniformity is seen in enterprise accounting, business changes of the enterprise, etc.

With the economic development at that time, consistency of accounting began to be obligatory. With the enactment of various laws and regulations that formed the unique accounting plan, the county content, balances and all other forms of book-keeping identification.

The accounting system of that time was based on accounting framework, which in its support then compiled separate plans for each enterprise accounting, which must have been in accordance with the uniformity of accounting records.

This framework and plan of book-keeping that has been used in Kosovo had many similarities with German accounting system and also consisted of ten classes.

Recently, it has been set up a basic framework for financial reporting. Since the international financial reporting and auditing have become more rigorous and complex, the demand for quality financial reporting enterprises and the financial sector in Kosovo have been increased. This report should use international standards of accounting and auditing, by constantly drawing attention to the best experiences and international practices in this field.

After 1999 have been made preparations and consultations initiated by local and international governing factor for the application of a proper system, firstly, the tax system and then it is followed by the gradual implementation of international accounting and also financial revision standards continuing to this day by increasing the number of standards applicable to financial reporting that business enterprises must prepare and report to the Tax Administration of Kosovo.

The main difference is that the law of that time of financial statements have had a unique format that has denied the right of subjects to choose their own form of reporting on. Whereas, based on the current rules in force entities are free to submit their financial reports, but having the unique basis of reporting by supporting Kosovo accounting standards as well as international accounting standards.

The reporting on the standardized accounting language is a requirement of the time and tend to integrate into the European Union, avoiding closure of reporting borders who had no opportunity to reflect the comparability of financial statements, also their reading and understanding by all internal and external users of accounting information.

Also, monitoring of financial reports was quite rigorous by social accounting service since the economic decisions making were centralized. This also hampered public access to financial reports and thus denied the right to use the information from all interested users which was followed adversely the ability and effectiveness in decision making.

Nowadays, especially, public entities have a direct access to public financial reports by supporting their decision making. Supervision is not centralized as before, but supervision is shared, eg the sector of tax issues is controlled by the Tax Administration of Kosovo, the rest remains for various government agencies, as statistical entities, etc.

The primary goal of those who supervise the financial reporting of enterprises but also the business itself is based on the implementation of international accounting and audit standards to be achieved:

- firstly, the financial management directions from the informal economy to the formal one;
- secondly, to identify the capacity of capital to each businesses as well as Kosovo's business in general;
- the third objective is to be avoided the manipulation, falsification of documents and also the production/output of false book-keeping documents.

The application of international accounting and audits standards necessarily raises the need for professional experts in a significant number. This influence affects the orientation of the growing number of potential jobseekers in training to perform on finance, financial accounting and auditing.

Necessarily the creation of specializations in the field of finance-accounting is expected to bring experts in respective fields of Kosovar enterprises that will affect the employment of a large number of labor force with scientific degrees and specific training but also with knowledge in the field of information technology and communication opportunities in foreign languages, to bring a new quality in Kosovo's business towards increasing cooperation with regional and international open market.

The accounting field in our country has come across many vicissitudes and hardships that characterized it through the years, nevertheless, has been able to achieve a satisfactory development.

However, the need for reform and further development of this field in conformity with accounting standards should still remain on the agenda of professionals of this field, because

the space for continuous change and improvement is still present.

3. The implementation of accounting standards

The clarification and better understanding of the role and function of accounting is essential for understanding the essence of accounting contribution to economic development. Since, accounting is performed based on the implementation of certain standards, it is important to put in practice the level of implementation of these standards.

The overall role and function of accounting in economic development of a country is to produce information for business needs and other stakeholders in society. Any decision made by any parties dealing with public interest is made on the basis of available information. Hence, information quality determines the quality of the decision.

To get a clearer picture of the development of accounting in our country and in the use of accounting information for decision-making framework and implementation to businesses such as accounting standards, is designed and implemented the relevant research, which are based on relevant results, by giving practical effect to this research paper on the basis of recommendations issued by them.

The sample that has been in focus during the implementation of the questionnaire is as follows:

- Independent accountants;
- Accountants employed in small, medium and large enterprises, banks, etc;
- Employees in Tax Administration;
- Directors of small, medium and large enterprises, banks, insurance companies, etc..
- Certified Accountants.

To realize the questionnaire, particularly, the relevant research has been chosen the sample of 50 respondents who have been part of the implemented interview and questionnaire and based on their opinions, the results of this research have been generated.

