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# Accounting systems of Post-Communist Balkan States: Towards accounting harmonization?

Stefania Vignini<sup>1</sup>

## Abstract

This paper is fundamentally designed to provide inputs towards investigation of accounting change, or non-change, within the countries which are generally accepted as constituting 'the Balkan States'.

These countries are Albania, Bulgaria, Romania, Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo. These countries have in common that they are Post Communists. Not all of them are part of the European Union and practically all the countries have experienced very heavy moments of revolution. In the Balkans their specific brand of language-based nationalism and the role of religion as a crucial cultural dimension have hindered the development of civil societies.

The aim of the present research is a comparative historical investigation on accounting systems and standards of the Post-Communist Balkan countries, in order to prove how the evolution of these systems is connected to changes in the socio-economic context and in the cultural tradition.

## 1. Introduction

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Many scientific papers have been dedicated to accounting changes systems in emerging economies and although some recent studies have been focused on former Soviet Union countries (Alexander & Ghedrovici (2013), on the Republic of Moldova; Alexander et al. (2013), on the use of accounting in the U.S.S.R.; Alexander and Alon (2017), on the Republic of Belarus, little attention has been given to international accounting research on the Balkan states.

Furthermore there has been very little academic engagement with populist movements in the post-Yugoslav states. However, there has been a rise of populist parties in the area of Balkan States.

This contribution therefore arises from both reasons. It is true that it belongs *de iure* to the world of accounting but does not neglect some elements related to populism literature. The reason for this “contamination” is because we are really convinced that the two apparently distant topics must walk “hand in hand”. It is not possible to know accounting changes systems without a premise of populist movements in the post-Yugoslav countries. These movements infact influenced the behavior about the choices in the accounting systems.

This chapter is fundamentally designed to provide inputs towards investigation of accounting change, or non-change, within the countries generally accepted as constituting ‘the Balkan States’.

The aim of the present research is a historical investigation on accounting systems and standards of the Post-Communist Balkan countries, in order to prove how the evolution of these systems is connected to changes in the socio-economic/political context and in the cultural tradition.

Through this study we show that Post-communist countries have, *de jure*, intensely changed their accounting systems, implementing a fast harmonization process with the ambition to converge into the European accounting system. On the other hand, as Haller (2002) states, accounting harmonization among the EU represents a political task in the process of achieving a unified European economic market<sup>2</sup>.

Balkan countries are (in alphabetical order), in accordance with Bideleux and Jeffries (2007), Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania

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<sup>2</sup> Haller summarizes accounting differences into four dimensions (Haller, 2002 p.173):

- the scope of regulation which covers foreign or/and domestic companies
- mandatory or optional use of IAS/IFRS or US GAAP
- the obligation of compliance with national GAAP when financial statements are prepared with IFRS/IAS or US GAAP
- the compliance with IFRS/IAS or US GAAP for consolidated financial statements only or financial statements in general.

and Serbia. These countries have in common that they are Post Communists. Not all of them are part of the European Union and practically all the countries have experienced very heavy moments of revolution. Without any doubt the various military conflicts that have ravaged the Balkans in the last two centuries have certainly marked the countries. In reality, Churchill's famous quote are very eloquent and need to be remembered: "the Balkan peoples are loaded themselves with more history than they can bear." Furthermore in the Balkans their specific brand of language-based nationalism and the role of religion as a crucial cultural dimension have hindered the development of civil societies.

The paper is purely deductive (Read, 1914) because the results come from contextual data, clauses or analysis of what aspects covered in theoretical literature in the chosen empirical context and follows a description logic aimed at highlighting similarities and differences.

This work is divided in the following sections: Sect.2 describes literature review about populism and accounting system; Sect.3 presents the accounting systems of Balcan states; finally Sect.4 contains discussion and conclusion.

## **2. Literature**

### **2.1. A brief consideration on the concept of populism**

Before addressing our issue we just want to add a few elements, without any ambition of completeness, concerning the concept of populism. In the course of the work we will then add some interesting references on the populism of the various Balkan countries analyzed.

Populism as a term is traditionally hard to define. One of the first engagements with the term in the academic literature can be found in the works of Ernesto Laclau, who argued that populism is an articulation of popular themes in opposition to the power bloc. His studies, "discursive strategies that contain particular rhetorical techniques and ways of approaching a certain topic" (Jakobson et al., 2012, p.11); "He specifically focused on what he called 'progressive left-wing' populism, which would mobilize the oppressed people (i.e. the working class) against the dominant power bloc. He later expanded his understanding of 'the people' as a driver for social

change” (cit. by Džankić & Keil, 2017, p.404). Urbinati (1998) at page 116 defines populism as “total opposite of liberal and representative democracy”. Populism is like a vent for managing ‘organic crises’ (Gramsci) within a

political system when the institutional system can no longer handle the needs of the people (cit. by Jakobson et al., 2012, p.13).

Ernst Haas (1958), one of the most influential neofunctionalist scholars, defined integration as the process: “whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new centre whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community superimposed over the pre-existing ones” (cit. by Tema, 2011, p.42).

Then populism is a “form of sharply antagonistic political rhetoric and politics, which extremely simplifies problems and offers seemingly easy, painless, sometimes very concrete but most often vague solutions” (Skolkay, 2000, p.2), a “result of a socio-economic, political, cultural or discursive crisis or crises in a society (Skolkay, 2000, p.17).

Furthermore some argue, directly or indirectly, that populism is a legacy of the ideology and/or practice of communism<sup>3</sup>. In particular Carpenter (1997) argues that post-communist countries can be split into two groups, two political “orders”. The first one is “national populism” and the second one is “social democracy”. The first type, national populism, is a result of a specific historical experience. Here we can include, argues Carpenter, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Slovakia and Yugoslavia. In the Balkans<sup>4</sup>, claims Ágh, national populists are to a great degree part of the elite, or indeed in extreme cases they form the elite itself (cited by Skolkay, 2000, p.5). In circumstances of political and economic instability, citizens’ security becomes a salient issue at the societal level.

