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Comparative Analysis of the Reporting Bases of Czech Republic, Macedonia and Albania with IFRS

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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, Macedonia and Albania are transitional economies based in "Central and Eastern Europe". Czech Republic joined EU in May 2004, whereas Macedonia and Albania are still the candidate countries. The purpose of the paper is to compare national accounting standards of the Czech Republic, Macedonia and Albania with IFRS, look at approaches of these countries to aspects of financial reporting, and analyze differences and similarities using Jaccard's association coefficients as a general tool.

Field of Research: Financial reporting, International Accounting, Emerging economies

1. Introduction and Literature Review

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, 2005). Brown and Tarca warn that "the future of the IASB is tied to the successful introduction of IFRS in Europe" (Brown and Tarca, 2005). 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, 2005). 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

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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, 2005).
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 (Sucher and Alexander, 2002). 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., 2005).

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 of the harmonization of the Czech accounting with IFRS. Surprisingly, the definition of the balance sheet items is still missing in Czech GAAP. Macedonia gained its independence from Yugoslavia in 1991. Since the Stabilization and Association Agreement in April 2001, the economic orientation of Macedonia has moved increasingly towards Western Europe. Consequently, 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". 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 Macedonian Company Law, regulation in line of preparing and presenting financial statements is more a formal than an essential a guide. It does not mention other criteria like International Accounting Standard 1 for fair presentation, going concern, accrual basis, consistency of presentation, materiality and aggregation, comparative information, etc. Those are fulfilled in the Macedonian Law on Accountancy but, being orientated according two laws, i.e., Company Law and Law on Accountancy, can be an obstacle for companies in line of preparing and presenting 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).

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 on the face of financial statements and in the notes, unless another Standard requires otherwise (IAS 1.36). If comparative amounts are changed or reclassified, various disclosures are required (IAS 1.38).

2. Current Stage of Reporting

2.1 Czech Financial Reporting

From the year 2005, IFRS were given as a legal framework for the reporting of listed companies in all E.U. countries. 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 cost, 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 cost which includes 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 cost, while donated or gratuitously procured assets are measured by replacement cost which is 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 et al., 2009), 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 et al., 2008). 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.

2.1.1 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 a certain amount of 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.,1995) and stock exchange requirements (Cooke, 1992) 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, 2002). 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 (Meek et al, 1995.) and the probability of using non-local GAAP (Ashbaugh, 2001; Dumontier and Raffounier, 1998; El-Gazzar et al., 1999; Leuz, 2003; Leuz and Verrecchia, 2000; Murphy, 1999) 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 (Radebaugh and Grey, 2002). 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).

2.1.2 Reporting of Balance Sheet Items under Czech Principles

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 cost 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 incorporation 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.

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 cost (acquisition price) for assets purchased, by production cost 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 cost 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.

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 cost (acquisition price for purchased inventories), replacement price (for inventories obtained gratuitously) and production cost (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 formulae 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.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 of measuring 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.
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 cost (acquisition price). Short-term securities are measured at fair value, however, it should be stated that it is quite difficult to measure the fair values of shares because of a not very transparent stock exchange in the Czech Republic (Prague Stock Exchange).
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 a 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 to 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).

2.2 Macedonian Financial Reporting

According to the Law on Accountancy **intangible** investments shall include: initial investments, goodwill, investments in research and development, patents, licences, concessions and other material rights, 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 are 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 relating 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. 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 the expiration of the period for start-up provided in the investment survey, i.e., the revised investment survey, in which the investment (the fixed asset) should have started to be used.

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 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).

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 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.

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 cost shall not be considered as dependent costs, but rather as production costs and/or expenses in the 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 tyres 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.

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. 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.

Cash shall be entered in the balance sheet according to its 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 of the largest world exchanges.

The **payables** 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 payables in relation to the nominal amounts shall be done in extra -judicial settlement and the like by direct writing off. The due long-term payables shall be re-booked to the other payables not later than the date of the annual balance sheet. The entity shall write off the short-term payables after expiration of the period of the time limit set by statute of limitations in favour of the extra income. The payables 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.

