STANDARDS, RULES OR PRINCIPLES BASED ACCOUNTING REGULATION

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Some approaches in accounting regulation, found by us in the case of some European countries are successful compilations between the Anglo-Saxon regulation model and the European-continental model, as well as others are made up only on the continental model. In essence, each and every model is unique in its own way, however, there are to be noted the elements of originality and innovation found in some countries unlike the others. The approach found in the Estonian model successfully combines the regulation by legislation specific to Europe with the regulation by national standards conceived and inspired according to the international referential specific to the Anglo-Saxon model. This type of „double regulation" is opposable to the „unique type of regulation" met in some countries. Our paper is focused on the contrastive comparative approach, being centered on the recognition of advantages and disadvantages of the regulation elements identified in several European countries.

Key words: accounting regulation, standards, rules, principles, European countries

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Introduction

The fall of the communist regime, the transition from a planned and centralized economy to a market economy, have generated profound changes, both in the organizational environment, in the socio-cultural, relational and educational, as well as in the way of administration of business in the Central and Eastern European Countries. The administration of enterprises as well as the organization and managing the accountancy of these have dramatically changed. The profound process of change, by the transition from a totalitarian system to a democratic one, has required changes, at times real revolutions in the accountancy of the countries in this region.

Our endeavour in the present paper is a research on the evolution of accounting regulation from the Central and Eastern European countries after the collapse of the Soviet system. Knowing the starting point of these contries in reforming the accountancy, our objective is that of following the various controversial aspects of the normalization of accountancy in this period. This is also the reason why we shall ask several questions along our study, in an attempt to find answers as well.

Our study aims at a comparative approach of the way in which the accounting regulation is performed in this region of Europe, of course taking into account the implementing of the European Directives in the legislation of the member countries and the harmonization and convergence process with the international accounting referential. Although at a first analysis of the ways of accounting regulation in the respective countries the things look similar, as if following the same pattern, upon a more detailed and advanced analysis, we observe that there are different tendencies.

Thus, countries such as Estonia and Slovenia, are different from others such as Hungary, Poland, the Czech Republic or Romania, by the two essential components of the regulation device: the legislation and regulations on the one hand, and the Domestic Accounting Standards on the other hand.

The paper aims at „*casting more light*" upon the process of accounting regulation and of the way this is accomplished in the countries of Central and Eastern Europe. Since it critically and constructively examines the evolution of normalization of accountancy in this region, it brings a significant contribution to the development of the autochtonous specialty literature, which does not abound too much in such transversal comparative studies.

Our study is focussed on the contrastive comparative approach, being centered on the recognition of advantages and disadvantages of the regulation elements identified in the countries in this region. A central place in our study is also taken by the discussion regarding the institution responsible with the acconting regulation within these countries.

Accounting regulations versus accounting standards. The case of several CEE countries

As explained above, in this study we explore differences between national/domestic accounting regulations and national/domestic accounting standards. Several specialized literature sources refer to the two above mentioned models of accounting regulations as representing only one. Thus, the terms used in order to describe both the process of accounting regulation and the way it is rendered into practice, very often interlap. Still, things have to split and analyzed differentiately.

We initiated this scientific approach starting from the hypothesis that there are CEE countries which have elaborated and have been using only accounting regulations or rules to complete the Accounting Law but on the other hand there are countries that have elaborated and have been using accounting standards together with the Accounting Law.

The aim of this section of our study is to identify which CEE countries besides those analyzed above, have created and elaborated their own accounting standards in accordance with IAS/IFRS. In addition, this comparative approach aims at highlighting the most significant differences in elaborating, developing and implementing these domestic standards.