## **2.2. A brief consideration on the concept of accounting system**

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<sup>3</sup> For example Tökes (1991, p. 230) finds three specific features which distinguish communist regimes from right-wing authoritarian regimes; Greskovits (1998, p. 106) has found seven fundamental similar features between communism and populism in economic policies.

<sup>4</sup>See also: Bailey, D. T. (1990) 'Accounting in the shadow of Stalinism', *Accounting, Organisations and Society*, 513-25; Briston, J. (1978) 'The evolution of accounting in developing countries', *International Journal of Accounting*, 105-20; Chavance, B. (1992/1994) *The Transformation of Communist Systems*. Oxford: Westview; Abdelal, R. (2001). National purpose in the world economy: Post-Soviet states in comparative perspective. Ithaca, NY: Cornell University Press; Blondel, J., (2001), Cabinets in Post-Communist East-Central Europe and in the Balkans, in Blondel et al., *Cabinets in Eastern Europe*, Palgrave Macmillan, a division of Macmillan Publishers Limited; Whittington, G. (2005). The adoption of International Accounting Standards in the European Union. *European Accounting Review*, 14( 1), 127-153.

According to part of the economic literature (Nobes, 1998)<sup>5</sup> the concept of accounting system is not necessarily linked to some basic unit logic, but to different detectable/detected administrative practices. In such a perspective accounting systems are analyzed as a set of practices adopted by different countries.

Between the accounting system and the socio-economic-cultural environment in which each is defined, and constantly develops, there are numerous and intense cause-effect relationships (Doupnik & Salter, 1995; Jayasinghe & Thomas, 2009). For understanding the evolution of a particular accounting system rather than another, it is therefore necessary to analyze the context in which it is inserted, following the temporal evolution of some factors deemed relevant. In order to grasp the evolution of one particular accounting system rather than another it is therefore necessary to analyze its context and the temporal evolution of some key factors.

Many scholars have been committed to understanding the environmental factors which caused the differences in the accounting systems of different countries. Most of them tried to create a classification model highlighting similarities and differences between groups of accounting systems. So in international literature we can divide approaches to the classification of accounting systems, according to the method used, into deductive and inductive approaches.

Deductive approaches (Hatfield, 1966; Seidler, 1967; Nobes, 1998) identify the relevant environmental factors on the basis of personal considerations and at a later stage identify the similar countries and the possible evolutionary paths that have affected the systems accounting.

Inductive methods (Da costa et al., 1978; Frank, 1979, etc.), on the other hand, empirically analyze the accounting practices adopted in the different countries, grouping those countries with similar practices at a later time.

The aim of our analysis is the understanding of the environmental factors which influence the choice to adopt certain accounting practices rather than others. Indeed the most recent<sup>6</sup> developments in the classification of accounting systems and research of the possible causes of differentiation tend to analyze the environmental factors that cause these differentiations (Baydoun & Willett, 1995; Saudagaran, 2004). In fact, to study accounting systems it is necessary to know the political-institutional situation of the socio-cultural value system of the basic choices

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<sup>5</sup> See also: Nobes, C. (2003). On the myth of “Anglo-Saxon” financial accounting: A comment. *The International Journal of Accounting*, 38(1), 95–104; Nobes, C. (2011). IFRS practices and the persistence of accounting system classification. *Abacus*, 47(3), 267–283.

<sup>6</sup>It is, in fact, with 1988, specifically, with Gray's work that a new line of investigation opens up related to the study of the influence of culture on different accounting systems.

in the policies historically pursued by each country. Many factors affect a country's accounting system. Some of those factors can be considered as, politic regime, colonial and other influences, legal system, influence of taxation, the accountancy profession, etc.

The present study belongs to international accounting, taking into consideration the accounting standards currently in force and the context characterized by an increasing importance of the accounting harmonization concept (Hopwood, 1983).

### 3. Accounting systems of Balkan States:

#### 3.1. Albania<sup>7</sup>

Like the other Eastern European countries, Albania switched to the free and open market economy in the early '90s. These changes in the economic system, from a centralized economy to a market economy, presented several requirements regarding the creation of a new legal and institutional infrastructure in all the economic fields and in accounting as well. Deep reforms and innovative measures were needed to build this infrastructure. Politic regime "is the most influential factor in the forming and development of Albanian accounting system in 20<sup>th</sup> century" (Kruja et al., 2008, p.374).

In the process of EU integration (Bogdani & Loughlin, 2004) Albania has been involved in the recent flow of the global accounting<sup>8</sup> by introducing new National Accounting Standards in 2006 that became effective in 2008. The implementation of the new NAS fully complying with the IAS/IFRS<sup>9</sup>, presents a major change in the accounting environment in Albania.

However the first results from these NAS implementation in practice<sup>10</sup> are not those of a 100% success due mainly to "two sets of reasons, one set of a *technical character* – those arising from technical details or difficulties within standards themselves and with application in practice – and

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<sup>7</sup> There are endless examples that demonstrate the EU influence in the sharpening of the levels of populism. In Albania there is much talk of reforms, but lack of any significant progress, and thus more dissatisfaction with politics in general and more politicians rely on populist methods (Tema, 2011, p.62). Decisions are driven from "the need for stability and from the need to eliminate conflicts rather than being a result of inclusive political processes between different actors" (Tema, 2011, p.39).

<sup>8</sup> See among the others: Dean, 2010.

<sup>9</sup> See Albania IFAC.

<sup>10</sup> See, among the others: Duhaxhiu I, Kapllani V., (2012), The relationship between financial and tax accounting in Albania, *The Romanian Economic Journal*, N°43, pp.45-60.

the other set of a *bureaucratic character* – which relate to some delays in publishing the NAS, in offering supportive training session or explaining and guiding materials as well as a weak campaign and publicity about the standards” (Shkurti & Duraj, 2016, p.257).

In 2014, the National Accounting Council of Albania (NACA) performed a major revision of this existing framework of NAS. Even though the NACA tried to avoid differences between the IFRS for SMEs and the Albanian NAS, there were still differences<sup>11</sup>. Nonetheless, “it is important to view the manner in which both platforms may be revised in future” (Shkurti & Duraj, 2016).

