

ACCOUNTING HARMONIZATION IN MOLDOVA: THINKING ABOUT THE PROCESS, DIFFICULTIES AND OPPORTUNITIES

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Abstract:

Accounting harmonization in the Republic of Moldova is a part of Moldovan policy in regard to country's approximation to "acquis communautaire". The new Accounting Law stipulated implementation of IFRS starting from 2009. However, discussions about the accounting reform and IFRS implementation in the Republic of Moldova are still very controversial, raising high interest among specialists. IFRS application is not a simple and direct process and this process faces many obstacles on a way of its implementation. The article is a viewpoint paper, being based on authors' reflections and analysis of circumstances in regard to IFRS adoption in the Republic of Moldova.

Key words: accounting, International Financial Reporting Standards (IFRS), National Accounting Standards (NAS), accounting reform.

I. Introduction

Globalization is one of the leading factors affecting countries to adopt IFRS. Irvine (2008), Al-Omari (2010) have noted that closer integration of people in the world have had significant influence on many countries to accept IFRS. Institutional pressures also contribute to this process (Powell and DiMaggio, 1983; Scott, 2001; Barbu, 2010).

During half of century Moldovan accounting was a part of Soviet accounting system with its extended centralized administrative control and powerful institutions. In a post-Soviet time, Moldova's economic system was transformed into market economy; therefore there was a necessity for development of accounting regulations and creation of new accounting environment.

II. The necessity and essence of accounting reform in Moldova

The actual accounting reform in the Republic of Moldova is caused primarily by the necessity to achieve high quality and comparability of financial reports, for proper data delivery to owners, investors, managers and all other users of accounting information. Economic globalization, massive national privatization, foreign direct investments growth, development of capital markets and European aspirations of the Republic of Moldova represent other important factor that determine the necessity of accounting harmonization and convergence.

Moldovan Government has approved the Development plan on Accounting and Audit in the corporate sector 2009-2014 with a purpose to bring into life the Accounting Law stipulations related to audit, as well as creation of conditions for favorable harmonization of accounting and auditing with EU Directives, International Financial Reporting Standards and International Standards on Auditing. The plan represents a conceptual paper which determines priorities in the development of accounting and audit in the Republic of Moldova and indicates all necessary actions for successful realization of these priorities. Thus, one of these priorities is improvement of legal framework on financial reporting.

The legal framework of accounting in Moldova today comprises the following items:

- The Conceptual Framework for Financial Reporting;
- Accounting Law;
- The National Accounting Standards (NAS);
- Comments to NAS,
- The Chart of Accounts.

The adoption of a new Accounting Law nr. 113-XVI in 2007, which presumes financial reporting harmonization of local entities with European Union Directives and International Financial Reporting Standards (IFRS), has raise a new wave of discussions about the accounting reform in the Republic of Moldova. These discussions are very contradictory and controversial with a stringent interest among specialists and practitioners. Moldovan economists are widely discussing the actual accounting system. According to many of them, it is conceptually and practically outdated and should be modernized (Frecauteanu 2008; Armitage, Neider, 2007). Many of Moldova's accounting approaches and methods should be revised in order to cope with economic tendencies and changes. Unfortunately, 12 of the actually applied national standards were developed before 1998, or before the adoption of the actual Chart of Accounts, 7 were approved in 1998-2000, 7 in 2001-2005 and only two – after 2006. Only 13 of the national standards have commentaries, a fact which causes many questions, difficulties and disputes in interpretation of other standards.

The development of financial reporting legal framework in the Republic of Moldova according to the Accounting Law and Accounting Development Concept will take place through different ways of application of accounting standards depending on entities and accounting systems. The first step of the improvement of accounting legal framework took place in December 2008 when the Ministry of Finance has published the Decree nr. 109, which determines future application of international standards in the Republic of Moldova.

According to the 15th paragraph of the Accounting Law, there are three categories of entities:

- Public interest entities (financial institutions, investment funds, insurance companies, private pension funds, commercial entities, listed at stock exchange, as well as and other legal entities which have

dominant position on the market exceeding two of the following three criteria for the last two consecutive reporting periods:

- * Total revenue – 120 million MDL,
- * Total balance sheet – 60 million MDL,
- * Average number of staff members – 500 people).

As to the decree nr. 109, starting with financial situations of 2012, IFRS should be applied by all public interest entities in redaction of the International Accounting Standards Board.

- Entities that apply double-entry accounting system,
- Small and medium entities (SMEs)

Entities that use double-entry accounting system will apply NAS which correspond to IFRS. SMEs will apply IFRS or NAS on their decision. This fact is mentioned in the 4th paragraph of the Accounting Law and this application should correspond to the accounting policy of the entity.

Entities that will apply IFRS (voluntary or being obliged) should be guided by the IFRS 1 “First-time adoption of IFRS” and by the Methodological Recommendations of transition from NAS to IFRS, approved by the Ministry of Finance Decree nr. 69 of 09/17/2009. A Guide to IFRS 1 application can be also used. This contains examples and explications about transition to IFRS. Alas, this Guide was omitted form IFRS version, approved by the Ministry of Finance.

IFRS acceptance even if with certain gaps will be very relevant for the Republic of Moldova on a perspective of legal harmonization with the EU and by the fact that Moldovan entities will apply accounting framework of the international level, which is based on true and fair image – a very welcomed measure in the local business community.

Through IFRS application entities will use the internationally accepted financial reporting language, being clear for all users of accounting data irrespective of their origin. It is not probable that financial reporting that is not understandable for all implicated users or on the entity’s perspective to offer new opportunities for business or capital attraction. Local entities have acknowledged that IFRS adoption will open the access to the international markets, can reduce costs and help in international transactions.