Folowing our idea, there are some questions looking for right answers: *Is there any statutory backing for the established accounting standards? Does the local standard setting process promote or complicate convergence between domestic and international standards? Is there any lesson that other countries could learn about the process of achieving convergence between domestic and international standards? Could de jure harmonization transform standards into rules ?*

In Poland, Czech Republic and Hungary as a Code Law countries the majority of accounting requirements are contained in the Accounting Act rather than in Accounting Standards. Thus, the principal Polish accounting regulations consist of: the Accounting Act, Decrees from MoF concerning accounting by banks, insurance companies, investment funds, pension funds, consolidation and financial instruments and *two PAS concerning cash flow statements and deffered taxation* that have been issued by the Polish Accounting Standards Committee. Czech Accounting Standards for accounting entities are introduced in 2003 enforced starting with 2004, enclosed to Accounting Act (457/2003, 257/2004) and Decree no. 500 (2003). The Accounting Act amended, mandates that listed companies prepare annual legal entity financial statements in accordance with CzAS and consolidated financial statements in accordance with either the CzAS, IAS, or other internationally recognised accounting standards. As the ROSC (february 2003) pointed out CzAS remain applicable to SMEs, and the accounting standards setting body should be composed of professional accountants, business representatives, regulators, and other stakeholders, such as the Ministry of Finance and the tax authorities. *The case of Hungary is also very interesting* from different perspectives: the existing type of accounting regulation, the development of DAS, etc. In the past, HAS have been set up by the Ministry of Finance and incorporated in the Act on Accounting. Beginning January 1 2005, these standards were applied only to the legal entity financial statements of companies and to the consolidated financial statements of non-stock exchange listed companies that do not choose to present financial statements prepared in accordance with IFRS. Recently the Hungarian Accounting Standards Board has been established to take over the responsibility for setting HAS from the MoF. Its establishment reflects the desire of the MoF for accounting standards to be developed by the accounting and auditing professions rather than by government. The MoF envisages that the Board will work to ensure full convergence of HAS with IFRS within six to eight years.

Main elements of the accounting regulatory process in the Baltic countries

Since 1990 all three countries have adopted new accounting legislation. In all three countries this new legislation, constitutes a significant departure from the former accounting system based on the Soviet chart of accounts. In opinion of Marie Nigon (1993, Accounting Reforms in Estonia, Latvia and Lithuania, Main Issues) the new accounting legislation has been inspired by the accounting legislation of three Nordic countries: Denmark for the Latvian Law, Sweden and Finland for the Estonian Law, and the EC Accounting Directives. It is therefore not surprising that the new laws of the three republics while different in scope and contents allow many common elements.

Analysing comparatively the evolution of accounting regulation in the three countries we consider Estonia has outdistanced the other two countries, even if the main aim of our research is not to conceive a hierarchy of the most effective model of accounting regulation. Nevertheless, this country has a special place not only among CEE countries, but also for the Baltic countries, from this point of view.

The Estonian financial accounting system has been constituted from Estonian Accounting Law as well as from the Estonian Accounting Standards, issued and improved by Estonian Accounting Standard Board, since 1995. In some sense, this concept is a unique compilation of Anglo-American approach and Continental European approach.

In Estonian accounting regulation the Accounting Law represents the European approach whereas the Estonian Accounting Standards stands for the Anglo-American approach. Such compilation has a number of advantages in the first period of accounting regulation creation (transition period) and enables the flexible manner of the transition process.

Our explorative analysis of the accounting regulations in the CEE countries revealed that, besides Estonia, only Slovenia has introduced the mentioned double set accounting regulation, in the first half of the 1990's. In the second half of the 1990's this approach was implemented in several market economy countries like Germany, Norway, Sweden and then in Latvia, Lithuania. Such type of double set accounting regulation was introduced gradually or instantly in Bulgaria, Albania, Moldova, Ukraine, Kazakhstan, Bosnia-Herzegovina and other EE countries.

Arthur Praulins in 2006 identified *17 Estonian Accounting Standards* adopted by the Accounting Board an independent authority, which may be characterized as *„mini version" of IAS/IFRS.* The law allows to apply international standards in place of national ones, producing both individual and consolidated accounts. Estonia is one of the first European states, which gives companies such right of choice. As the practical experience shows big companies normally choose the complete version of international standards, but SME stay loyal to national regulations. Estonia considerably outdistances Latvia not only in the area of national accounting standardization, but also conferring the right to make choice betweeen national and international accounting standards.