2.3 Albanian Financial Reporting

Albania has prepared a Country Strategy and Action Plan in 2008 which is based on the World Bank Report on the Observance of Standards and Codes on Accounting and Auditing in Albania. This strategy, which was developed by the National Steering Committee consisting of public and private stakeholders, sets out a clear program of reforms to enhance Albania's legal framework, institutions, accounting and auditing profession as well as its accounting and auditing and business culture, to achieve high quality financial reporting. The enhancement of financial reporting should not be viewed as an objective for its own sake; it is much more than this and there is a need of all the country's stakeholders to participate at the micro level as well as at the macro level. High quality financial reporting is the basis of a well functioning market economy and the core of a country's healthy financial system. The adoption of the IFRSs in Albania will increase transparency, comparability and accountability of financial reporting and will improve both the quality and comparability of financial information reported by public and private entities in Albania. Thus, high quality financial reporting is a very progressive step and challenge for Albania and its financial system. This will promote, among other things, foreign investment in Albania.

Financial statements must be submitted annually. National Accounting Standards (NAS) and International Financial Reporting Standards (IFRS) apply for certain companies, effective 1 January 2008. The accounting standards and reporting, for the economic entities for profit located in the territory of the Republic of Albania are governed by the Law No.9228, dated 29.04.2004, "For Accounting and Financial Reporting" (Accounting Law), in force since 1 January 2006. The Accounting Law is complemented by the General Accounting Plan – Council of Ministers Decree No.783, dated 22.11.2006, "On the Accounting Standards and Regulations". In April 2008 the whole set of International Accounting Standards, International Reporting Standards and the commentary was translated into Albanian. In May 2008, the Minister of Finance issued a decree No.55, dated 05.05.2008, “On the announcement and the compulsory implementation of the International Accounting and Financial Reporting Standards IAS/IFRS” translated in the Albanian language.

According to Albanian National Accounting Standard 2 (NAS 2: Financial Statements Presentation, p.5), financial statements consist of the: Balance Sheet, Statement of Profit and Loss, Statement of Cash Flow , Statement of Changes in Equity, and Notes. Financial statements will be prepared based on the materiality concept. National Accounting Standards will not be implemented for intangibles items (NAS 1: General Framework for preparing Financial Statements). According to paragraph 49 (NAS 1), in preparing financial statements, importance should be given to those aspects and financial data of economic activities that are important for financial statements users, and that can affect their economic decisions.

The following assets are known as **short-term assets**: cash and its equivalents, except in cases when they cannot be used within, at least 12 months after balance sheet date; assets that are predictable to realize within the usual business cycle (time from buying materials that enter into process and then converted in cash or in other instrument that is ready to be converted into cash) of reporting economic entity (even if it is longer than 12 months, for example, inventories and some receivables from activity); assets held mainly for trade goals (for example, financial investments held for trade); assets that are expected to be realized within 12 months after balance sheet date (for example, financial investments that are expected to be sold and perhaps will be sold within the coming 12 months). All other assets are presented as long-term assets.

A **long-term tangible asset** should be recognized in the balance sheet only if: the asset is controlled by the reporting economic entity; possible future economical benefits will occur in the reporting economic entity due to the asset usage; a reliable asset cost evaluation can be performed.

Inventories are assets: held for sale in the usual flow of the reporting economic entity; are present in production process; in material form or acquisition for usage in production process or performing services. Inventories should go through the depreciation test at the closing date of the balance sheet. The requirement to value inventory with the lowest value among cost and net realizable value obliges the reporting economic entity to record accounting losses from depreciation at the time when depreciation happens. The decreases to achieve the net realizable value might happen if there is a decrease in sale prices or finalizing expenses or direct sale expenses are increased. There are cases when products are damaged before sold or products are kept in such quantities that they cannot be sold within a reasonable period of time. In such cases, the inventory cost should be decreased to achieve the net realizable value.

The following liabilities are known as **short-term liabilities**: liabilities that will be paid within 12 months after balance sheet date (for example, short-term loans). All other liabilities are presented as long-term liabilities.

