

# **A COMPARATIVE OVERVIEW OF REGULATION OF ACCOUNTING IN KOSOVO COMPARED WITH REGULATION ACCORDING WITH IAS/IFRS**

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## **Abstract**

*Kosovo already is in an important stage, because we have just lying the foundations of the formation of the new state. Therefore, it is very important to our country to open it's doors to the developed European countries and beyond.. To achieve this we must work hard and sacrifice by all, while as in order to reflect an economic and social development in all areas, it's very important among the development of the accountancy profession, which provide opportunity for a quality financial reporting and acceptable to all. A weak financial reporting and limited, has an effect on the making economic decisions with low quality by decision makers, reduces the possibility of foreign investment and capital spilling. As result, the universal language of the financial report that is understood by all users of accounting information, no matter where they are not used. In addition it is important to note that if we remain limited in the construction of financial statements under accounting rules inherited from the past than opportunities for global development of the economy as a very important pillar for the development of a country are closed, the needs for capital are not fulfilled , foreign investors reluctant to do investments etc.*

*These components are defined and discussed in the paper, while a law on accounting and financial statement which could define better and more closed the main directions of accounting regulatory authorities are proposed as necessary.*

**Key words:** *accounting, accounting developments, accounting information, financial statements, accounting standards.*

## **Introduction**

A real presentation of financial statements according to international standards gives priority to economic content over the legal form of transactions. In Kosovo before regulation of accounting according to international standards was mandatory submission of balance sheet and statement of income and expenditure. Furthermore, other statements by international standards were absent and not prepared at all. These facts justify the need for new accounting developments in Kosovo. This paper seeks to explore and justify that financial reporting according international accounting standards play a major role for the thrift of accounting and realistic presentation of financial statements. The study proved that a law on accounting and financial statement is necessary.

The study also gives recommendations how to successfully standardize accounting in Kosovo with EU standards of accounting.

### **1. Last regulation of accounting in Kosovo and regulation under IAS/IFRS**

The accounting regulation in Kosovo is not providing a basis regulatory, single and complete. Although its importance is to large when it comes to same basis of reporting, which could be only achieved with the implementation of international accounting standards, where are determined more widely unique rules of recognition of financial statements elements, the criteria for classification of these elements, and other qualitative features of the construction of financial statements.

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Further, it is very important a real presentation of financial statements, where according to international standards given priority are given to economic content over the legal form of transaction, while as early in accounting regulation were absent such a thing and one element in accounting was recognized only under the legal control.

Before regulation of accounting according to international standards mandatory was submission of the only balance sheet and statement of income and expenditure, whereas two other statements necessary to provide by international standards were are not prepared at all. These and many other facts justify the need for a new accounting development in Kosovo, which should be drawn up according to international accounting standards, as a unique regulator which is not focused simply on the legal obligations of accountability, but also in determining of main rules of establishment of financial statements.

A novelty is that compliance with international standards which makes quite a lot to increase the flexibility of accounting regulation compared with inflexible regulation prescribed by the previous laws of the accounting. According to reserchs the financial reporting in accordance with international accounting standards play a major role and is very important for accounting and realistic presentation of financial statements. Such a fact is fully understood and assessed, when it reached the highest level of implementation of these standards, whereas in the development where we are, such issues has been started to be understood positively by accountants and with development opportunities in the future. This can be understood also by comparing data from accountant respondents, employees of tax administration and directors of companies. Analyses presented in this paper gives us the opportunity to get closely at what level we are currently when is the question of the real possibility of presenting financial statements in accordance with international standards.

On the question how important is the role of financial reporting in conformity with international accounting standards for regular accounting and for presenting real financial statements<sup>1</sup>, the data from the categories surveyed (accountants, tax employees and directors of companies) show that: 89% accountants, including those independent and those employed in business stated that such reporting plays a major role an has an effect in real presenting of financial statements, while only 6% of them stated that such role is smaller. Also, 97% of tax employees have positive opinion and 88% of the directors of companies believe that financial reporting in confirmity with international accounting standards has positive impact (see diagram 1).

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<sup>1</sup> 400 people were surveyed: Selected campon: 212 employed in trade (75.5%), servise (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%).

