

Financial Reporting Framework: Case of Czech Republic and Macedonia

Jiří Strouhal, and Fitim Deari

Abstract—The European Union (EU) Regulation 1606/2002 requires all listed companies of the member states to prepare consolidated financial statements based on the International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1 January 2005. The adoption of IFRS is supported in many countries inside and outside the European Union because it may improve the quality and comparability of financial reporting. In addition to the use of IFRS by listed companies and in some countries also by unlisted companies, many countries have developed their own national accounting standards based on the international ones. Although the national standards are based on IFRS, they are not identical. The Czech Republic and Macedonia are transitional economies based in "Central and Eastern Europe". Czech Republic joined EU in May 2004, whereas Macedonia is still the candidate country. The purpose of the paper is to compare national accounting standards of the Czech Republic and Macedonia with IFRS, look at approaches of these countries to aspects of financial reporting, and analyze differences and similarities in the approaches.

Keywords—Financial Reporting, IFRS, Czech Republic, Macedonia.

I. INTRODUCTION

THE globalisation and the expansion of markets as well as the general progress in the technologies available have brought new problems to the compilation of financial reports and to the ascertainment of trading income of supranational corporations and groups in accordance with statutory regulations of countries involved.

Without common accounting standards, there could be 27 different national methods of accounting in addition to the use of IFRS and US GAAP, which are permitted by some EU countries [Whittington]. Brown and Tarca warn that "the future of the IASB is tied to the successful introduction of IFRS in Europe" [Brown and Tarca]. The EU motivates the regulation by referring to the enhanced international comparability and transparency of financial statements and improved access to the international capital markets resulting from IFRS usage [Cuijpers and Buijink].

In the year 2002, the European Parliament and the Council of the European Union issued Regulation 1606/2002 whereby it stipulated certain duties on the part of companies listed on

European stock exchanges to compile their consolidated accounting statements in accordance with IFRS. Therefore, beginning from 2005, a large number of listed enterprises, exhibiting significant heterogeneity in size, capital structure, ownership structure and accounting sophistication, started to apply international standards for the first time. The demand for detailed application guidance will increase substantially, as will the demand for uniform financial reporting enforcement throughout the European Union. Schipper states "if the IASB declines to provide detailed implementation guidance for IFRS, I predict that preparers and auditors will turn elsewhere, perhaps to US GAAP or perhaps to jurisdiction-specific European GAAP, for that guidance" [Schipper].

In addition to the use of IFRS by listed companies, many countries adopt international standards for unlisted companies or model their domestic standards on the basis of international standards. The Australian government had decided to adopt international standards for the statutory accounts of all domestic companies from 2005, and New Zealand has indicated the year 2007. The 2003 survey by Deloitte and Touche [9] suggested that more than 90 countries would either require or permit IFRS for listed companies by 2005, and according to the latest Deloitte survey now there are over 100 such countries. This provides an interesting example for those who argue that accounting standards should be left to competition in the marketplace (e.g. Watts and Zimmerman).

The requirements for group listed enterprises to prepare IFRS reports from 2005 were established in most transitional economies, but it is still unclear to what extent other enterprises will prepare IFRS financial statements. Concerns about the lack of suitably trained accountants and auditors and the lack of efficient markets to ensure reliable fair values for the IFRS financial statements, have already been expressed [Eccher and Healy, Sucher and Alexander]. This may cast doubt on whether the financial statements issued under IFRS will be reliable. 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.].

From the year 2005, the public listed companies in the Czech Republic should report under the IFRS framework, while the non-listed companies still report under the Czech accounting principles. The Czech Accounting Act was adopted in 1992 and since then has been changed 15 times. Unfortunately, these changes do not comply with the necessity

J. Strouhal is with the University of Economics Prague, Senior Lecturer, W. Churchill Square 4, 130 67 Prague 3, Czech Republic (corresponding author; phone: +420-224-095-794; e-mail: strouhal@vse.cz).

F. Deari is with the South East European University Tetovo, Ilidenska str., Tetovo, Macedonia.

of the harmonisation of the Czech accounting with IFRS. Surprisingly, the definition of the balance sheet items is still missing in Czech GAAP.