3. Methodology

As mentioned before, having the belief that once regulatory bodies adopt a financial reporting paradigm, it becomes the guiding principle for accounting regulation (Hitz, 2007), that is, standard setting, we began our research by first analyzing the foresights comprised within the IFRS concerning the matter of financial reporting and then moved forward to the three national accounting systems (the Czech, Macedonian and Albanian ones). Not only have we analyzed the three sets of regulations separately but also emphasized the particularities found within the three sets of national GAAPs through the perspective of emerging capital markets. An empirical analysis was performed by testing the similarities and dissimilarities between the three sets of standards, taken two at a time in order to draw a well established conclusion regarding the degree of comparability existent between them. The source of information for the empirical analysis was also the information gathered by closely analyzing the regulations mentioned above which were accordingly codified and assayed by using some statistical methods which are being detailed the comparative approach of the national GAAPs by reference to international reporting paradigms (see Appendix).

The findings of our study, which come from analyzing formal harmonization in the area of financial reporting, are correlated to the current development stage of the national capital markets along with the international trade literature then there are some remarks on the national regulatory bodies.

4. Comparative Analysis

With the aim of identifying the eventual shift on national GAAPs towards international reporting paradigms we have performed an empirical analysis with character of comparison between the four accounting systems. For each of the identified elements we proceeded to achieve a comparison between the accounting treatments as it appears within the three accounting systems considered for analysis. Thus, for each possible and/or existent accounting treatment within at least one of the considered accounting system we have allocated a 1 or 0 value, where the 1 value shows that the considered accounting treatment exists within the considered accounting system, and the 0 value is given for the situation when the considered accounting treatment is not found within the considered accounting system (Strouhal et al., 2008).

In order to achieve the proposed comparison, we have considered that the best analysis, in the case of this type of approach, is represented by the non-parametric correlation and the degree of association among two or more than two variables. Jaccards' Association Coefficients have been used since researchers (Fontes et al., 2005) frequently use this measurement instrument when an analysis of the level of national accounting regulations is being considered. On the other hand, the two Jaccard Coefficients offer the possibility of quantifying both the association degree and the dissimilarity degree between different sets of accounting standards taken into consideration for analysis. The formula for Jaccards' Coefficients shows as follows:

$$S_{ij} = \frac{a}{a+b+c} \qquad (1) \quad \text{or}$$

$$D_{ij} = \frac{b+c}{a+b+c} \qquad (2)$$

where: S_{ij} represents the degree of similarity between the two sets of analyzed accounting regulations; D_{ij} represents the degree of dissimilitude or diversity between the two sets of analyzed accounting regulations; *a* – the number of elements which take the 1 value for both sets of regulations; *b* – the number of elements which take the 1 value within the j set of regulations and the 0 value for the i set of regulations; *c* – the number of elements which take the 1 value within the i set of regulations and the 0 value for the j set of regulations.The accounting analyzed elements are therefore given the 1 value for using a certain accounting method and the 0 value for not using that considered accounting method or treatment (Fontes et al., 2005).

As a result of the effective measurement of the comparability degree between the Czech, Macedonian, Albanian and International (IFRS) accounting systems based on Jaccards' Coefficients we have reached the conclusion that there is a high degree of similarity between the three national GAAPs and IFRS in the areas examined. Results show quite high levels of similarity between analysed systems of financial reporting (see Tables 1 – 4). The major differences are given by the level of required disclosed information.

Table 1. Measurement of Similarities and Dissimilarities (CZE)

	CZE/FYROM		**CZE/ALB**		**CZE/IFRS**	
	S_{ij}	D_{ij}	S_{ij}	D_{ij}	S_{ij}	D_{ij}
1 Intangibles	1.000	0.000	0.333	0.667	0.667	0.333
2 PPE	1.000	0.000	1.000	0.000	0.667	0.333
3 Investment Property	1.000	0.000	1.000	0.000	0.667	0.333
4 Financial Lease	0.500	0.500	0.167	0.833	0.000	1.000
5 Inventories	0.750	0.250	1.000	0.000	1.000	0.000
6 Financial Assets and Liabilities	0.333	0.667	0.000	1.000	0.750	0.250
7 Financial Derivatives	0.250	0.750	0.250	0.750	1.000	0.000
8 Financial Statements	1.000	0.000	1.000	0.000	0.833	0.167
TOTAL	**0.692**	**0.308**	**0.517**	**0.483**	**0.645**	**0.355**

