

# A COMPARITIVE STUDY ON ACCOUNTING HEREDITY: THE CASE OF EX SOVIET COUNTRIES VERSUS OTHER EASTERN EUROPEAN COUNTRIES<sup>394</sup>

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*Abstract: This paper aims at investigating the existence of accounting heredity in some of Eastern European countries. Accounting heredity assumes that at the time the economic paradigm changes, a new accounting system emerges, enclosing both genes from the existing accounting system, as well as genes from a new accounting system used as an inspiration.*

*Data was gathered by sending questionnaires to academics in the respective countries. S-au primit răspunsuri din 5 țări. Studied countries fell into two categories: Ex Soviet countries (Republic of Moldova & Ukraine), and other Est European countries (Romania, Republic of Macedonia and the Czech Republic). It analyses the survival of communist accounting practices in the post-1990 accounting systems and identifies other eternal influences that shaped these accounting systems.*

*Keywords : Accounting Heredity, Accounting Change, Accounting Genes, Eastern European Countries, Accounting History*

## The research Conceptual Framework

Calu (2005) proposed a *genetics approach* to changes occurred when a new accounting systems is adopted due to changes in the economic and political environment, emphasizing the notion of *heredity*<sup>395</sup>. The premise is: the emergence of a new accounting system (in splitting points) requires the existence of two “parents”: present international accounting reality, and the previous status, meaning the national accounting history. The main mechanism consists of the transmitting of concepts (genes) from one accounting systems generation to another involves the existence of *dominant* genes (that are manifest from the start, in the case of a new accounting system) and *recessive*<sup>396</sup> genes (that become manifest after a certain amount of time). Therefore, when a new accounting system emerges, accounting concepts and practices not found at any of the parents could have operated previously. Also, former accounting concepts and practices can be reactivated during the accounting system’s existence. Although we borrow concepts

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<sup>395</sup> In a strict biological sense, heredity is the characteristic feature of animate beings to pass down genetic characteristics to their offspring. In a general sense, the notion can be defined as the propriety of a thing or phenomenon to depend on momentary actions and prior successive conditions.

<sup>396</sup> According to Calu (2005), the meaning of this term differs from its original meaning. In biology, a recessive gene becomes manifest after one or more generations, as « the segregation law » states.

and the general mechanism from genetics, this approach to accounting history does not entirely superpose to the heredity mechanisms in biology.

When a new accounting system is conceived, the fertilization takes place “in vitro”. Multiple embryonic variants are abandoned at different development stages up to the time when a certain viable embryo is selected to be implanted in the economic environment. Subsequently, given no splitting points in the economic environment, the interventions upon the accounting system are similar to genetic changes made in order to acquire a transgenic<sup>397</sup> organism.

## Research hypotheses and data analysis

*Our research framework hypotheses are the following:*

**H1:** *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents;*

**H2:** *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

This paper aims at demonstrating the above hypotheses during the period that followed the collapse of the socialist economy, that is, the years 1989-1990 in several Eastern European countries (Romania, Republic of Moldova, Republic of Macedonia, the Czech Republic and Ukraine). Data was gathered by sending questionnaires to academics in the respective countries. The questionnaire was emailed to accounting academics in Eastern European countries during the month of March 2008. We have received replies from academics in the following countries: Moldova, Republic of Macedonia, the Czech Republic and Ukraine. For the study of the Romanian case, we used as research method the oral history and historiography.

**H1:** *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents*

To demonstrate this research hypothesis, we analysed genes transmitted from the previously existing accounting systems in the four countries as to financial statements and accounting practices.

| No | Elements  | Other Eastern European Countries |                       |                | Ex Soviet Countries |                    |
|----|---|----------------------------------|-----------------------|----------------|---------------------|--------------------|
|    |   | Romania                          | Republic of Macedonia | Czech Republic | Republic of Moldova | Ukraine            |
| 1. | Balance Sheet                                   | Yes                              | Yes                   | Yes            | Yes                 | Yes                |
| 2. | Profit & Loss Account                           | Yes                              | Yes                   | Yes            | Yes                 | Yes                |
| 3. | Accounting Policies (Descriptive information)   | No                               | No                    | Yes            | No                  | No                 |
| 4. | Notes   | Yes                              | Yes                   | Yes            | No                  | No                 |
| 5. | Statement of most important economic indicators | No                               | No                    | No             | No                  | No                 |
| 6. | Directors Report                                | Yes                              | No                    | No             | No                  | No                 |
| 7. | Cash Flows Statement                            | No                               | No                    | No             | No                  | No                 |
| 8. | Statement of Changes in Equity                  | No                               | No                    | No             | No                  | No                 |
| 9. | Other.....                                      | No                               | No                    | No             | No                  | Yes <sup>398</sup> |