Macedonia gained its independence peacefully from Yugoslavia in 1991. Since the Stabilization and Association Agreement in April 2001, the economic orientation of Macedonia has moved increasingly toward Western Europe. Consequently of economic integration, accounting harmonization has become even more important after the European Union (EU) granted Macedonia candidate status on December 17, 2005.

According to Company Law (2004, Article 469), each commercial entity shall be obliged to keep accounting records and submit annual accounts in a manner determined by this law, and the accounting regulations. Each large and medium size commercial entity, commercial entities specified by a law, as well as commercial entities performing banking activities, insurance activities, commercial entities listed on the Stock Exchange and commercial entities, the financial statements of which are included in the consolidated financial statements of the above mentioned commercial entities, shall be obliged to prepare and submit financial statements in accordance with the adopted International Accounting Standards, published in the "Official Gazette of the Republic of Macedonia".

The Minister of Finance shall prescribe special regulations for the keeping of accounts. The format and contents of the balance sheet and income statement prescribed by the Minister of Finance applies to large and medium enterprises. Simplified balance sheet and income statement apply to small enterprises.

Accounting regulation is driven by the Ministry of Finance, which also regulates and collects taxes. On the other hand, implementation of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) is not an enclosed process, but it is the standard-setting process which takes into account the needs of all accounting information users.

According to Company Law (2004, Article 471), each commercial entity, in accordance with the principles of proper keeping of accounts, shall keep its trade books in a manner that clearly reflects all business and legal operations and the position of its assets, liabilities, equity, revenues and expenses. The trade books shall be kept in a manner that enables any third party -expert when reviewing the trade books to gain a general overview and insight into the operations of the commercial entity, as well as the financial condition and financial results of the company. The trade books shall clearly present how all of the business transactions of the commercial entity have been commenced, conducted and completed. The commercial entity shall be obliged to keep one copy of each business letter sent. Such copy shall be identical to the original sent. The trade books shall be kept according to the double entry accounting system. Trade books, kept in accordance with the double entry system shall be the Journal, the Ledger and the Subledger records.

According to Company Law (2004, Article 472), the commercial entity shall keep their trade books in the

Macedonian language, using Arabic digits and values expressed in denars. All data registered in the trade books shall be comprehensive and complete, prepared in a timely manner, up-dated as necessary and presented chronologically, or shall accurately reflect the time sequence of their occurrence. The trade books shall be kept on the basis of reliable accounting documents. Records registered in the trade books shall not be altered in such a manner that would prevent the determination of the originally registered contents. Making changes or modifications in a manner that prevents distinguishing the original and initially entered (registered) contents from subsequent additions or changes shall be contrary to this law. Trade books may be kept in a hard copy (in separate or bound sheets) or in electronic form, in accordance with proper accounting principles. The commercial entity shall be obliged, regardless of the method of keeping and storing the trade books, to provide access to the trade books, at any time and pursuant to a reasonable notice period and to keep and ensure their protection from interference during such stipulated period, and to guarantee their availability at any time. Trade books kept under the double entry accounting system shall be kept by applying single accounts as prescribed by the Chart of Accounts. The Chart of Accounts shall prescribe the accounts that are obligatory for all trade companies, unless otherwise provided by law. The commercial entity shall, according to its needs, break down the accounts from the Chart of Accounts into analytical accounts (in its Subledger Chart of Accounts). The Minister of Finance shall prescribe the Chart of Accounts.

IAS/IFRS require retrospective accounting so that the correction of an error is excluded from the determination of profit or loss for the period in which the error is discovered. Such inconsistencies result in difficulties for preparers and auditors, who may find themselves unable to comply with both domestic law and international standards (Hegarty et al.).

According to Company Law (2004, Article 473), each commercial entity shall compile an accurate inventory of its entire property. The inventory shall separately present the immovable property, installations, equipment, stock, intangible assets (patents and licenses), cash and cash equivalents and all current assets by stating the value for each part of the property separately. The balances of assets and liabilities in the accounting shall be reconciled, at least once a year, with the actual balances as determined by the inventory as at the 31st December. The commercial entity shall draw up the inventory every business year that shall last one calendar year. All entities considered to be commercial entities according to their form, as well as sole proprietors, shall be obliged to draw up an inventory. Parts of the property of the same or similar type may be presented together as a group with their total value. The commercial entity shall also draw up an inventory in the event of reorganization, liquidation and bankruptcy proceedings and in other cases stipulated by law.