### **3.2. Bosnia and Herzegovina:**

Since 1992, Bosnia-Herzegovina (BiH) has been working not only on “building state institutions but has also been working on its socio-economic recovery and development” (Basic, 2008, p.3). Prior studies explain the early adoption of the IFRS according to firm-specific benefits (Renders & Gaeremynck, 2007). In FBiH, international accounting standards (IAS) started to be used on the 1st of January, 1995.

The Law on Accounting and Auditing of Bosnia and Herzegovina (BiH No. 42/04 of 2004) requires mandatory application of IFRS and IFRS for SMEs as issued by the IASB and translated into national languages for all legal entities, depending on their size. The Accounting and Auditing Commission of Bosnia and Herzegovina (AACBiH), a non-governmental independent professional body, under the BiH Law No. 42/04 is responsible for the translation and publication of the standards into the national languages<sup>12</sup>.

Many processes related to modernizing society and the economy take place alongside the post-war recovery<sup>13</sup>. The reform process is fueled by the general idea of introducing internationally accepted and recognized standards in the sectors of reporting, auditing and education in this field.

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<sup>11</sup> For example there are some discrepancies: that relating to the presentation of financial information in the financial statements or the treatment of financial instruments and the business combinations.

<sup>12</sup> See Bosnia and Herzegovina IFAC.

<sup>13</sup> See among the others: Stipic I, *Socio.hu, Special issue 2017*, Constructing 'the people' Citizen populism against ethnic hegemony in Bosnia-Herzegovina in the light of the 2013– 2014 protests; Guzina, D. (2005) How Multiethnic is Democracy in the Balkans: The Case of Bosnia. Paper presented at the annual meeting of the International Studies Association, Hilton Hawaiian Village, Honolulu, Hawaii.



The processes penetrate all fields and all levels, whereas the accounting reform, especially passing of appropriate regulations that provide for introduction and application of IFRS (Basic, 2008).

These and other processes are all “aiming to achieve one sole goal – creation of a modern and developed state that will be a member of the EU and that will have its place in the world” (Basic, 2008, p.3).

However in 2008 Basic worried about the problems with IFRS and in the same way Ergun & Öztürk (2011) investigate the problems with the implementation process of the International Financial Reporting Standards (IFRS) in Bosnia & Herzegovina. The authors indicate that companies do not have enough information about the IFRS, and that “insufficient regulation, educated staff and material and inadequate efforts on the part of policy makers have had a significant negative influence on the implementation process” (Ergun & Öztürk, 2011, p.365).

### 3.3. Bulgaria

Bulgaria is “formally” a people’s republic since 1946, when he entered the Soviet sphere of influence after the Second World War. In 1990, after the dissolution of the URSS, it became an effectively independent republic with a new Constitution. At the same time, a new process towards democracy and market economy began with a troubled transition to achieve democracy<sup>14</sup> and the market economy<sup>15</sup>. Since 1998 Bulgaria has undertaken substantial changes in the national accounting legislation<sup>16</sup>, mainly based on the fundamental principles underlying the IAS. Consequently there has been a process towards the international accounting standards as opposed to the principles contained in European directives. Therefore a new transition process started in Bulgaria, from the Continental European model to the Anglo-Saxon model, entirely based on the application of IAS/IFRS (Sucher et al., 2005). This process required a new accounting legislation at a national scale, started in 1991, with the enactment of a “Law on Accounting” and

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<sup>14</sup> See among the others: Malinov, S. (2007). Reflections on Bulgarian populism (Размисли за българския популизъм). *Critique and Humanism Journal*, 23, 71–84; Medarov G. (2015), *The transformations of liberal anti-populism in post-1989 Bulgaria Populismus*, Working Papers No. 2, Thessaloniki; Miscoiu, S. (2014). Balkan populisms. *Journal Souteastern Europe*, 38(1), 1–24; Krasteva A. (2016) *The Post-Communist Rise of National Populism: Bulgarian Paradoxes*. In: Lazaridis G., Campani G., Benveniste A. (eds) *The Rise of the Far Right in Europe*. Palgrave Macmillan, London. [https://doi.org/10.1057/978-1-137-55679-0\\_7](https://doi.org/10.1057/978-1-137-55679-0_7)

<sup>15</sup> Report on the observance of standards and Codes (ROSC), October 2007, p. 1 "Since 1990, Bulgaria had a successful transition toward political democracy and moving to a market economy, while fighting inflation and unemployment".

<sup>16</sup> See also: Boyanov, 2012; 2014; Basheva & Boyanov 2015.

the endorsement of a “National Chart of Accounts”. This law regulated the organization of accounting in a mixed economic system, due to the still dominant number of state-owned enterprises. It contained not only rules on the content of financial statements, its structure and assets assessment, but also provisions about bookkeeping for private companies<sup>17</sup>. After the endorsement of this Law on Accounting, the first steps were made towards some legislation suitable for a market economy model. The attention was directed to the adoption and consequently the adaptation of International Accounting Standards and predominantly the provisions of some European directives. For this reason the accounting standards contained in the Law on Accounting are similar to those contained in the Fourth Directive, taking of course into account the particular Bulgarian tradition and its accounting cultural context.

In January 2002 the new Law on Accounting entered in force, while in June of the same year a new model of National Chart of Accounts was introduced, which was recommended by law, though not mandatory.

However a fundamental step in Bulgarian history was definitely its entry into the European Union on the 1st January 2007. This resulted in the transposition of EU directives also in accounting and the mandatory adoption of IAS/IFRS provided for by EU Regulations. From January 1, 2007 up to this moment, in the Law of Accounting are made substantial changes and amendments that affected the organization and methods of accounting<sup>18</sup>.

The Accountancy Act of 2015 stipulates the accounting standards that are applicable in Bulgaria, and prescribes application of IFRS as endorsed in the European Union (EU) and published in the EU Official Journal.