Source: our analysis

Table 2. Measurement of Similarities and Dissimilarities (other)

	FYROM/ALB		FYROM/IFRS		ALB/IFRS	
	S_{ij}	D_{ij}	S_{ij}	D_{ij}	S_{ij}	D_{ij}
1 Intangibles	0.333	0.667	0.667	0.333	0.250	0.750
2 PPE	1.000	0.000	0.667	0.333	0.667	0.333
3 Investment Property	1.000	0.000	0.667	0.333	0.667	0.333
4 Financial Lease	0.167	0.833	0.000	1.000	0.750	0.250
5 Inventories	0.750	0.250	0.750	0.250	1.000	0.000
6 Financial Assets and Liabilities	0.000	1.000	0.200	0.800	0.200	0.800
7 Financial Derivatives	0.000	1.000	0.250	0.750	0.250	0.750
8 Financial Statements	1.000	0.000	0.833	0.167	0.833	0.167
TOTAL	**0.467**	**0.533**	**0.471**	**0.529**	**0.563**	**0.438**

Source: our analysis

Table 3: Jaccard's Similarity Coefficients

Similarities	CZE	FYROM	ALB	IFRS
CZE	1.000	0.692	0.517	0.645
FYROM	0.692	1.000	0.467	0.471
ALB	0.517	0.467	1.000	0.563
IFRS	0.645	0.471	0.563	1.000

Source: our analysis

Table 4: Jaccard's Dissimilarity Coefficients

Dissimilarities	CZE	FYROM	ALB	IFRS
CZE	0.000	0.308	0.483	0.355
FYROM	0.308	0.000	0.533	0.529
ALB	0.483	0.533	0.000	0.438
IFRS	0.355	0.529	0.438	0.000

Source: our analysis

5. Conclusion

The most significant problem of the financial statements and items shown is the complete inconsistency of measurement bases and the application of the historical (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. The results of performed analysis show the high level of compatibility between the Czech system and IFRS, candidate countries (especially Albania) have progressed their accounting towards international system, too.

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APPENDIX: Analysed Segments

1 Intangibles
Initial Recognition
- historical costs
- fair value
- other
Revaluation
- historical costs
- amortized costs
- fair value (P/L)
- fair value (equity)
- fair value (up-equity, down-P/L)
- other
2 PPE
Initial Recognition
- historical costs
- fair value
- other
Revaluation
- historical costs
- amortized costs
- fair value (P/L)
- fair value (equity)
- fair value (up-equity, down-P/L)
- other
3 Investment Properties
Initial Recognition
- historical costs
- fair value
- other
Revaluation
- historical costs
- amortized costs
- fair value (P/L)
- fair value (equity)
- fair value (up-equity, down-P/L)
- other
4 Financial Leases
Lesser
- recognition of fixed asset at historical costs
- depreciation of fixed asset
- recognition of fixed asset at present value
- recognition of fixed asset at fair value
- off balance sheet evidence of fixed asset
Lessee
- recognition of fixed asset at historical costs
- depreciation of fixed asset
- recognition of fixed asset at present value
- recognition of fixed asset at fair value
- off balance sheet evidence of fixed asset
5 Inventories
Initial Recognition
- historical costs
- fair value
- other
Derecognition
- FIFO
- LIFO
- weighted average
6 Financial assets and liabilities
Initial Recognition
- historical costs
- present value
- fair value
- other
Revaluation
- historical costs
- present value
- amortized costs
- fair value (P/L)
- fair value (equity)
- fair value (up-equity, down-P/L)
- other
7 Financial derivatives
Initial Recognition
- historical costs
- fair value
- other
Revaluation
- historical costs
- amortized costs
- fair value (P/L)
- fair value (equity)
- fair value (up-equity, down-P/L)
- other
8 Obligatory Financial Statements
- Balance Sheet (Statement of Financial Position)
- P/L Statement (Statement of Financial Performance)
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Cash-flow Statement
- Notes
- other