As we can see, according to Macedonian Company Law, regulation in line of preparing and presentation of financial statements is more a formal than essential a guide. It doesn't

mention others criteria like International Accounting Standard 1 for fairly presentation, going concern, accrual basis, consistency of presentation, materiality and aggregation, comparative information, etc. Those are fulfilled in Macedonian Law on Accountancy. But, oriented according two laws, i.e. Company Law and Law on Accountancy can be an obstacle for companies in line of preparing and presentation of financial statements.

The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation (IAS 1.13).

IAS 1 requires that an entity whose financial statements comply with IFRSs make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs (including Interpretations) (IAS 1.14). Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material (IAS 1.16). IAS 1 acknowledges that, in extremely rare circumstances, management may conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure (IAS 1.17-18).

An entity preparing IFRS financial statements is presumed to be a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures (IAS 1.23). IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting (IAS 1.25).

The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS (IAS 1.27). Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial (IAS 1.29).

Offsetting> Assets and liabilities, and income and expenses, may not be offset unless required or permitted by a Standard or an Interpretation (IAS 1.32). IAS 1 requires that comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements, both face of financial statements and notes, unless another Standard requires otherwise (IAS 1.36). If

comparative amounts are changed or reclassified, various disclosures are required (IAS 1.38).

According to Macedonian Law on Accountancy (Article 27), assessment of the accounting statement items shall be done by applying the assessment rules defined in the Entity's accounting policy, which are in line with this Law, the accepted accounting principles, standards, principles and the current accounting practice.

According to Law on Accountancy (Article 28), the basic assumptions for composing accounting statements shall be:

- constancy,
- consistency,
- keeping of records of the changes as they occur.

The general rules (criteria) of assessing the accounting statement items shall be:

- caution (carefulness), the principle of accomplishment and equal values-impairities,
- individual assessment of property and obligations,
- linkage of the balance sheet in the time,
- material

II. CZECH REGULATION

Please From the year 2005, IFRS were given as a legal framework for the reporting of listed companies in all E.U. countries (including the Czech Republic and the Republic of Lithuania). The "target user" of the financial statements in the Czech Republic is still the tax authority, not the investor or owner. Moreover, unlike international standards, the Czech accounting regulations lack a glossary of definitions for basic elements of financial statements, which is why we shall use the definitions applied in IFRS standards, namely in the Framework. Reliable measurement is expected from all entries involved.

Concerning the initial recognition under Czech laws, the Accounting Act (Section 24) identifies the following valuation alternatives:

- historical costs, i.e. the cost of acquisition of the assets concerned, including the costs related to the acquisition itself;
- replacement/reproduction cost, i.e. the cost for which the assets would be obtained at the time of the accounting statement;
- production costs, which include all direct costs expended on the manufacturing or other activity and that part of indirect costs, which is related to the manufacturing or other activity involved;
- nominal value, i.e. the face value.

In the Czech Republic, items are usually measured at historical costs, while donated or gratuitously procured assets are measured by replacement costs, which are the approximate equivalent of the reproduction cost as defined by IFRS. Under certain circumstances, the realizable value and the fair value also may be used as the measurement bases for financial accounting. On the other hand, the Czech regulations virtually ignore measurement methods based on present value [Strouhal and Židlická], which are required for measurement of long-

term receivables, long-term payables and financial assets held to maturity (under IFRS).

Under Section 18 of the Accounting Act, the financial statements comprise: balance sheet, profit and loss statement, and notes. At the same time, Section 18 also contains the following unfortunate sentence “the financial statements may also include a cash-flow statement and the statement of changes in equity”. This means that under Czech laws, the cash-flow statement is not an obligatory component of the financial statements, not even for the accounting entities, which are liable to statutory audit [Strouhal]. On the other hand, international standards stipulate that the above statements be an integral part of the financial statements. The subsequent text deals mainly with the balance sheet and the P/L Statement.