For the realization of the questionnaire has been used a multi-optional interviewing method for respondents in order to have a lower cost for the provision of information, where the respondents have had the opportunity to respond in the form of options or by giving a specific response.

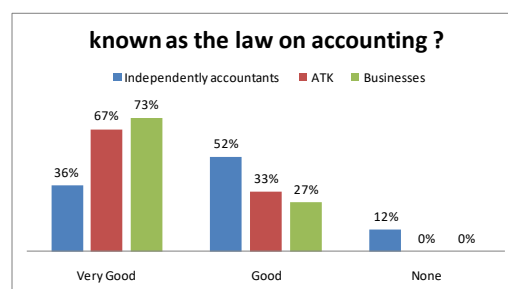
Results of the questionnaire

For the implementation of accounting standards to businesses, firstly, it should be analyzed the level of recognition of these standards by accountants, tax administration staff and business, in order to come to the conclusion that what they are and if they would be likely to

apply these standards successfully at current situation as well as in the future. Moreover, what would be the challenges of these categories for a more transparent reporting and a universal language of business.

Related to the question about the knowledge of the law on accounting (Fig.1.), 36% of independent accountants have responded positively, 67% of respondents in tax administration claimed that they know well the law on accounting, while, the businesses have a higher percentage on the recognition of accounting law where 73% of them answered that they know very good the accounting law.

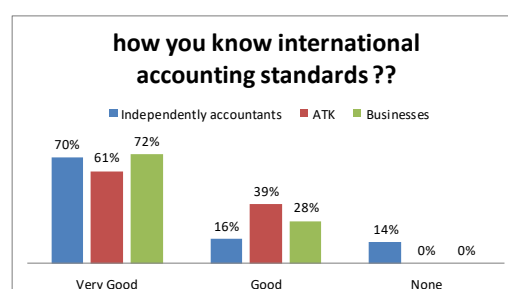
Figure 1. Recognition of the accounting law



The data show that the largest percentage on the recognition of accounting law belongs to businesses, but with all the crucial role that accounting plays for each business, there are still businesses that do not employ accountants.

Related to the question about the recognition of international accounting standards (Fig.2.) The results are as follows: 86% of independent accountants have a very good knowledge of international accounting standards, whereas, tax administration stands with a lower percentage where 61% stated the recognition of IAS. While 72% of businesses know good these international accounting standards.

Figure 2. The recognition of international accounting standards



The data in Figure 2. indicate a positive result on the recognition of international accounting standards by independent accountants, since independent accountants are treated for increasing knowledge of international standards, taking into account the benefits that brings reporting using a unique accounting language. Also, the businesses know relatively good about these standards, while the tax administration have less understanding of international accounting standards, but should work in various forms and methods of training for the possibility of granting recognition of international accounting standards in order to achieve their full recognition and understanding.

In addition to international accounting standards, we should note the existence of two accounting packages in Kosovo, where the question regarding to **the recognition of Kosovo Accounting Standards** (Fig.3.) by tax officers, accountants and businesses, here it is a different situation where 78% of businesses have stated that know Kosovo accounting standards. 68% of Tax Administration recognize them good and 32% not good. While independent accountants recognize 51% good, which justifies the high recognition of international accounting standards in high percentage (Figure 2), nevertheless, it should be considered the fact that 51% of them know the standards of Kosovo as a modified part of the international accounting standards.

Figure 3. Recognition of Kosovo accounting standards



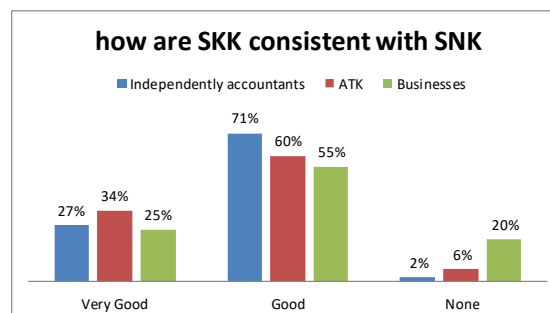
It can be concluded that the mutual recognition of accounting standards is at an appropriate level, but still should be worked to be completely implemented.

Based on the question **how are accounting Kosovo standards consistent with international accounting standards** (Fig.4.), the responses shows that 27% of surveyed accountants, 34% of tax employees and 25% of businesses think that has more coherence between them.