As of January 1, 2017, all public interest entities<sup>19</sup> are required to apply the IFRS as adopted by the EU. All other entities are required to apply the National Accounting Standards set by the Ministry of Finance. Entities that were applying IFRS before and that are not public interest entities in 2017 may choose to start applying the National Accounting Standards. IFRS for SME has not been adopted and there are no immediate plans to adopt the standard for application in Bulgaria<sup>20</sup>.

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<sup>17</sup> It must be emphasized that this feature is still present in the current version of the law.

<sup>18</sup> See also Environmental Accounting: conceptual Framework, in Baldarelli M.G., Del Baldo M., Nesheva-Kiosseva N., (2017), *Environmental Accounting and Reporting, Theory and practice*, Springer.

<sup>19</sup> Public interest entities, regardless of their size, are (i) issuers of securities on a regulated market in an EU Member State; (ii) credit institutions; (iii) insurance companies; (iv) pension companies and funds managed by them; (v) state and national railways; and (vi) companies providing water and sewage services as a major activity.

<sup>20</sup> See Bulgaria IFAC.

### 3.4. Croatia<sup>21</sup>

Croatia is a republic founded in 1991, after the breakdown of the former Yugoslavia. The conflicts and the separation from Yugoslavia slowed down the transition process and the accounting reforms (Džajić & Monšnja-Škare, 1997, p.486).

In the early nineties an important event took place in the Croatian economy: the transition process from a planned economy based on social property towards a market economy, focused on free market laws and private property in the means of production. This process was characterized by numerous company restructurings and privatizations thanks to the creation of the Croatian privatization fund (Betti, 1997; Kesner, 1997).

Despite the changing economic climate and the financial distress which was affecting Croatia in those years, small and medium-sized enterprises could resist mainly thanks to their flexibility (Baldarelli et al., 2007).

Accounting aimed at applying rules and meeting the information requirements provided by a planned economy, with a high degree of state regulation and a strong influence of the legal system<sup>22</sup>.

The reforms transformed a uniform and passive accounting system into a modern one, which was similar to those of developed countries and was more in line with its new role and function.

The Accounting Act (1992) had an investor-oriented approach and was therefore focused on the capital market. The growth of risk capital market was crucial for the development of the whole economy and it was based on the protection of investors by providing transparency, high quality and true and fair information in financial statements.

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<sup>21</sup> Grbeša, M., Šalaj B. (2017), Populism in Croatia: The Curious Case of The Bridge, *Annals of the Croatian Political Science Association: political science journal*, Vol.14, No1, pp.7-30.

<sup>22</sup> See also: Gulin, D., Ferdo, S., Vasicek, V., Lajos, Z. (2002), *History Of Accounting Regulation In The Europe And Its Effects On The Accounting Regulation In Croatia*, working Paper, Faculty of Economic Zagreb, p. 19. The authors say: "In Croatia, the accounting regulations are defined by the Accounting Law. In its basic parts (contents of financial statements and assessment principles) it is based on the EU Directives. However, at the same time it stipulates the direct application of IAS for all the entities ("enterprises") regardless whether or not listed on the financial markets. The obligation of direct application of IAS is the realisation of the accounting harmonisation process. However, thereby small companies (not listed) obtain a law of 2448 articles, which is unsustainable and requests a logical rationalisation in future. The potential models of accounting regulations in Croatia should be based on the criterion accepted in the developed countries. That means separate definition of regulations for the entities» not listed from the regulations for the entities listed on the financial markets. The latter should primarily harmonise the accounting regulations through direct application of IAS".

This was the reason why International Accounting Standards, were introduced by law and were made mandatory for all companies, regardless of their sizes. Moreover, medium-sized, large and listed companies had to publish their financial statements, while small-sized enterprises were exempted from this obligation. Small-and medium sized enterprises could draft a condensed financial statement, thanks to the influence of European directives. Nevertheless there were no exemptions for the application of IAS: indeed it was not possible to amend those standards or adapt them, because they had to be implemented exactly as they had been translated and published.

Croatia adopted international standards invasively but the problem<sup>23</sup> became immediately apparent. In fact, markedly investor-oriented principles require the presence of companies dependent on capital market financings, whose main financial statement users have to be external subjects. In the Croatian reality, instead, SMEs were predominant<sup>24</sup> and had no particular interest in external investors (Dimitric, 2008). In this situation, some simplifications and amendments were necessary in order to make the legal framework more flexible for most Croatian companies, SMEs indeed.

In 2005 another Accounting Act was issued. From then on, full international accounting standards as of 2004 became mandatory only for public companies, large enterprises and companies listed on official stock markets. The other entities could choose whether complying with full IAS/IFRS or adopting exclusively IAS (thus excluding IFRS) as of 2000. Unfortunately, also the amendments in the second Accounting Act were not sufficiently appropriate for SMEs.

Afterwards the strategy pursued was to require the application of full IAS/IFRS exclusively for large and listed companies, while the others had to comply with Croatian Financial Reporting Standards (CFRS), whose scheduled publication was the end of February 2008.

The opening of markets, the globalization and the recent (2013) entry into the European Union allowed the development of a process of simplification of procedures and laws (Mamić Sačer et al. 2007). This has left the field to regulations of a lower rank, which were more suitable for sudden changes and for accounting principles issued by professionals. Since 1 July 2013 Croatian companies listed in an EU/EEA securities market follow IFRSs<sup>25</sup>. In particular enterprises rated on

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<sup>23</sup> See also, among others: Baldarelli, M.G., Demartini, P., Mošnja-Škare, L. (2007), *International Accounting Standards for SMEs: Empirical Evidences for SMEs in a Country in Transition and a Developed Country Facing New Challenges*, Zagreb.

<sup>24</sup> Only in 2009 out of 91,320 companies 436 were classified large (of which 210 listed), 89438 small (98%) and 1446 medium.

<sup>25</sup>The European Commission (EC) periodically issues a document which summarises the use of options of the IAS Regulation by European Union Member States.

the stock exchange and medium and large enterprises must construct their financial reports according to international accounting management standards and EU guidelines. However, small enterprises and craftsmanships must conform with Croatian Financial Reporting Standards<sup>26</sup>.