A. Financial Statements

The Czech regulations do not require the separate reporting of discontinued operations, while IFRS stipulate that discontinued operations be disclosed and presented separately in accordance with IFRS 5. In particular, IFRS 5 stipulates that “the sum of the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets (or disposal group) should be presented as a single amount on the face of the income statement. Detailed disclosure of revenue, expenses, pre-tax profit or loss, and related income taxes is required either in the notes or on the face of the income statement in a section distinct from continuing operations”.

Pursuant to the Fourth Directive of the E.U., accounting entities should compile the profit and loss statement vertically, allowing for the presentation of expenses either according to their nature or function. However, if the profit and loss statement is arranged with respect to the function of entries involved, an accounting entity must also include a schedule disclosing the operating costs classified with respect to their nature.

Under IAS 1, an entity should also report the earnings per share ratio (EPS). Unlike US GAAP, international standards do not require that costs be classified as to their function in the profit and loss statement. Instead, they only demand that accounting entities submit an analysis of costs classified as to their nature or function, whichever classification provides more reliable or more relevant information. However, the function-base classification allows for an amount of certain discretion with respect to the assignment of costs to individual functions.

There exist two basic differences between the profit and loss statement compiled in accordance with Czech rules and in compliance with IFRS: IFRS have revoked the obligation to report extraordinary expenses and extraordinary revenues – as of 1 January 2005, accounting entities disclose extraordinary expenses and revenues under their other expenses and revenues; the Czech regulations have included the entries for re-allocation of expenses to inventory and fixed assets and

change in inventory of finished goods and work in progress among the revenue entries. However, since IFRS do not recognize the above entries as revenues, they have been included among adjustments to operating expenses.

Firms with international stock exchange listings face additional capital market pressures [Meek et al.] and stock exchange requirements [Cooke] that may lead them to increase their level of disclosure. Investors demand information about the domestic operating environment and domestic accounting regulations of foreign listed firms [Nobes and Parker]. Many stock exchanges around the world allow foreign registrants to prepare their financial statements according to IFRS or US GAAP. Prior studies show that the level of disclosure [Cooke, Meek et al.] and the probability of using non-local GAAP [Ashbaugh, Dumontier and Raffounier, El-Gazzar et al., Leuz, Leuz and Verrecchia, Murphy] are positively associated with the number of foreign stock exchange listings of a firm. The impact on financial reporting of cultural differences has been well documented [Nobes and Parker, Radebaugh and Grey]. There may be more disclosure by UK and US companies that have a culture of disclosure of information than by companies that have not traditionally aimed to produce especially transparent financial statements (e.g. companies from transitional economies such as the Czech Republic).

B. Reporting of Balance Sheet Items under Czech Principles

1. Intangible Fixed Assets

Intangible fixed assets are intangible assets, which the accounting entity intends to keep for more than one accounting period (the Income Tax Act also specifies that the input price of intangible fixed assets must exceed the sum of CZK 60 000).

The value of intangible fixed assets is measured by historical cost (acquisition price) for assets purchased, by production costs for internally generated assets and by replacement price for assets obtained gratuitously. Intangible fixed assets are subject to amortization; the amortization period is stipulated by the Income Tax Act. The intangible fixed assets must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity should disclose either the net book value of the intangible fixed assets, or the lower present market price.

Unlike under the Czech regulations, under IFRS the incorporate expenses as well as research and development (R&D) should be accounted for under expenses. Under certain circumstances, R&D may also be capitalized in the balance sheet. Goodwill pursuant to IFRS 3 should be disclosed only in the event that the goodwill was generated by acquisition. Advance payments may be offset against debts from the same title.

2. *Tangible Fixed Assets*

Tangible fixed assets include tangible assets, which the accounting entity intends to keep for more than one accounting period (the Income Tax Act also specifies that the input price of the tangible fixed assets must exceed CZK 40 000).

The value of the tangible fixed assets is measured by historical costs (acquisition price) for assets purchased, by production costs for processed production and by replacement price for assets obtained gratuitously. Tangible fixed assets are subject to depreciation; the accounting books should show the so-called book depreciation. The tangible fixed assets must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity should disclose either the net book value or the lower present market price of the tangible fixed assets concerned.

Measurement at fair values is preferred by the international companies in the Czech Republic. We think that there is a good information background for the calculation of the fair value of property, plant and equipment (PPE) or investment property. On the other hand, the Czech Ministry of Finance prefers the prudence principle and also, for the Tax Authorities, it is much easier to find out the historical costs rather than to calculate the fair value.