Therefore, based on this situation, it can be concluded that independent accountants and businesses (business accountants) mainly public companies that claimed about knowing these standards, where it is reported with

international standards, have emphasized that there is less coherence between international standards and Kosovo accounting standards. According to respondents the reason for this is that international standards are consistently in pace with the time changes, while Kosovo standards are deemed to be non-to-date, hence, they should follow the changes and movements of international standards.

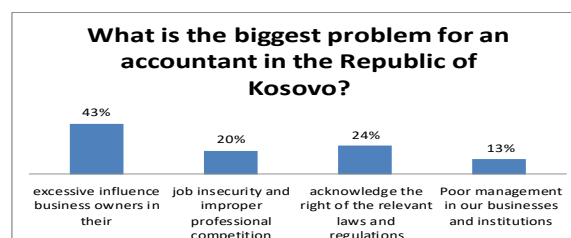
Figure 4. Coherence of Kosovo accounting standards to international accounting standards



Based on the opinions of respondents related to the question of the current level of development of accounting in our country (Fig. 5.) shows that there is a satisfactory level, since 58% of respondents claimed themselves satisfied with the level of development, but it suggests that there must be still the need for advancing, since 40% of respondents are dissatisfied related to the development of accounting in our country.

Also, a problem that affects the performance of an accountant in Kosovo is the excessive influence of business owners in their work that is quite disturbing. Where the question: **what is the biggest problem for accountants in Kosovo** (Fig. 5.) , 43% of respondents stated that business owners have an impact on their work.

Figure 5. Issues/problems confronted by accountants

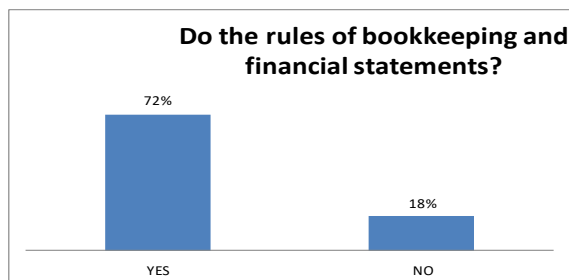


Related to the question directed to accountants about the implementation of the rules for book-keeping and financial

statements (Fig.6.), 72% are responded positively on respecting these rules.

This means that it is a basis for respecting the rules of book-keeping and financial statements construction/regulation, but still should be worked toward the full implementation of these rules.

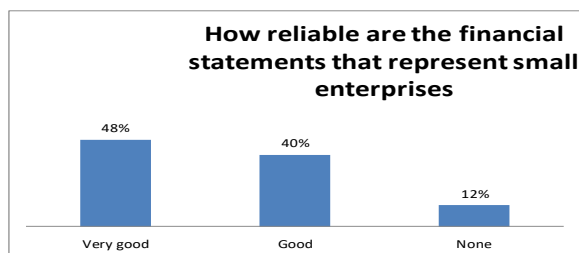
Figure 6. Implementing rules for book-keeping and financial statements



According to the Regulation 2001/30 on the Establishment of the Kosovo Board of Financial Reporting, business entities are required to report in accordance with international and Kosovo's standards of accounting. Therefore, businesses are reported in accordance with standards as stated above, providing real, transparent and reliable financial statements, for all internal and external users.

But, at what level we are currently, related to the question **how reliable are the financial statements of small, medium and large enterprises, banks and insurance companies as well as public companies** (Fig. 7.). The entire group of surveyed accountants of these businesses have claimed that 48% of small enterprises accountants have confidence in financial statements, whereas, 40% believe less in financial statements, while 12% do not believe in the financial statements.

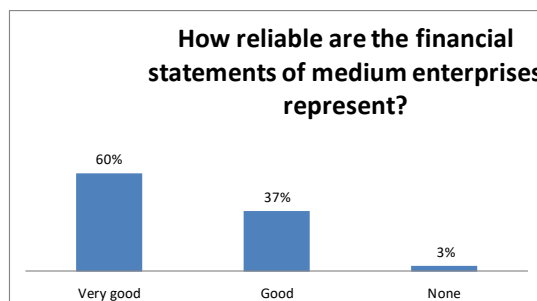
Figure 7. Credibility in the financial statements of small enterprises



60% of accountants of medium enterprises are completely

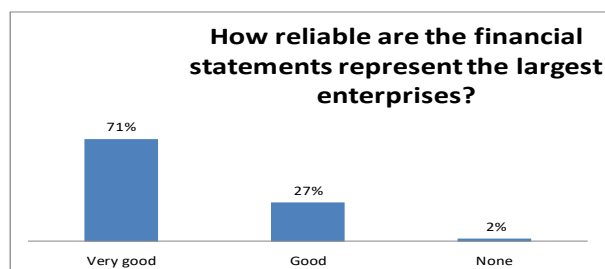
confident in financial statements, while 37% of them claim less credibility.