### 3.5. Kosovo

Kosovo during the period of the war and occupation<sup>27</sup> for dozen years, it begins its transition from a starting point which was very difficult. Nineties was characterized in Kosovo with very poor economic policies, weak financial institutions, very high unemployment rate where it is estimated that over half of the population were unemployed besides that, also among them the poverty was more evident.

The transition of the reconstruction phase after the war was very fast due to the enormous financial assistance and international expertise, as well as diaspora remittances coming from around the world<sup>28</sup>. This has had a positive impact on economic and social development, as well as comprehensive economic sustainability of the state of a newborn that was under development. Like many countries of Eastern Europe that suffered some year after the transition of the systems change social-economic and political liberal and democratic transition in Kosovo has not been completed, but is ongoing.

Immediately after the war of 1999, the business environment, takes another direction due to the lack of public institutions in terms of market regulation and organization of the accounting system. This has been a time of art for many new entrepreneurs where Kosovo had the opportunity to benefit from this period since businesses were not obliged to pay any taxes on their business activities. The interim government formed at the time were alongside and supported mainly by international donations that come mainly from the EU countries and the US.

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<sup>26</sup> See Croatia IFAC.

<sup>27</sup> Among the most interesting papers on the subject we recommend: Smajljaj, A. (2020), Populism in a never ending and multiple system transformation in Kosovo: the case of *Vetevendosje*, *Journal of Contemporary central and Eastern Europe*, vol.28, pp199-223; Yabanci, B. (2016), Populism and Anti-Establishment Politics in Kosovo: A Case Study of *Lëvizja Vetëvendosje*, *Contemporary Southeastern Europe*, No 2, pp.17-43. In particular the author says: "Few studies have systematically examined the rising political and social unrest in the Balkans. This paper investigates the local dynamics and consequences of widespread anti-establishment discontent in Kosovo through the analytical framework of populism" (p.17).

<sup>28</sup> See: Allu, M., Sahiti, A., Sahiti, A., (2016), Business Environment and Accounting System in Kosovo: Comparison of Different Periods, *European Journal of Economics and Business Studies*, Vol.6, n.1, pp.36-40.

The focus of International Community was interested on the political aspects, preservation of security and stability, due to lack of legislation of the new state of Kosovo, the structure of the system of accounting, compilation and submission statements and financial reports and control was organized by the earlier Yugoslavia.

Year 2001 marks an extraordinary reach in the field of accounting system in Kosovo after the approval of UNMIK Regulation 2001/30. With this law, it was formed the Kosovo Board for Financial Reporting Standards (KBFRS) that determines the standards in relation to an accounting of business obligations and audits that are required to be exposed including internal stakeholders and external. Accordingly, regulatory structures was created for accounting and auditing (UNMIK, 2001).

On the other hand, all the small and medium enterprises are obliged to prepare the financial statements on the basis of the tax rules in effect<sup>29</sup>.

The Law No. 06/L-032 on Accounting, Financial Reporting and Auditing requires all business organizations registered as limited liability companies or shareholder companies in Kosovo, depending on their size<sup>30</sup>, to apply either IFRSs or IFRS for Small and Medium-sized Entities (SMEs) as translated into Albanian and approved by the Kosovo Council for Financial Reporting (KCFR).

### 3.6. Macedonia<sup>31</sup>

In the process of reformation in the sphere of accounting and financial reporting, Macedonia decided to implement the IASC's IAS in 1998 and to use the same in practice.

Macedonia respects the IFRS rules and regulations in matters of accounting<sup>32</sup> and business operations in optimal conditions and according to the Company Law of the Republic of Macedonia,

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<sup>29</sup> It is worth mentioning that in 2006, Kosovo became part of the free trade agreement CEFTA (Central European Free Trade Agreement) by joining Albania, Serbia, Montenegro, Macedonia, Bosnia and Moldova. Furthermore, Kosovo has managed to have access to the EU market based on the project of autonomous union preferences and preferential treatment won for some products to be exported to the US (MT1, 2011). This has led to the liberalized economics gradually but rapidly so that Kosovo be in the same trend and stage of development with other countries in the region.

<sup>30</sup> Large companies that meet two of the three size criteria must use full IFRSs; medium and small companies may use either full IFRS or IFRS for SMEs. Micro-sized entities below the specified size criteria must follow simplified standards issued by the KCFR that are based on IAS as they existed in 2001. Under the Law, all companies may elect to directly apply IASB-issued standards (see Kosovo IFAC).

<sup>31</sup> See, among the others: Bosilkov, I. (2019), Media populism in Macedonia: Right-wing populist style in the coverage of the "migrant crisis", *Central European Journal of Communication*, (2019), No: 23, pp. 206-223; Petkovski, L. (2016), Authoritarian Populism and Hegemony: Constructing 'the People in Macedonias illiberal discourse, Ljupcho, *Contemporary Southeastern Europe*, No: 2, pp. 44-66.

<sup>32</sup> See, among the others Dean, 2010; Hadzi, 2010; 2011.

commercial entities, large and medium commercial companies, firms in the banking sector, branches and subsidiaries must respect the IFRS standards in matters of accounting<sup>33</sup>.

According to the Trade Company Law, the financial statements for the required entities must be prepared according to the IFRS. As Whittington (2005, p. 127) points out, “several 'transition' economies of Eastern Europe which did not have established local standards, were either adopting or permitting the use of international standards”. That was the case in Macedonia. Adopting the International Accounting Standards as national standards was thought to be the best tool for building a comparable and transparent financial reporting system that would help investors make informed financial decisions.

However, it was soon realized that the legal setup, especially if it was not perfectly instituted, was not sufficient to serve the goals for which it had originally been put in place (Markovska, 2005, p. 3).

Indeed Macedonia (as well as Slovenia) are making serious attempts in harmonizing their accounting and financial reporting norms on a global level (Markovska, 2005, p.25).

The objective of Macedonia to become part of the European Union imposed the need for aligning the Macedonian legislation with *aquis communautaire* including the accounting and financial reporting legislation<sup>34</sup>. In order to undertake such compliance, some adjustments to the current legislative and accounting environment must be done first.