Financial leases are treated totally differently under Czech GAAP. The “form over substance” principle is fully applied, as it is the leasing company, which reports the leased assets, not the lessee! We think that this is the main problem of Czech GAAP nowadays and has great consequences for financial decisions. Also, it should be stated here the unwillingness of the Czech Ministry of Finance to solve the problem with financial leases as under IFRS, where the traditional principle “substance over form” is used.

3. *Inventories*

Inventories are current assets consumed by an entity during one year or within one operating cycle for generating revenues. Usually, we distinguish between inventory purchased and processed production.

At the time of acquisition, the value of inventories is measured by the historical costs (acquisition price for purchased inventories), replacement price (for inventories obtained gratuitously) and production costs (for processed production).

For the measurement of the value of inventory decrement, the same cost formula should be used for all inventories with similar characteristics as to their nature and use to the enterprise. For groups of inventories that have different characteristics, different cost formulas may be justified, including FIFO, the weighted average cost formula, the fixed inventory price with independent disclosure of variations or the actual acquisition price.

Accounting entities are entitled to choose from the continuous inventory system (method A) and the periodic inventory system (method B) for inventory records. In the continuous inventory system, accounting entities record

inventories via account groups Materials, Processed Production and Goods and allocate inventory decrement to costs (Raw Materials, Resale of Raw Materials, Consumables and Purchased Finished Goods) or to income adjustments (group Change in Inventory (Stocks)). In the periodic inventory system, accounting entities record the purchased inventories in the relevant costs accounts and during the accounting period do not even use balance-sheet entries such as Inventory of Materials and Consumables or Inventory Purchased for Resale – In Storage. Instead, as of the balance day, the accounting entity transfers the initial status of the balance-sheet entries into costs and based on the stock-taking results transfers from the costs the final status of purchased inventories into the balance sheet.

Inventories must be accounted for in compliance with the prudence principle as of the balance day, meaning that the accounting entity must record the inventories with their book value or with their lower present market value.

4. *Receivables, Payables and Credits*

The short-term and long-term receivables constitute a part of current assets, while short-term and long-term payables are included among liabilities.

Both receivables and payables should be measured by their nominal value, unless obtained in exchange for consideration, in which case they should be measured by their acquisition price. The impossibility to measure the long-term receivables and long-term payables at their present value (what is also possible e.g. in Slovakia) is quite surprising. Accounting entities must convert receivables and payables in foreign currencies as of the moment of their measurement to Czech crowns in accordance with the current exchange rate of the Czech National Bank or a fixed exchange rate. As of the balance date, the accounting entities must also convert the sum of pending receivables and payables to Czech crowns in accordance with the current exchange rate of the Czech National Bank. Foreign currency exchange losses and gains should be recognized in the income statement.

The deferred tax assets and liabilities arise from the differences between the accounting and taxation concepts of selected accounting entries. The accounting for the deferred taxes is based on the assumption that the accounting entity will apply the deferred tax in a later period than the due tax. The recognition and the accounting for the deferred tax are mandatory for entities, which form the consolidation units (i.e. enterprises within a group) and the accounting entities, which are obliged to compile the final accounts in their full extent. Other accounting entities may account for the deferred tax at their own discretion. The accounting for the deferred tax does not affect the tax liability. At the same time, it affects the sum of disposable profit, i.e. profit intended for allocation. The calculation of the deferred tax should be based on the balance-sheet approach. The deferred tax should be recognized for all temporary differences arising from the different accounting and tax views of entries included among assets and liabilities. It is also necessary to account for differences between the tax

and tax residual price of the deductible tangible and intangible fixed assets as well as for other differences such as the reserves created beyond the scope of statutory duty, recognition of adjustments to inventories or receivables etc.

Credits and financial assistance should be measured at their nominal value.

5. Cash

Short-term financial assets are included among the current assets of an enterprise. We distinguish between cash in hand, cash at bank and short-term securities. Cash items are measured at their nominal value, while short-term securities are measured by the historical costs (acquisition price). Short-term securities are measured at fair values, however it should be stated that it is quite difficult to measure the fair values of shares because of not very transparent stock exchange in the Czech Republic (Prague Stock Exchange).