In Lithuania, after active discussions taking place in the end of 1990's, which concerned accounting standardization necessity, feasibility and its possible trends of development (elaboration on national standards or taking over of international standards), there was taken a decision to start a two-kind national accounting standards elaboration: Ministry of Finance was responsible for budget institution accounting standards and Lithuanian Accounting Institute was authorized to elaborate the standards for revenue oriented enterprises. This process was especially active in the second half of 2002, when on 19 December, first 11 national/domestic accounting standards were adopted. On 20 December 2003, 9 more standards added, and on 10 November 2004, the following 5 standards. The process of national/domestic standards elaboration goes on.

Performing comparative analysis of different aspects of Estonian, Latvian and Lithuanian accounting system regulation, we found a number of differences (Table 1).

Table 1. **Differences between Baltic countries accounting system regulation**

Parameter	**Latvia**	**Estonia**	**Lithuania**
Basic normative acts regulating accounting at the moment	Accounting Law Enterprise Annual Reporting Law Consolidated Annual Reporting Law	Accounting Law	Accounting Law Financial Accounts Law Consolidated Annual Reporting Law
Elaborated the concept of national accounting system development	no	no	Concept of Lithuanian accounting system reorganization and development (10.06.1997) Main trends of Lithuanian accounting and audit system development in 2002-2020 (20.11.2001)
The author of the first national standards and start of elaboration	Committee of Methodology of Latvian Association of Sworn Auditors Latvian Accounting Standards Consultative Board (1997)	National Accouting Board (1995)	Lithuanian Accounting and Audit Institute (1997)
Existing national accounting standardization institution	Accounting Board	Accounting Standards Board	Lithuanian Accounting Institute
Adoption and effective date of first accounting standard	1999	1995	2002
Number of being in force national accounting standards	*8*	*17*	*25*
Spreading of national and international accounting standards	Thematic match of national and international accounting standard	Separate national standards comprise contents of several international standards	Some national standards comprise topics of several international standards

National accounting standards which have no international analogue	no	Exist Liquidation-sheet and final balance Profit free proprietorships and funds	yes
National accounting regulation institution elaborates tutorial recommendations and accounting standards interpretations	no	yes	yes

(*Source: Praulins A., 2006)*

Some key issues concerning accounting regulation in former Soviet Union countries

Another point that could matter in a comparative approach is about *Russia's* adoption of IAS/IFRS. Even the standards that have been adopted may not always represent the current original version. For example, the Russian standard on income taxes is based on the old version of the IAS income tax standard, not the new one. This fact is acknowledged within the Russian accounting community but it may not be well-known outside Russia. Another less known fact about DAS is that the Russian versions of the standards that have been adopted are not mere translations from the English language. In many cases these are abbreviated, simplified versions of the original English IAS/IFRS. RAS tend to be much shorter, more detailed and conceptual. They usually cover only a fraction of IAS/IFRS content. In short, it may not be accurate to state that Russia has adopted IAS/IFRS. It would be more eloquent to say that RAS are simply based on IAS/IFRS. Often the differences between RAS and IAS/IFRS are not large or important. However, the difference may be substantial, such as in the area of accrual principles.

In *Georgia*, the GFPAA has developed a reduced set of accounting standards, which have been approved by the Accounting Commission and adopted by the Ministry of Justice. These „*temporary accounting standards"* for small companies are derived from IFRS and exclude the IFRS provisions that the GFPAA deemed irrelevant for small companies. The GFPAA has also developed a further reduced set of standards for use by non-profit legal enterprises. The draft Law adopts these standards for entities that do not have an auditing obligation. Both of these sets of reduced standards are seen as temporary in anticipation of Accounting Standards for SMEs, which are being developed by IASB. The Accounting Commission intends to adopt the IASB SME standards once these can be translated.