Harmonization of the national accounting standards with IFRS was also necessary<sup>35</sup>. Furthermore implementation of IFRS for SMEs increases the accounting quality but Shukran & Jeton in 2011 wrote “it would be interesting to witness what lies ahead, but always recalling that this is going to be a challengeable process with much difficulty” (Shukran & Jeton, 2011, p.60).

### **3.7. Montenegro**

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<sup>33</sup> See Macedonia IFAC.

<sup>34</sup> See, among the others: Andonov, 2010.

<sup>35</sup> Kozuharov et al. say: “A strategy that synchronizes the variables of this research, an adequate qualification of certified accountants, managers with higher level of education and training particularly in medium, small and micro entities, an acceleration of the full implementation of the Regulation on accounting with the establishment of the Institute of certified accountants, as well as institutional monitoring and control of the correct application of international financial reporting standards and the application of the Code of Ethics, and therefore, reducing the timeframe for convergence of international regulations with national regulations and ensuring complete harmonization of financial reporting based on International Financial Reporting Standards in the Republic of Macedonia, will facilitate the sustainable development of Macedonian companies and will indirectly influence on the economic development of the country” (Kozuharov et al. 2015, p.240). See among the others: Koleva et al., 2020.

In the case of Montenegro, the first signs of dismantled security appeared in the late 1980s, with the failure of the project of Yugoslav socio-economic reconstruction. The socialist economy that guaranteed people a sense of stability suffered from rapid decay. This process intensified with the collapse of the common state at the beginning of the 1990s. The wars in the neighbouring republics and the hyperinflation in 1993 evoked a societal crisis and increased the people's dependency on the decisions taken by the political leadership (Džankić & Keil, 2017, p.412)<sup>36</sup>.

The aim of the paper of Jocović and Milović is to analyze the quality of the legal solutions contained in the regulation of accounting and auditing in Montenegro. The research into the area has been carried out by taking into account the needs of harmonization of the Montenegrin legal system with that of the EU, but also in relation to the necessity of solving the many problems posed by the practice of implementation of the earlier legislation. The authors put forward the conclusion that harmonization process in the area of accounting law should contribute to strengthening the competitiveness of the national economy and improving the legal security of holders of material interests.

The Law on Accounting No. 052 of 2016 requires that all legal entities prepare financial statements in accordance with IAS/IFRS as issued by the IASB and translated and published by the Institute of Certified Accountants of Montenegro.

The latest version of IFRS translated into the Serbian language is the 2009 version and several standards from the 2013 Bluebook, which were translated by the Serbian Association of Accountants and Auditors. IFRS for Small- and Medium-sized Enterprises (SMEs) was translated in 2013 but is not mandatory for application<sup>37</sup>.

A final consideration must be added. IFRS Standards are not currently translated into Montenegrin. Languages in official use in Montenegro are Serbian, Bosnian, Albanian and Croatian. Translations of IFRS Standards into those languages are available but the Serbian translation is generally used.

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<sup>36</sup> These sentences are very interesting : “Ever since it became independent in 2006, Montenegro has steadily progressed in its ambition to accede to the European Union. Even so, a new form of populism, dominated by neither a far-right nor a far-left discourse, but controlled by leading political elites in the country's government has developed in Montenegro. This form of populism is not a mechanism of ensuring the dominance of the Democratic Party of Socialists (Demokratska Partija Socijalista Crne Gore, DPS) in Montenegro per se. Instead it is used as a tool to support and enhance other mechanisms that the party utilizes in order to stay in power and remain the dominant force in the country. Hence, we can observe the growth of a new kind of populism, a state-sponsored populist discourse that is very different from populism as understood in Western Europe. What we find in Montenegro is a government that uses populist language and messages to support a clientelistic state system” (Džankić & Keil, 2017, p. 403).

<sup>37</sup> See Montenegro IFAC.



### 3.8. Romania

Several studies have examined a wide range of issues related to IFRS adoption in Romania (Lapters & Popa, 2009; Albu & Albu, 2014). Furthermore Romania, as a full member of the EU since 2007, could be expected to be, in transition economy terms, a leader in the process of change and development.

Under communism, Romania's accounting system was rather an adjustment of the Soviet accounting system (Bailey, 1995; Richard, 1995). The redefinition of the accounting system after the fall of communism<sup>38</sup> was of French inspiration (Nistor & Filip, 2008; Albu et al., 2011), motivated by "essentially political and cultural (not technical) reasons" (Richard, 1995) and "close cultural and economic ties between Romania and France" (Albu et al., 2011).

In 1991, the Accounting Act 82 was issued and became the backbone of the Romanian accounting regulations. Specific instructions have subsequently been provided by Orders of the Ministry of Public Finance (OMPFs), to bring the former socialist country closer to Western Europe. The first step was made in 1999, toward both the Fourth Directive and IAS<sup>39</sup>.

Between 2005 and 2015, the national regulation was further harmonized with the Fourth and the Seventh Directives. Currently, the accounting of unlisted companies, for both individual and consolidated statements, is regulated by the enactment of the Accounting Directive. Listed companies follow IFRS.

One of the takeaways was that gradual implementation of IFRS was deemed to be the most effective strategy. In Romania's case, they started with only 13 large entities that were required to report under IFRS, and slowly moved toward banks and credit institutions<sup>40</sup>. Now all domestic

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<sup>38</sup>Dragoman, D. (2020) "Save Romania" Union and the Persistent Populism in Romania, Problems of Post-Communism, DOI: 10.1080/10758216.2020.1781540; Dragoman, D. (2016), Does Looking for Political Success Mean Undermining the Parliament? Populism and the Institutional Weakness in Romania, *South-East European Journal of Political Science* 4 (1):63–79; Mungiu, P.A. (2018), Romania's Italian-Style Anticorruption Populism, *Journal of Democracy* 29 (3):104–16. doi:10.1353/jod.2018.0048.

<sup>39</sup> See among the others: Dutia, 1995.