6. Provisions

The Accounting Act stipulates that only the genuine profits should be accounted for in the balance sheet, and that the accounting entity should take into consideration all predictable risks and possible losses affecting its assets and liabilities and known to the accounting entity at the time of balance sheet compilation. Also, it should include all devaluations regardless of the fact whether the accounting entity showed profit or loss in the accounting period. The accounting entity is entitled to use provisions, adjustment entries and write-offs for that purpose. Provisions are aimed to cover future expenses or liabilities, whose purpose is known and which are expected to occur, but whose timing or amount is uncertain. However, provisions may not be used to adjust the value of assets.

Provisions may be used only for the purpose for which they have been originally recognized. Logically, a provision may only be used to the maximum amount in which it was created; and a provision may not have a debit balance. The balance of reserves at the end of the accounting period should be transferred to the subsequent period. Accounting entities are obliged to review provisions entered in the books at the end of the accounting period, and assess their tenability and amount. If it is discovered that the reason for which the provision has been created has lapsed, the provision should be dissolved in its full extent. If it is discovered that the provision is for a different sum than it is due, it should be adjusted. In the balance sheet, provisions should be accounted for under liabilities.

The Accounting Act defines the following types of reserves: provisions for risks and losses, provisions for income tax, provisions for pensions and similar obligations, provision for restructuring, technical provisions or other provisions pursuant to special legal regulations (statutory provisions).

The Provision Act stipulates three types of provisions for enterprises: provision for repairs of tangible assets, provision for cultivation of crops, other provisions (for the removal of

mud from a pond, for the redevelopment of plots affected by mining, for the settlement of mine damage or provisions stipulated by special laws as costs required to achieve, ensure or maintain revenues).

III. MACEDONIAN REGULATION

A. Intangible and Tangible Investments

According to Law on Accountancy (Articles 32-42), intangible investments shall include:

- initial investments,
- goodwill,
- investments in research and development,
- patents, licenses, concessions and other material right, as well as

- the investments in procuring intangible investments.

Tangible investments shall include:

- natural resources (land and forests), and
- the means of work (buildings, equipment, multi-year plantations, basic flock and other means of work), as well as
- investments in procuring natural resources and means of work.

When assessing intangible and tangible investments in the balance sheet shall be entered the amount of the unwritten-off value of the investments, as well as the amounts of the acquisition and written-off value. Intangible and tangible investments shall be systematically written off during the business year to the charge of the total income, except in the case of the users of the Budget and/or the Funds, if proceeds from the Budget and/or the Funds have not been raised as depreciation by applying the base of the annual depreciation rates resulting from the assessed duration and utilization of the proceeds and the expected income from such utilization in line with the Entity's chosen accounting policy. Intangible and tangible investments shall be written off as extraordinary expenses, except in the case of users of the Budget and/or the Funds.

Depreciation rates shall be determined independently by the Entity, provided that the annual depreciation rates determined by the nomenclature of deprecation funds. The Government of the Republic of Macedonia, by previously provided Macedonian Chamber of Commerce opinion, regulates the nomenclature of the depreciation means at annual depreciation rates, as well as the mode of calculation of depreciation, and/or the writing-off of the value of intangible and tangible investments. The depreciation base shall also be adjusted for additional revaluation value of the investments.

The acquisition value, i.e. the cost price of the intangible and tangible investments shall serve as the base for writing-off. The acquisition value of the intangible and tangible investments shall constitute the suppliers' invoice value increased by the dependent costs based on the acquisition and the bringing into the state of functional preparedness. The cost included in the cost price shall cover the direct cost of such investment and the pertaining part of the indirect costs. The cost price may also, include the expenses of the financing of

the production of elements of the tangible investment until its start-up. The cost price may be considered as an investment depreciation base, but up to the acquisition price of the same or similar product or service. The depreciation base shall be adjusted for additional investments due to reconstruction, adaptation or other investments increasing the capacity or functional ability.