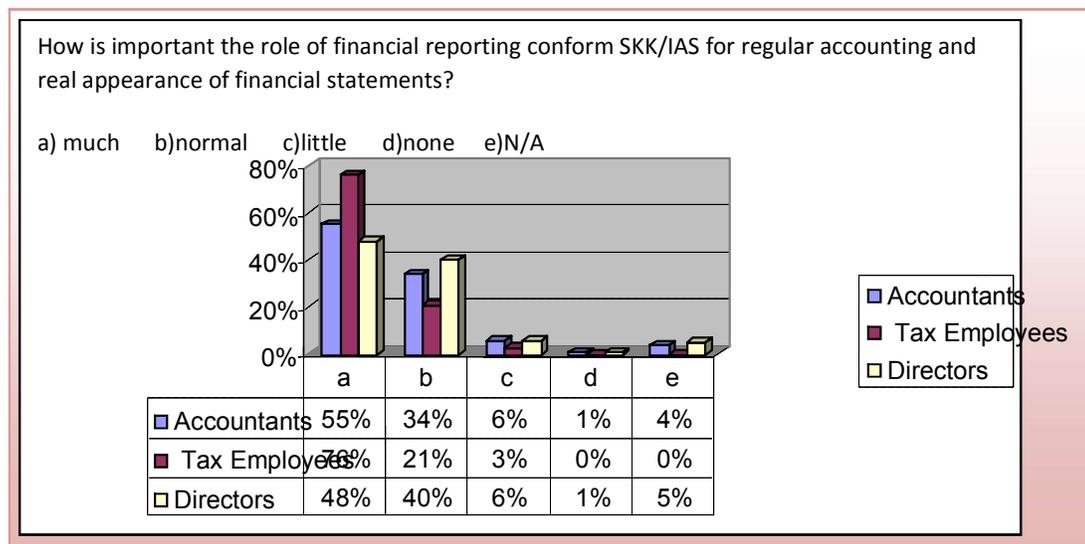


Diagram 1.

The data compared between accountants, tax administration employees and directors, shows that each category surveyed has positive thoughts and approximately the same percentage of thinking about financial reporting, which helps thrift and realistic presentation of financial statements.

We should to emphasize that international standardization of accounting today is the need of global economic developments, and the basis for globalization of the economy, increases the effectiveness on qualitative decision-making as well as to increase the transparency and security of information that investors receive from financial reporting.

Standardization of accounting in Kosovo is an immediate need and demand especially because the Republic of Kosovo wants to be a part of European Union and NATO. New accounting requirements in Kosovo are and will be an excellent step forward developing a modern financial system.

## 2. Current developments towards the application of IAS/IFRS in the accounting field

Standardization of accounting in Kosovo appears as a necessary process, since the same and the unique language of financial reporting and high transparency would increase the values of decision-making and would make more efficient the Kosovo market. In this direction the regulation of accounting profession would affect the establishment and strengthen operation of professional organism by increasing their role in providing of independent accountants, who will be able to provide quality services, protect the public interest and provide the financial statements quality and highly reliable.

New accounting requirements in Kosovo represent a great step forward for the development of the financial system and controller. This is important because financial reporting in Kosovo will be comparable to financial reporting in developed countries. For this reason are drawn international accounting standards, which provide rules approved by international organism of accounting, which accurately treat accounting facts that are object of accounting. The existence of these standards enables the investors and all users of accounting information to understand the language of financial reporting regardless of where they operate.

The application of international accounting standards in Kosovo presents a challenge. Some of the peak points of the current developments in terms of their application are:

Firstly, the adoption of financial reporting in Kosovo with international accounting standards, should be done step by step and harmonized with needs and capacities of Kosovo. The process of finalizing of such case be adapted to financial reporting, especially of small and medium size enterprises.

The presentation of accounting standards shows the desire to accounting changes, but we should still work to resolve existing deficiencies. Also, it is very necessary to strengthen institutional and professional capacity, especially human capital which covers this area that is so important for standards monitoring and their implementation and preparation of financial statements as well. Furthermore, expansion of the financial reporting requirements should be done in parallel with the strengthening of institutional and professional capacities in order to finally provide a reliable financial reporting .

Secondly, in order to adopt financial reporting we should be able to made developments to the application of accounting standards by strengthening the statutory framework governing accounting and overall financial reporting basis in Kosovo. Then we should establish the mechanisms for systematic monitoring, through establishing a modern legal framework with such program, which had to revised accounting and auditing standards, control quality of work on their implementation and finally have the opportunity to provide more accurate information about financial reporting to all its users. Furthermore, we must establish and organize the system of public oversight to certify auditors and accountants, which system should provide legal capacity to investigate auditors and then take the necessary steps. Such a system should be very transparent with the publication of its work programs in order to ensure the implementation of standards, by taking necessary steps and direct action.