<sup>40</sup> The very interesting study of Albu and other authors (2013) investigates the perceptions of stakeholders involved in financial reporting in four emerging economies (the Czech Republic, Hungary, Romania, and Turkey) regarding the possible implementation of IFRS for SMEs, in terms of costs, benefits, and strategy of adoption. The authors say that there is more support for IFRS for SMEs implementation in these four countries than suggested by the results of the European Commission's 2010 consultation for the European Union. Interviews indicate the most support for the convergence approach. However, users oppose convergence and prefer the adoption of IFRS for SMEs".

companies<sup>41</sup> whose securities trade in a regulated market are required to use IFRS Standards as adopted by the EU in their consolidated financial statements<sup>42</sup>.

### 3.9. Serbia

In Serbia, the beginning of complying accounting regulations, their standardization and deregulation of the legal regulation in favor of the professional regulation is connected with the mid-nineteen-eighties<sup>43</sup>, when there were significant investments in the agricultural production in Old Yugoslavia made by the World Bank. During the year of 1986, the Federal Executive Council (FEC) signed an agreement of the preparation, adoption and disclosure of the Yugoslav Accounting Standards (YAS) with the Federation of Accountants and Financial Workers. After that, the Act on Financial Business Operations was reached as well as the mentioned one – Act on Accounting. They prescribed an obligation of keeping business books and preparing financial reports by competent people and an obligation of complying accounting licenses with the accounting standards and accounting principles. The Act on Accounting<sup>44</sup> has made the Federation of Accountants and Auditors of Serbia more significant, due to their dedication to the translation and implementation of the accounting standards and other business regulations, education of professional accountants and auditors etc.

The December 2002 modification of the Act of Accounting, upon proposal for the modification made in the month of July in the same year, conditioned the elimination of the provision on rule of

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<sup>41</sup> There are two tiers of Romanian Accounting Standards applicable to SMEs in Romania under Ministry of Finance Order no 3.055/2009. Both sets of standards differ from the *IFRS for SMEs* Standard. The more comprehensive set of standards applies to SMEs that meet at least two of the following three size tests:

- total assets: more than €3,650,000.
- net turnover more than €7,300,000.
- number of employees more than 50.

<sup>42</sup> See Romania IFAC.

<sup>43</sup> See among the others: Lutovac Z., (2020), Populism and the Defects of Democracy in Serbia , *Horizons: Journal of International Relations and Sustainable Development* , N°15, pp. 192-205; Guzina, D. (2021), Through the 21st century looking glass: Liberalism, democracy, and populism in a pre-Yugoslav Serbia. *Nations and Nationalism*, pp.1– 14. <https://doi.org/10.1111/nana.12715>

<sup>44</sup> In 1992, as a certified professional organization, the Federation published thirty Yugoslav Accounting Standards; in the year of 1993, it reached two specific Yugoslav accounting standards: YAS 31 – Needed expertise of a person keeping business books and preparing accounting reports, and YAS 33 – Accounting software which serves to identify accounting licenses and standardization of the accounting software. It can be said that, in the year of 1993, the Federal Republic of Yugoslavia had a professional regulation complied with the international professional regulation, and five years later, YAS 34 – Consolidated Accounting Report was reached. The Act on Accounting was modified and amended for several times.

assessing the positions of the balance sheet and profit and loss account and the acceptance of the IAS for assessing positions of financial reports.

At the beginning of the year of 2010, changes in the Act contributed to the harmonization with the EU provisions in order to enhance the quality of financial reporting. Compared to the previous Act from the year of 2006<sup>45</sup>, the new Act was more precise and accurate in its provisions, there was more control and it stipulated strict measures to be taken against those who are all but disciplined in financial reporting.

All enterprises from the largest listed companies to the smallest unincorporated proprietorships must comply with IFRS. In fact, it has been said: "A consistent application of the IAS/IFRS contributes to the credibility of financial reporting" (Vukelić et al. 2011, p.103).

The feeling is that, as the authors say "The reaching of a novel Act on Accounting and Auditing would create suitable regulatory conditions for the standardization of financial reporting, which stands for one of the conditions for Serbia's joining the European Union" (Vukelić et al. 2011, p.103).

The MoF adopts IFRS as translated into Serbian and published in the Official Gazette for the preparation of the financial statements of large companies and Public Interest Entities as defined in the Law on Accounting. It also adopted IFRS for SMEs for application by small- and medium-sized entities, and grants medium-sized entities the option to use IFRS. Micro entities may choose to use IFRS for SMEs<sup>46</sup> or the requirements in the National Rulebook for Accounting and Financial Reporting, which the MoF is in the process of redrafting<sup>47</sup>.

#### **4. Discussion and conclusion**

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<sup>45</sup> The legal regulation also consists of the Decree of Budget Accounting (The Official Gazette of the Republic of Serbia", No. 125/03 and 12/06), Act on Budget System (The Official Gazette of the Republic of Serbia", No. 9/02 and 86/06) and Rule Book on Standard Classification Framework and Account Plan (The Official Gazette of the Republic of Serbia, No. 20/07 and 63/07), Act on State Audit Institution and all the rule books and schemes which arise from them (The Official Gazette of the Republic of Serbia", No. 20/07 and 63/07).

<sup>46</sup> As of 2020, the 2020 version of IFRS and the 2015 version of IFRS for SMEs have been translated into Serbian and are required for application.

<sup>47</sup> See Serbia IFAC.

In reference to the Balkan countries transition<sup>48</sup> economies generally do not have an established accounting and auditing tradition. They often lack a strong professional accounting body, if they even have one at all. Accounting and auditing systems may be inadequate (Thompson, 2016) or non-existent. Also, one of the largest issues is the shortage of a skilled professional accounting workforce in many nations.

Given that widely distinct countries are included in that category, the structural transformations that take place and the resulting structures have similarities but also distinctive features. CEE transition economies tend to be rooted in a code-law tradition and are associated with concentrated ownership and low regulatory quality (Albu & Albu, 2014).

We believe there are important contributions that can help us make brief conclusions. The first one is a fundamental paper written by Bailey (1995) that discusses a theoretical construct as a frame of reference for understanding the possibilities for, and the nature of, accounting change in the former socialist countries of Central and Eastern Europe<sup>49</sup>.

