INTERNATIONAL STANDARDS FOR FINANCIAL REPORTING: HARMONIZATION IN MACEDONIA

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Abstract
A continuous flow of reliable, relevant and financially important information is necessary for making economically justified and strategic investment decisions. Economic globalization has contributed to the need of creating a unified language for communication, a single set of international financial reporting standards with the sole purpose of enhancing transparency for investors and reducing the cost of capital. Harmonization of financial reporting provides more efficient use of global resources, easier consolidation of multinational companies foreign subsidiaries, alleviation of accounting staff mobility and reducing of audit costs. The research is based on the benefits that the national economy can gain if the international financial reporting standards are successfully implemented. Special attention in the paper is devoted to the factors that determine the harmonization of financial reporting. The analysis of the results show the managers’ perception of financial reporting, and emphasize the effects of the implementation of IFRS in Republic of Macedonia.

Keywords: financial statements, accounting, financial reporting, harmonization, IFRS.

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INTRODUCTION

The objective of the financial statements is to provide truthful information about the financial condition, results, cash flows and changes in the financial position of the entity that is useful for a number of users, internal and external, when making economic decisions on the allocation of scarce resources. Also, the financial statements present the results of the management, or the responsibility of the management to allocate resources entrusted to them. The information presented in the financial statements is used by current and potential investors, lenders and other stakeholders, both internal and external users of financial statements in making investment, credit, management and other
decisions. Users can perform assessment of the value of assets, the deadlines for settlement of liabilities and receivables, as well as estimate the uncertainty in the realization of future cash inflows and outflows, liquidity and solvency, assessment of the net cash inflows that would be used to return the investment to the investors in the form of profits and to the creditors.

Standardized financial reporting is not a goal to itself; it is a mean of communication, "unified language" of the global business environment. The tendency for the harmonization of financial reporting is an integral part of the process of business globalization (Carmona and Trombletta 2008). The standardization and harmonization of financial reporting is conducted through the convergence of international accounting standards and international standards for financial reporting, which would reduce the differences in the preparation of financial statements and information presented in the reports in order to facilitate and improve the quality of mutual communication of entities in different national economies (Hung and Subramanyam 2007). The existing differences in national accounting standards make it difficult to compare the information on the status and success of domestic companies by companies from other national economies (Weygandt, Kimmel, and Kieso 2011).

The need for quality and standardized financial reporting in most developed countries and markets has been elevated in the recent years with the increased level of reference on providing useful information for both sides: domestic and foreign creditors on one side and capital investors on the other side. The internationalization of accounting standards is an important requirement for the harmonization of financial reporting. The expansion of the capital markets and international investment entails the need for setting uniform global accounting standards (Kozuharov 2010).

1. FINANCIAL REPORTING AS A COHERENT INFORMATION SYSTEM

Financial reporting clearly and unambiguously provides numerical and quantitative expression of the phenomena of economic activities of the entity. The standardized financial reporting presents the disclosure of accounting information with no substantial differences in recording the accounting effects derived from the company's activities in the reporting data (Ikpefan and Akande 2012). The effects of the company's activities are numerical characteristics of assets, liabilities and equity that are classified as financing activities, investing activities and operating activities of the entity.

The purpose of the financial notifications in accordance with the international standards is a benefit for all internal and external stakeholders using the numerical and quantitative indicators of the financial statements for the operations of the entity (Rudy and Madu 2009). In order to accelerate the microeconomic and macroeconomic developments, there is a need of a continuous flow of reliable and relevant information on which investors will be able to make economically viable strategic decisions about allocation of scarce resources (Weygandt, Kimmel, and Kieso 2012).

The information disclosed in the financial statements, is used for the business decision making process within the entity, as well as for planning, control and regulation of the overall company’s actions at national and international level. In order to quantify the reporting parameters, the flow of funds, revenues and expenditures of the entity must be monitored and recorded as a basic content of the information.
In global business conditions, the process of financial reporting has a great responsibility in providing quality financial information presented in the financial statements. With its attitude, vocational training and ethical conduct in the preparation and publication of the financial statements, the accounting profession or experts - practitioners, professional accountants affect the image of the financial situation and the success of company’s operations (Kvaal and Nobes 2010).

In terms of continuous efforts for convergence of the financial reporting globally, and meeting the needs of internal and external users of financial statements information, Macedonian certified accountants face major challenges. The high quality of financial reporting contributes to the economic development and progress of national, regional and world economy (Brown 2011). The uniform financial reporting drives the vital systems of the country, as the tax system, fiscal and monetary policy, statistics on national income and gross domestic product.