Ukrainian Accounting Standards produce financial statements that are intended principally to meet the information needs of the tax authorities. For instance, UAS 7 Tangible Assets allows the use of tax depreciation methods (among other methods) that may not reflect the pattern in which the asset's economic benefits are consumed by the enterprise. Prepares of such financial statements tend to use tax methods where permitted, and do not give much attention to the quality of information that does not directly affect tax computation. UAS financial statements differ materially from IAS/IFRS financial statements.

As respect to *Moldovian accounting regulatory process*, an important aspect is that the *MoF has developed a specific accounting standard for small and medium enterprises,* which is useful for bookkeeping but needs some simplification and does not provide SMEs with a clear financial reporting framework. NAS 4 *Accounting by Small Business Entities* was developed pursuant to Article 14 of the Accounting Law in order to provide a set of „principles of accounting, preparation of accounting registers and financial statements" adapted to SMEs' less complex transactions and resources. It includes an indicative chart of accounts that limits the types of entries to a few basic categories of assets, liabilities, equity, revenues and expenses, as well as certain off-balance sheet items. Financial statements prepared in accordance with NAS 4 are defined as follows: „balance sheet, income statement, annex to the financial statements and explanatory notes" (NAS 4, paragraph 42). However, no definition is given of the content of those notes, or which of the disclosures required by NAS 5 *Presentation of Financial Statements*, can be omitted or adapted. Moreover, NAS 4 does not set out any principles for the recognition of transactions and for assets and liabilities' measurement.

Principles versus rules in the accounting regulatory process

Hines (1988) demonstrates that when we draw up accounting rules, we determine what we view of reality we present. Explaining this, if we decide that internally generated intangibles should not be measured, we also determine that a whole class of assets owned by a company is not part of the picture given by the balance sheet and therefore the reality (true and fair view) that the balance sheet is supposed to reflect is shaped by decisions on the accounting rules. So, those who make the accounting rules establish which aspects of the company are highlighted and which are neglected in financial reporting. But, they do not create something that does not exist, although we all know that some companies do try to use the rules in such way. Accounting rules always reflect some perception of which aspects of a company can and should be measured.

To regulate or not to regulate, and if regulate how to do it, these questions, are part of a main issue concerning the acounting regulatory process. The purpose of regulation, the enforcement of regulation, and the social acceptance of regulation are other parts of the questions raised above. On the other hand, in the accounting literature, there has been significant debate about the relative merits of principles and rules that would tend to suggest that the two approaches are mutually exclusive. Principles often include rules to assist in their implementation. Similarly, rulebooks often contain options where different actions and potentially quite different results still meet the objectives of the rules.

Authors like Thomadakis (2007) prefer the use of principles to guide the actions of individuals and groups rather than establising detailed sets of rules. His opinion is that we can be confident that some people will ignore legal requirements regardless of their form of expression while others will look to circumvent the law by acting within its letter but ignoring its spirit, exploiting small print and loopholes. He also see principles as having an inherent aspirational quality that rules simply cannot support. Another highly practical attraction is that establishing principles rather than rules allows regulation to respond effectively to evolving conditions without the need for constant amendment. Just as consistency of actions promotes confidence, too frequent amendments to rules can actually undermine it.

The same author puts up the question: What makes good regulation? In his opinion the answer is a simple one: "good regulation serves the public interest through supporting ongoing confidence in processes, such as the market process, in which the public participates and in activities, such as auditing, on which the public relies". Thomadakis (2007) consider the design of good regulation must fit the following criteria:

-necessity;
-transparency;
-proportionality;
-effectiveness;
-flexibility.

In conclusion, we have to underline the need and importance of principle based standards in accounting regulatory process. Is the case of IFRS's. In our opinion the way the IFRS's are build and conceived is a one to follow by the CEE countries. The arguments can be found in the above mentioned ideas. In order to have a good accounting regulation we have to recognize a structure of a principle based standards. That means we must have:

-recognition principles;
-measurement principles;
-derecognition principles; and
-presentation and disclosure principles.

Naturally, these principles must derive from conceptual framework and rely on professional judgment in their application in certain business context.

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