### *The content of financial statements after the collapse of the socialist economy*

We note that all countries display the same numerical emphasis of the financial statements (balance sheet, profit and loss account and in certain cases notes), a gene characteristic to previously existing accounting

<sup>397</sup> A transgenetic organism contains one or more artificially induced genes.

<sup>398</sup> Statement of Financial Position (some note for Balance Sheet).

systems. The lack of descriptive information, such as accounting policies and the absence of cash flow statement and the statement of changes in capital, confirm the existence of hereditary traits from the previously existing accounting system.

We also note that in former countries from the Ex Soviet area of influence, immediately after the collapse of the communist regime, disclosure of financial and accounting information was weak due to the limited requirements for presentation: The Balance Sheet and The Profit and Loss Account. In Ukraine, there was only an emerging form of additional disclosure, unlike the former Socialist countries that were not a part of the USSR area of influence, where Notes to Financial Statements existed from the beginning, which indicates a higher degree of transparency.

| No  | Elements   | Other Eastern European Countries |                       |                   | Ex Soviet Countries |         |
|-----|--|----------------------------------|-----------------------|-------------------|---------------------|---------|
|     |  | Romania                          | Republic of Macedonia | Czech Republic    | Republic of Moldova | Ukraine |
| 1.  | The existence of a “chart of accounts”   | Yes                              | Yes                   | Yes               | Yes                 | Yes     |
| 2.  | Valuation of Goods for Resale at retail price  | Yes                              | Yes                   | No                | Yes                 | Yes     |
| 3.  | Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity   | Yes                              | No                    | No                | No                  | Yes     |
| 4.  | Use of a specific account for transportation costs on the purchase of an asset   | No                               | No                    | No                | Yes                 | Yes     |
| 5.  | Use of a specific account (for example «small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa). | Yes                              | No                    | Yes               | Yes                 | Yes     |
| 6.  | Distinct recognition of small tools depreciation on their lifespan   | Yes                              | Yes                   | Partial existence | Yes                 | Yes     |
| 7.  | Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)  | Yes                              | Yes                   | Yes               | No                  | Yes     |
| 8.  | Only legal reevaluation of fixed assets  | Yes                              | Yes                   | Yes               | Yes                 | Yes     |
| 9.  | Recognition of the revenues at the time of cash collection   | No                               | Partial existence     | No                | Yes                 | Yes     |
| 10. | The existence of alternative inventories’ valuation methods (First In First Out Method - FIFO, Last In First Out Method - LIFO)  | Yes                              | Yes                   | Yes               | No                  | No      |
| 11. | The existence of alternative depreciation methods (straight  | Yes                              | Yes                   | Yes               | No                  | No      |

|     |  |     |    |     |    |    |
|-----|--|-----|----|-----|----|----|
|     | line method, declining method or other)  |     |    |     |    |    |
| 12. | The existence of specific accounts to recognize impairments of assets (fair value lower than the book value) | Yes | No | Yes | No | No |
| 13. | The existence of specific accounts to recognize the provisions (probable liabilities)                        | Yes | No | Yes | No | No |

***The features exist in accounting system in the first years after the socialist economy***

The first nine characteristics in table 5, genes specific to the socialist accounting system, were mostly transmitted in at least two of the four countries concerned. The exception is the use of a specific account for transportation costs on the purchase of an asset.

The characteristics 10 to 13 in table 5, genes nonexistent in the socialist accounting system manifested themselves in the three countries where a process of creating a new accounting system: Romania, Republic of Macedonia and the Czech Republic. Due to the delayed reform (1998) in the Republic of Moldova and 1999 in Ukraine, the international genes (positions 10-13) are not characteristic to the accounting system from Ex Soviet countries at the beginning of the 1990s.