2. THE NEED FOR STANDARDIZATION AND HARMONIZATION OF FINANCIAL REPORTING

The increased level of international trade, the rapid growth of multinational companies, as well as the globalization of the capital market, significantly expanded investment opportunities internationally (Callao et al. 2009). Capital investors when making business decisions to invest, must analyze the work of domestic and foreign companies (Franco, Kothari, and Verdi 2011). Hence, the need for harmonization of financial reporting, accordingly to the needs of users of financial statements. The financial statements although seemingly in similar form in different countries, they have substantial differences. The differences in the financial statements are caused by the differences in the social circumstances of countries, differences in culture, differences in economic circumstances, differences in legislation and differences to the needs of the government agencies for financial information from the business entities (Barth, Landsman, and Lang 2008).

These differences lead to different defining, different criteria for recognition and bases for measuring different elements of the financial statements, assets, reliabilities, equity, income and expenses. The International Accounting Standards Board is committed to reducing the differences by seeking ways to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. The IFRS Interpretations Committee believes that harmonization can best be achieved if the attention is directed to the financial statements which are prepared in order to provide useful information for making economic decisions (Daske et al. 2008). The formal objectives of the International Accounting Standards Board are to develop, in the public interest, a single set of high quality, understandable and enforceable, globally accepted accounting standards, to promote the use and rigorous application of these standards and to take into account the needs for standardized financial reporting in developing countries and for small and medium enterprises.

3. CURRENT CIRCUMSTANCES

The harmonization of financial reporting in Republic of Macedonia based on international financial reporting standards is greatly influenced by the professionalism, education, skills and ethics of certified accountants as preparers of financial statements, and then under the
influence of management, and state legislation. Harmonization of financial reporting is also influenced by all measures and rules of legislation that adhere to the creation of financial statements. Authorized accountants as developers of financial statements by applying the national legislation and international financial reporting standards have the main role in the harmonization of financial reporting in the Republic Macedonia. Authorized accountants in order to meet the needs and requirements of the process of harmonization of financial reporting must be professionally qualified (Brown and Tarca 2005).

The process of harmonization of financial reporting in the Republic Macedonia, with the adoption of the new regulation on accounting which regulates issues of education and certification of preparers of financial statements and the accounting profession, gained significance as an important link in the economic system. The professional education is not sufficient to guarantee the protection of public interest in the presentation of information in financial statements, but in the process of harmonization of financial reporting, the accounting professionals are expected to manifest objective, honest, ethical and confidential attitude in the preparation of reports (Higgins 1998).

In the practice of Republic of Macedonia, there are large number of authorized accountants and their initial "vocational education" is been acquired through courses, reading periodicals informants, through presence on seminars held by consulting agencies, which are established with the sole purpose of profit and they are not regulated by any law as educators in the field of accounting and auditing. All suggestions, guidelines and opinions that consulting agencies impose have no legal significance in interpretation of reports to the state institutions that appear in the role of controllers. In Republic of Macedonia, the responsibility for control is in the hands of the Public revenue office. Unregulated legal obligations for continuing education in the field of accounting and the lack of strict rules, leads to unfair competition and poor quality of financial reporting and also complicates the process of harmonization of financial reporting in the Republic Macedonia. As long as there is no legislation, the liability of the authorized accountant, ethical principles in the preparation of financial reports are just a goodwill and a choice of accountants.

The Institute for Certified Accountants of the Republic Macedonia whose status and powers are regulated by the Law is predicted to be the professional body in this area. It will be responsible for education, implementation and control of the correct application of international financial reporting standards, monitoring the implementation of the Code of Ethics for Professional Accountants of IFAC, continuing education in the financial reporting process in the Republic Macedonia. However, except for the adoption of the Statute and the election of the president and members of the supervisory body, the projected activities of this professional institute has not yet started. The Institute of Certified Accountants will further have obligations as an organizer and performer of continuous professional education of accountants. In order to improve the harmonization of financial reporting in the Republic Macedonia, the real operation of the Institute of Chartered Accountants with all its responsibilities is a pressing need. By delaying the full implementation of the Law on accounting, the harmonization of financial reporting in the Republic Macedonia is been hindered.

4. RESEARCH

The research is conducted in order to identify current issues and ambiguities in the area and to offer recommendations to overcome the current situation. Through the results of
the research the information that could contribute to economic development in the country is given. The change to the attitude and approach to financial reporting as the main link in the process of management decision making in small and medium-sized entities is underlined. The need for greater vocational training and ethics of preparers of financial statements, a full harmonization of national legislation with EU legislation, and the need for a strategy for better control and monitoring of the implementation of international standards in preparing the financial statements is determined (Christensen, Hail, and Luzi 2013).