The base for writing off the founding investments shall be constituted of the study and research expenses, expenses for preparation and purchase of the project and other documentation, expenses for professional training and improvement, interest expenses, insurance premiums expenses, as well as other expenses relate to the founding of the Entity, i.e. the Entity's organization unit or plant. The base for writing off the delimited negative effects of the different growth of the foreign exchange rates of the foreign currencies and of the growth of the domestic prices of the producers of industrial products shall be constituted of the amount of this delimitation determined for a specific business year. The base for writing off the basic flock shall be constituted of the difference between the market and the slaughterhouse price of the livestock. The base for writing off the intangible and tangible investments received free of charge shall be constituted of the assessed acquisition value. The writing off the intangible and tangible investments shall start after expiration of the months of the start-up in the year in which the utilization of the investment has started. As an exception, the writing off of the investments in the raising of the tangible and intangible investments (ongoing or stopped investments) shall start after expiration of the period for start-up provided in the investment survey, i.e. the revised investment survey, with which the investment (the fixed asset) should have started to be used. The writing off of the intangible and tangible investments may temporarily be interrupted for the investments impaired by force major until their repair.

The obligation to write off shall not apply to the following intangible and tangible investments:

1. land and forests as natural resources that are not consumed;
2. building and objects which, in accordance with the Law, have been declared as monuments of culture and historical monuments, i.e. which constitute museum value or works of fine, sculptural, film, and other arts (except that these objects are not used for an activity from which income is earned) and book in libraries;
3. earth and macadam roads of local importance as well as the structures that are an integral part of such roads;
4. buildings (except flats and apartment buildings) and the equipment of the units of the Army of the Republic of Macedonia and the buildings (except flats and apartment buildings) and the equipment which, by virtue of separate regulations, serve for the requirement of the defense and security of

- the Republic, i.e. for the performance of the functions of the public and state security;
5. the bottom layer of the railway and other tracts on the roads, airports, streets, squares, parks and other built public areas;
6. the part of the acquisition value of the flats and apartment building spent on the infrastructure, for the requirements of protection of the environment, as well as for the requirements of the defense;
7. the part of the acquisition value of flats and apartment building spent on expenses for installation of connections for electrical, heating, plumbing, sewerage, telephone and other telecommunication network at a distance of one meter from the building;
8. all tangible investments of the Entity undergoing a bankruptcy or liquidation proceeding, if it does not perform its activity at the time.

The deadline to write off intangible investments, with the exception of the difference between the higher purchase value and lower book value at the time of purchasing parts or whole entities (the goodwill) and the delimited adverse effects of the different growth of the exchange rate of the foreign currencies and of the growth of the domestic prices of the producers of industrial products, as well as the rights that have a fixed period of use, may not be longer than five years.

The investments in goodwill and the delimited adverse effects shall be written off at least at the average annual rate at which the Entity has written off the present value of the fixed assets (writing off of the residual life of duration) in a year in which an investment in goodwill has been made, i.e. the Entity has determined the delimitation. The writing off of intangible and tangible investments during the year shall be calculated temporarily based on the annual depreciation account adjusted by the changes during the year. At the end of every business year, as well as at the time of status-related changes, a final depreciation account shall be drawn up. The depreciation shall be calculated by groups and individually on the intangible and tangible investments by the Nomenclature of depreciation assets.

The Entity shall assess the land at market prices, and if such price is unknown, the assessment shall be done as follows:

1. as to building land-in the amount of the value corresponding to the amount of the fee defined in accordance with the regulation on expropriation;
2. as to farmland and other land in the amount of the base for collection of tax on sale of the appropriate land determined in accordance with the regulations on the land sales tax.

The assessment of value of the forests shall be done according to the data determined by the stock-taking, i.e. by the assessment of the quantity of wood mass of individual kinds of trees, the depth structure and quality of the wood

mass, calculated at the market prices in the nearest market-place (truck road, railway station, floating object, and the like).

B. Claims and Financial Investments

According to Law on Accountancy (Article 43), the claims and the financial investments shall be assessed in the amount of the nominal value derived from the appropriate business or financial transaction. The decrease in the value of the value of the claims and the financial investments and/or their writing off shall be debited to the extraordinary expenses, and the non-agreed increase in the value shall be credited to the extraordinary income, unless otherwise provided by this Law. The adding of the amount of the calculated revaluation and the interest or the pertaining part to the profit in line with an agreement, and/or contract shall be considered as a new claim, i.e. financial investment, and the value of the corresponding claim and/or financial investment shall be increased on that basis. The due claims and investments, as well as repayments under long-term financial investments shall be excluded from the long-term financial investments and shall be transferred to other short-term claims not later than the date of the annual balance sheet.