**H2:** *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

To investigate this hypothesis, we analysed the genetic changes that occurred from the collapse of the socialist economy to date.

| No | Elements  | Other Eastern European Countries |                       |                | Ex Soviet Countries |         |
|----|---|----------------------------------|-----------------------|----------------|---------------------|---------|
|    |   | Romania                          | Republic of Macedonia | Czech Republic | Republic of Moldova | Ukraine |
| 1. | Balance Sheet                                   | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 2. | Profit & Loss Account                           | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 3. | Accounting Policies (Descriptive information)   | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 4. | Notes   | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 5. | Statement of most important economic indicators | Included in the notes            | Yes                   | No             | No                  | No      |
| 6. | Directors Report                                | No                               | No                    | No             | No                  | No      |
| 7. | Cash Flows Statement                            | Yes                              | Yes                   | No             | Yes                 | Yes     |
| 8. | Statement of Changes in Equity                  | Yes                              | Yes                   | No             | Yes                 | Yes     |
| 9. | Other.....                                      | No                               | No                    | No             | No                  | No      |

***The content of the financial statements in our days***

Accounting systems in all countries demonstrate the manifestation of a new gene specific to the international financial reporting model, that is mandatory descriptive information in Romania, the Republic of Macedonia, the Republic of Moldova & Ukraine, two new financial statements appeared: Cash Flow Statement and Statement of Changes in Equity, representing genetic changes that occurred in time.

| No  | Elements   | Other Eastern European Countries |                       |                | Ex Soviet Countries |         |
|-----|--|----------------------------------|-----------------------|----------------|---------------------|---------|
|     |  | Romania                          | Republic of Macedonia | Czech Republic | Republic of Moldova | Ukraine |
| 1.  | The existence of a “chart of accounts”   | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 2.  | Valuation of Goods for Resale at retail price  | Yes                              | No                    | No             | Yes                 | No      |
| 3.  | Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity   | No                               | No                    | No             | No                  | No      |
| 4.  | Use of a specific account for transportation costs on the purchase of an asset   | No                               | No                    | No             | Yes                 | No      |
| 5.  | Use of a specific account (for example «small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa). | No                               | No                    | Yes            | Yes                 | No      |
| 6.  | Distinct recognition of small tools depreciation on their lifespan   | No                               | No                    | No             | Partial existence   | Yes     |
| 7.  | Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)  | No                               | No                    | Yes            | No                  | No      |
| 8.  | Recognition of the revenues at the time of cash collection   | No                               | No                    | No             | No                  |         |
| 9.  | Only legal reevaluation of fixed assets  | Yes                              | No                    | Yes            | No                  | No      |
| 10. | The existence of alternative inventories' valuation methods (First In First Out Method - FIFO, Last In First Out Method – LIFO.)   | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 11. | The existence of alternative depreciation methods (straight line method, declining method or other)  | Yes                              | Yes                   | Yes            | Yes                 | Yes     |
| 12. | The existence of specific accounts to recognize impairments of assets (fair value lower than the book value)   | Yes                              | Yes                   | Yes            | No                  | Yes     |
| 13. | The existence of specific accounts to recognize the  | Yes                              | Yes                   | Yes            | No                  | Yes     |

|                            |           |  |  |  |  |  |
|----------------------------|-----------|--|--|--|--|--|
| provisions<br>liabilities) | (probable |  |  |  |  |  |
|----------------------------|-----------|--|--|--|--|--|

*The features exist in contemporary accounting systems*

The analysis of the evolution of accounting practices from the beginning of the 1990s to date demonstrates the disappearance of the genes specific to the socialist accounting system with certain exceptions (e.g. valuation of Goods for Resale at retail price in Romania and the legal revaluation of fixed assets in Romania and the Czech Republic).

### 3. Conclusions

Following the collapse of the socialist economy, we note a process of creation of a new accounting system in three of the countries analysed. The parents of this new accounting system are the accounting past and the international accounting present. On the other hand in the Republic of Moldova and Ukraine as a former USSR republic, environmental (cultures) factors delayed this process and during that time an accounting system similar to the previous one was used.

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