The paper of Bailey (1995) deals with accounting in transition in the transitional economy and claims: "The immediate effect of the attempt to break free from the accounting regime of the era of centrally planned economies has been the spread of accounting disharmonization among the former socialist countries. In some countries accounting reform has been confined to a slimming down of the existing accounting system (e.g. in the USSR). In some countries there has been a false start to accounting reform. In other countries there has been apparently steady progress in accounting reform" (Bailey, 1995, p.619).

Since Bailey wrote his introductory article, the focus on accounting change in the CEE has been the further implementation of international financial reporting standards (IFRS) for local enterprises. The requirement for group listed enterprises to prepare IFRS reports from 2005 "is established in most transitional economies, but it is still unclear to what extent other enterprises will prepare IFRS financial statements" (Sucher et al. 2005, p.574)<sup>50</sup>.

Indications are that "in most of the transitional economies of Eastern and Central Europe, other non-listed enterprises will not have to prepare financial statements according to IFRS" (Sucher et al., 2005, p.574).

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<sup>48</sup> The term transition economies is typically used to describe countries adopting market reforms and changing from a centrally planned to a market economy (Alon & Hageman, 2013).

<sup>49</sup> See also: McGee, R., & Preobragenskaya, G. (2006), *Accounting and financial system reform in Eastern Europe and Asia*. USA, Springer; Petrakos, G. C. (1996), The regional dimension of transition in Central and East European countries'. *Eastern European Economics*, 34(5) September/October: 5–38.

<sup>50</sup> In Bulgaria and Croatia it is already required that all enterprises prepare IFRS financial statements (ROSC, 2002a, 2002b).

On the other hand international accounting literature provides evidence that IFRSs improve accounting quality (Daske & Gebhardt, 2006) and potentially reduce the cost of equity capital (e.g. Barth et al., 2008). However the adoption of IFRSs has raised several questions and concerns.

In 2008 Nobes and Parker argue that “if a number of accountants from different countries, or even one country, are given a set of transactions from which to prepare financial statements, they will not produce identical statements” (p.4), though there are endeavors to reduce them particularly by International Accounting Standards Board (IASB).

Furthermore Alexander and Alon (2017) say: “different objectives of IFRS and local reporting contribute to dual institutionalities of standards where differing formats target the needs of diverse users. Thus, adoption through layering is unlikely to contribute to convergence between different reporting standards used for different purposes, and parallel reporting is expected to persist”.

Then, in the final part of paper the authors say: “it is important to recognize that the adoption approach utilized will impact the possibility of convergence between national and IFRS reporting. Dual institutionalities of accounting standards is perpetuated due to the adoption through layering” (Alexander & Alon, 2017, p.276).

For example it must be noted that even Macedonia uses full IFRS, in fact it “derives the accounting rules from these standards, however, still there are differences in accounting practices. Translation and understandability was pointed out by our respondents as problems in using IFRS” (Shukran & Jeton, 2011, p.58).

We must highlight that the economic globalization have contributed to the need of creating a unified language for international communication, a unique set of international financial reporting standards “with the sole purpose to strengthen the transparency for investors, and reduce the capital price” (Kozuharov & Georgievska, 2018, p.1597).

For Alexander et al. (2018) “harmonization of different socially constructed realities is more important than harmonization of different socially constructed words” (p.1975). But for the authors this is also logically impossible.

The fundamental passage with which we agree is precisely that “the only way to achieve harmonization is to change one or more socially constructed realities until they become identically constructed. The underlying conceptual understandings are likely to differ across communities, including communities of different user groups arising from the different perceived purposes of financial reporting in the first place” (p.1975).

Balkan countries have recently moved towards a market economy and many of these countries are currently part of the European Union. The economic systems have a limited number of listed companies and a huge number of small and medium-sized enterprises – even micro-enterprises. On the other hand, the accounting rules in force are very different. At the time of their transition to the market economy from the collectivist one, they adopted an accounting system close to the setting of international standards. The choice seems understandable, given that these countries were completely devoid of accounting traditions referable to the free market.

However the accounting scene across the former socialist countries “has become immeasurably more diverse and complex” (Zeghal & Mhedhbi, 2006, p.619). It is possible to affirm that the accounting system in the Balkan countries is moving towards IFRS, to gain access into international markets, but again having the traces of the old system where the state persists to shape the accounting notion.

In addition, we want to affirm that, from a superficial view, the Balkan countries seem to have adopted the international accounting principles. However, it is different to affirm complete harmonization with international standards because we must not neglect the problem of language (Searle, 1995; 2009) and comparability, which “complicates” the correct translation / interpretation of the international standards.

Language influences the way we think(...) and often the choice of an inappropriate label in the translation of accounting terminology is detrimental to international accounting communication and creates problems for users (Evans, 2004). Furthermore Evans (2010) says: “language change in accounting, including transmission between languages and cultures, can inform accounting historians about the transfer of technical developments, as well as about socio-economic, political or ideological processes, power relationships, and the importance of terminology in jurisdictional disputes”.

Directly linked to the problem of language is comparability. It is a very difficult notion to understand even within a country, let alone globally. We have not really had much literature that helps us understand what is meant by comparability when we have it, and when we do not. The view originating in the United States is that comparability is achieved by assuring that “like things look alike, and unlike things look different” (Trueblood, 1966, p. 189)<sup>51</sup>.

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<sup>51</sup> But in accounting what are "things"? And how do we perceive and identify "like" and "unlike things"? As stated by Zeff accounting is “an artefact, not articles of furniture or draperies”(Zeff, 2007, p.290).

In our opinion this paper highlighted that, surely, Balkan countries is moving towards IFRS, but again having the traces of the old system where the state persists to shape the accounting notion. This aspect shows that we are very far from harmonization and finally we can not forget all the problems of different languages in the Balcan countries with inevitable problems of comparability, translation and interpretation.

At this point we think that infinite future possibilities open up for specific insights into the individual International Standards in each Balkan country object of our work.

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