C. Inventories

According to Law on Accountancy (Article 44), the inventories of materials, spare parts and goods shall be assessed at the acquisition value calculated according to the method "First in-First out (FIFO)", according to the method "Last in-First out (LIFO)", according to the method of average prices or according to the method of calculation of planned prices adjusted for the departures from the accounting period, unless otherwise regulated by another law. The acquisition price of the materials, and/or spare parts, and/or goods shall contain the net invoice value, customs duties, other import duties, taxes and other duties charged to the price of the suppliers, the transportation costs, insurance and other dependent acquisition costs. The transportation costs may also include the pertaining costs of the Entity's own transportation not exceeding the level of the price of the same or similar transportation service. The general acquisition costs shall not be considered as dependent costs, but rather as production costs and/or expenses in current period. The materials, and/or spare parts produced by the Entity shall be assessed up to their cost price, provided that this price is not higher than the net market price of the same product, and/or similar product, so that the assessment is done up to the net market price. The objects constituting the sundries, the tires, and the return packing, shall be written off according to one of the well-known and practice-accepted methods of writing off, provided that the sundries are written off at least at the rate of 20% of the acquisition value per annum.

According to Law on Accountancy (Article 45), the inventories of the unfinished and finished products shall be assessed up to the full cost price, i.e. up to the selling prices reduced by the duties and sales costs, if these prices are lower.

According to Law on Accountancy (Article 46), the cost price of the inventories of the external production and finished products may also include the general costs that are not included in the production costs under conditions of production of long-term outputs and seasonal sale.

D. Money and Precious Metals

According to Law on Accountancy (Article 49), the money in the treasury and in the accounts shall be entered in the balance sheet according to their nominal amount. The precious metals and objects of precious metals and objects containing precious metals shall be entered in the balance sheet at least in the value derived from the price of the precious metals in the world market. The National Bank of the Republic of Macedonia shall publish in "The Official Gazette of the Republic of Macedonia" until 10 July the prices of the precious metals prevailing on 30 June, and until 10 January the prices prevailing on 31 December of the previous year, with these prices being expressed in denars, based on the average prices from three to five largest world exchanges.

E. Obligations and Non-Operating Liabilities

According to Law on Accountancy (Article 56, 57 and 58), the obligations shall be entered in the liabilities of the balance sheet in the nominal amounts derived from the business and financial transactions. The reduction of the obligations in relation to the nominal amounts shall be done in extra judicial settlement and the like by direct writing off. The due long-term obligations shall be re-booked to the other obligations not later than the date of the annual balance sheet. The Entity shall write off the short-term obligations after expiration of the period of the time limit set by statute of limitations in favour of the extra income. The obligations based on securities shall be adjusted in the business books for the amounts of the interest pertaining to the coming period. Within the framework of the non-operating liability items the pre-collected and/or calculated income and costs of the current period for which a documentation base is missing shall be delayed.

IV. CONCLUSION

The most significant problem of the financial statements and items shown is the complete inconsistency of measurement bases and the application of the historic (acquisition) cost, the fair value and the present value. At present, the principle of measurement based on the historical cost is fading out as it is gradually being replaced by the IFRS trend of reporting fair values, which are, however, difficult to measure in less transparent markets. At the same time, the reporting based on the fair value includes the hidden danger of future volatility of such values and the consequent impact of the changes on financial statements.

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Jiří Strouhal is Senior Lecturer at the Department of Financial Accounting and Auditing of the University of Economics Prague. He graduated from the University of Economics Prague in 2003 and passed his doctoral studies in 2005. Afterwards he also became the accounting expert of the Union of Accountants. He is the author of several monographs in the branch of accounting or corporate finance. From 2007 he is the member of the Executive Board of Czech Chamber of Certified Accountants and member of the Committee for the Education of the Union of Accountants. He provides the advisory in the field of financial reporting and also solves the research projects (national and international).

Fitim Deari is Assistant Lecturer at the Department of Accounting of the South East European University Tetovo.