Obviously, should be even the expansion of the current authorities of adopting standards, to include so wider degree of interested parties for the implementation of international standards, and by adjusting the field for their implementation. These would help to solve the problem of relatively level unsatisfactory of recognition and implementation of international accounting standards. The regulators of banks and insurance companies should be engaged in international meetings and seminars in order to filter the overall goal of preparing of financial statements in accordance with the standards and thus to assess the advantages if implementation of such report. As a result that this would solve the banking regulatory concern that the implementation of international standards will bring instability in financial reporting as a result of the commitment not to ignore them properly.

In Kosovo also should be improved legislation with the aim to clearly define the authority that will encourage the full implementation of international accounting standards. Then to develop the quality of system control for ensuring a high reliability of financial information and to protect third parties as beneficiaries of this information, such as shareholders, investors, creditors, etc. The establishment of an efficient system for investigation and sanction to correct and to prevent factors with negative impact in reporting and full implementation of standards. This can be accomplished through establishing a system of fines efficient prevention culminating developments towards the application of international accounting standards would improve the quality of work of professionals and accountants.

This could be achieved with education and qualification of people who would be capable for preparing of quality of financial statements. The lack of human resources would be a serious obstacle to the implementation of international standards. The financial reporting of high quality contributes to the strengthening the financial structure of our country, reduce the risk of crisis in the financial market, contributes to stimulate foreign investment, facilitates the work of taking and lending in the banking sector etc. It further, presents strong basis for stakeholders and public at large scale to evaluate the management of the business community in Kosovo.

Such financial reporting will contribute to the strengthening of financial discipline and financial system in general. Kosovo is in stage of radical reform accounting, therefore we need to further strength the application of existing standards, their continuous updating and development and application of new standards where is necessary. Kosovo Accounting Standards naturally should be consistent and coherent with international accounting standards, and still working in raising the level of recognition and implementation of them, always with the main motive of cultivation of genuine culture of reporting also in Kosovo.

We think that we should have consider drafting and approval of international standards of financial reporting for small and medium enterprises by the Board for International Accounting Standards (IABS), which are anticipated to appear in 2009, and then to see the possibility of translation on their implementation in Kosovo. In this direction should be determined correctly the classification criteria of small and medium enterprises, as a very necessary condition to determine the group of those economic units that will implement international accounting standards for units of small and medium enterprises, by distinct from those that will implement international standards of accounting/ to financial reporting in complete.

These criteria should refer to the criteria of the European Union for this purpose, but considering the characteristics of this purpose and considering the characteristics of the economy and businesses in Kosovo, accounting regulation should not leave out attention to SME and micro enterprises, which should be provided an accounting and simplified financial statements. It should also pay attention to cooperation and coordination of authorities of regulatory accounting with that fiscal in order to ensure a harmonized presentation of financial statements for the general findings publishable with reports for fiscal purposes. The calculation of the tax results should be based on accounting reporting according accounting standards in Kosovo, or international accounting standards/ financial reporting, and then to make necessary adjustments according to policies and fiscal rules. This would ensure a more consistent reporting, a control and inventory of the respective obligation more precisely.

## Conclusions

Standardization of accounting in Kosovo with EU standards of accounting is an imperative the application of IAS enables the unification of financial reporting and transparency to all users of accounting information. It is recommended that in the future should be done more work in strengthening the statutory framework governing accounting and financial reporting, strengthening the structure drafting of accounting quality standards, establishing monitoring mechanisms for implementing further the implementation of standards, increased numbers of professionals skilled accountants to prepare quality financial statements etc.

Also, it would be of special interest to have a specific law on accounting and financial statements, which would define better and more clearly the main directions of accounting regulatory authorities. So development should be done by strengthening the statutory framework governing accounting and in general kosovar basis of financial reporting, the establishment of a modern legal framework with such program, which had the revised accounting and auditing standards, quality control work on their implementation.

The formation and organization of the system of public oversight to auditors and accountants, who must be very transparent with the publication of its work programs to ensure implementation of standards. To ensure a stability and efficiency in accounting developments in Kosovo recommend drafting a strategy and action plan, at least for 3 year period the development of accounting and accounting- based professions. This play will include issues that will be resolved during this period, responsible organisms and necessary financial resources.

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