Globally known language offers possibility to apply same accounting principles on the level of all branch entities to the multinational groups in the Republic of Moldova. It also enlarges possibilities to access new markets, contributes to better understanding and confidence, optimizes internal communication, as well as quality of reporting for managers of the entity. On highly competitive markets, IFRS open the possibility for globally similar reporting, so that investors and other interested users can compare true and objective data about local entities and competitors. IFRS has a high potential to facilitate procurement processes by offering a larger level of confidence, relevance and accounting interpretation consequences.

Direct application of IFRS is a crucial moment for the accounting system of the Republic of Moldova, but is also a challenge for target entities. The role of enterprises is huge in the process facilitation and can be observed in the following stages through understanding of this challenge and its potential impact on economic entity:

- Staff training in regard to understanding and application of IFRS;
- Production of new information and insurance of its quality;
- Problem forecasting and allocation of responsibilities for successful solution;
- Budget and forecasts preparing according to the IFRS;
- Implementation of the respective IT systems depending on IFRS requirements.

IFRS application in local practice with a purpose of legal framework harmonization with international norms is reflected also in national accounting regulation elaboration. These regulations will be based on EU Directives, IFRS, general conceptual framework for financial reporting, as the same time, national legislation should be considered in line with the experience of other countries. Regulations will be developed by the working groups with implication of local independent experts, as we hope, who will report to the Ministry of Finance. National accounting regulations should be implemented in one kit starting with the January 1, 2014.

National standards elaboration from IFRS principles seems to be an easy way to follow. Nevertheless, application of this method is based on good knowledge of IFRS and previous legal activities necessary to open the application field and untroubled exploitation of these principles. National Standards should ensure total convergence to IFRS. This way to access IFRS insures better interaction between principles and rules, can satisfy better correlations of accounting and fiscal issues, but also has many inconveniences.

National regulation once being adopted need to be permanently revised according to the IFRS requirements, so as we have the experience of development and application of actual national standards which have not been modified for more than a decade. This phenomena took place because of the lack of financial resources, but also because of the insufficiency or/and inefficiency of the staff responsible for regulation development in the field. IFRS implementing in accounting practice of the Moldovan entities, in direct form or through NAS according to IFRS meets a series of difficulties.

III. Obstacles to IFRS implementation

Moldovan post-Soviet old traditions and perceptions represent major obstacles for the development, but also a source of significant accounting mistakes and misunderstandings. For example, of the largely disputed problems is related to accruals, which in essence do not require documental support, but accountants still refuse to make entries without documents. This creates problems with proper revenue recognition, measurement and reflection. In a time when the accounting profession was prestigious and well paid in Occident for long time, Moldovan enterprises have recognized only recently that it is important to create well and interpret the accounting information. Changing the way of thinking of the staff, from the rules based activity to the principles based activity is vital. IFRS and new NAS presume principles, not rules. Acceptance of the principles leadership must substitute detailed rules which became a tradition in the Republic of Moldova. This approach requires professional judgment and should be correlated with legal system of the country. International standards were always characterized by lack of detailed descriptions. Even the important presumptions are formulated extensively without concrete examples.

Secondly, the respective preconditions were inefficiency created by the state authorities in implementation of the proper decree nr. 238 of 02/29/2008 about the application IFRS in public entities. The authorities merit is

reduced to the web publication of IFRS, but even those being incomplete. Thus, the conceptual framework for financial situations presentation is still not published. This document does not have a status of the international standard and does not have any priority in comparison to concrete standards and in the case of any discrepancies in the Conceptual Framework and IFRS, the standards will have priority. The Conceptual framework is, indeed, the component part of the IFRS and has sufficient reasons to be applied: identification of essential concepts for elaboration and presentation of financial reports, users' assistance in IFRS interpretation and delivery of some principles, taking into consideration that not all aspects are covered by IFRS.

The next important moment for the accounting profession is referred to the nearest future related to the preconditions of application of the new NAS on the January 1, 2014. Usually, the development of a new international standard is preceded by at least 9 months of comments and at least 6 months before coming into force. The main challenge on this stage is not to repeat the same mistakes as on '98 reform – 24 hours for study and application of NAS.

Other obstacle of IFRS implementation in the Republic of Moldova, as to our opinion, is related to the fact that entities and accounting firms have to deal with an enormous challenge, which is not always easy to pass successfully. Honestly speaking, they cannot overcome this obstacle with proper sources and it requests massive implication of educational institutions, professional organizations, state authorities which face the same problems, actually: formation and education.

Accounting is a sphere that is very sensible to various political and cultural transformations. Accounting reforms in Moldova have been executed with significant support of international organizations and huge resources were attracted for this process. The biggest problem today is lack of interest and demand for qualitative information due to specific mentality existing for decades. Moldova is in the process of implementation of IFRS now. Although all entities are not obliged to use IFRS, enterprises of public interest are required to do this starting from 2009. There is, however, a big chance that other businesses will not prefer IFRS, because the process of transition to IFRS is expensive, but the need for it is not obvious. Many practitioners do not have much knowledge about the IFRS, and many do not consider them necessary. Therefore, IFRS will be applied only then, when companies will perceive and understand the benefits in using them.

IV. Conclusion

IFRS application is not a simple and direct process, it is also not a technical tool, but a basis of qualitative and relevant financial reporting for all users of accounting information. It is necessary to offer significant time for planning and implementation activities, as well as for integration process at entity level. Hasty decisions and unreasoned requirements can negatively influence the entities' attitude towards IFRS. The role of state and its institutions is hard to overestimate in this sense, therefore, the policy ability to understand business needs becomes a crucial factor.

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