Figure 8. Credibility in the financial statements of medium enterprises



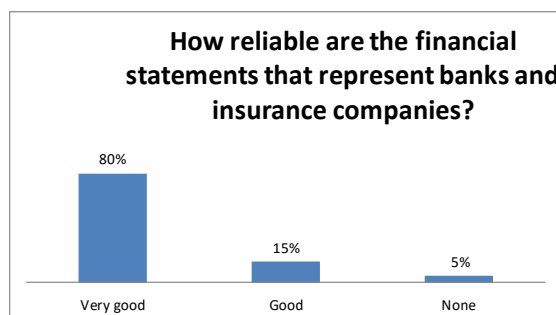
71% of accountants of large enterprises think that their financial statements are reliable, while 27% believe less in the financial information from their financial statements.

Figure 9. Credibility in the financial statements of large enterprises



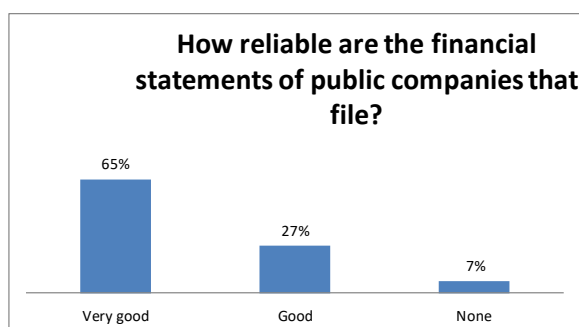
Banks and insurance companies report in accordance with international accounting standards, so the 80% of respondents think that their financial statements bring high credibility, while 15% claim that the level of credibility is lower.

Figure 10. Credibility in the financial statements of banks and insurance companies



Based on the results, 65% of surveyed accountants of public companies claim that their financial statements are reliable, while 27% of them have lower level of credibility in the financial statements.

Figure 11. Credibility of the financial statements of public companies



When comparing the data, it is seen that there is greater credibility to financial statements that are represented by banks and insurance companies in Kosovo in comparison with the financial statements provided by small and medium enterprises as well as public companies.

Conclusion

Despite the development of accounting in Kosovo, which is very important for businesses, taking into account the results of the questionnaire, great work is still needed to be done in order to advance this field.

Hence, it is necessary to work towards the promotion, recognition and enforcement of international accounting standardization because it effects the ability and competence of businesses that prepare credible, transparent and readable financial statements for all users.

From the research results also shows that it is very important to organize training programs for accountants and taxes staff for enriching and advancing accounting knowledge.

It is also important that the financial statements should not be doubtful for non-transparency to public and public access to financial reporting. It is recommended for legal requirements for financial reporting and necessary auditing.

Another issue that needs attention is the ultimate need for relevant bodies to be engaged in awareness of Kosovo business owners to the role of accounting in their business performance.

References

- Ahmeti S.: "Management Accounting". Pristina, 2011
Gjini V. "Accounting and the role of accounting information", Tirana, 2008.
Hansen & Mowen "Cost Accounting, Accounting and Control" fifth edition.
Ingram, Robert, Thomas Albright & Bruce Baldwin: "Financial accounting" Thomson South-Western, 2003
The Financial Accounting prepared by Kosovo Business Support
The doctoral dissertation "The Role of the implementation of international accounting standards to businesses in Kosovo", N. Berisha
SCAAK: "Advanced Audit". Pristina, 2007
Ukaj F.: "Accounting as a source of information for business". Peja, 2008
Tax Administration: <http://www.atk-ks.org/>
Enterprise Information System: [http:// www.ifac.org](http://www.ifac.org)
Kosovo Accounting Standards: [al / offices / sekretariatitkkrfse / standardetkosovaretekontabilitetit.aspx](http://al/offices/sekretariatitkkrfse/standardetkosovaretekontabilitetit.aspx)
International Accounting Standards: ks Pronet Web site, <http://www.luani.net/publikimet-artikujt/items>