The harmonization of financial reporting is correlated to the harmonization of education, ethics and responsibility of authorized accountants as developers of financial statements. The use of the information in the financial statements is of particular importance for the further development of the company and indirectly to the development of the national economy. The managers’ perception of the benefits of the information disclosed in the financial statements has causal link in the process of harmonization of financial reporting in the Republic Macedonia and thus affect the economic development of the country. The inconsistencies and omissions in legislation can lead to distortions in perception and misconceptions when deciding on the proper recording of the effects arising from the activities of the entity. The control and monitoring of the correct application of international standards in the preparation of financial statements as well as control and monitoring of the audit thereof as the finalization of the process of harmonization of financial reporting in the Republic Macedonia is of great importance in the process of harmonization of financial reporting.

A questionnaire, as a research technique for collecting necessary information, is used in this research. The analysis process based on the received responses and synthesizing data gives significant results. The results may be useful for further directions in order to obtain more efficient and effective harmonization of financial reporting in the Republic Macedonia based on international standards, which therefore would affect the economic development of the country.

5. RESULTS ANALYSIS

The research was conducted for determining the perception of Macedonian managers on the application of international financial reporting standards, the effects of their application on the company’s operations and the benefit from the information presented in the financial statements as a connection with the harmonization of financial reporting in the Republic Macedonia.

The questionnaire has been conducted on a representative number of 150 examinees, managers from different business entities in the Republic Macedonia, 36% medium-sized entities, with a staff of 250 employees and gross income of up to 10 million euros, 53% small entities up to 50 employees and gross income of up to 2,000,000 euros and 11% micro entities to 10 employees and gross income of up to 50,000 euros.

The results show that 12% of managers are greatly familiar with international financial reporting standards, 26% are sufficiently familiar and 62% are not aware of the need of their implementation, which confirms that the basic and appropriate education in the field of economy and additional training to managers are of great importance for the development of companies at the national level and to increase their opportunities for global development. The ignorance of the international financial reporting standards by
managers (62% of the examinees) confirms that the education of managers is an obstacle in the process of harmonization of financial reporting in the Republic Macedonia, as well as the economic development of the country.

According to the results, 15% of the examinees said that they fully apply IFRS, 19% answered that the application of IFRS is partial, and 66% said that they are not familiar with the application of IFRS, presented in Figure 1. The responses show that managers prepare their financial statements only because it is an obligation imposed by legislation, and they often engage external associates, professionals or accountants for this operation.

Do you implement IFRS in your financial reporting process?

- Yes, entirely: 15%
- Yes, partially: 19%
- No: 0%
- No information about it: 66%

Figure 1. The implementation of IFRS in companies

On the question about the effects that the application of IFRS has on the activities of the business entities, the results are almost identical to the previous question and show that 16% of examinees reported that the effects of application of IFRS are favorable, 18% said that the effects of the application of IFRS are neutral and 66% said they are not familiar with the effects of the application of IFRS, presented in Figure 2.

What is the effect of the implementation of the IFRS in your company's activity?

- Favorable: 16%
- Neutral: 18%
- Unfavorable: 0%
- No information about it: 66%

Figure 2. The effects of the implementation of IFRS in companies

In terms of attracting foreign direct investment, 38% of examinees said that the application of IFRS has an impact on attracting foreign direct investment in the country and therefore influences the economic development of the country, 5% said that the implementation of IFRS has no impact on foreign investments and 57% said they did not know whether the implementation of IFRS has an impact on attracting foreign direct investment.
**CONCLUSION**

The initial goal of this research is to highlight the role and the importance of financial statements and the information disclosed in them when management decision making process with special emphasis on managers of medium and small entities in the Republic Macedonia. The information from financial reports are most useful for managers and have a significant impact in making economically justified decisions in allocating scarce resources and in order to determine further actions for improving and expanding the business both nationally and internationally. The benefit of the information from the financial statements prepared in accordance with the International Financial Reporting Standards implies the basis for defining new guidelines in the process of designing strategies to improve the current condition of the companies.

According variables which are subject to research, the harmonization of financial reporting in the Republic Macedonia is determined by the qualification of preparers of financial statements - certified accountants, by the managers’ perception of the benefits from the information disclosed in the financial statements based on IFRS, by the harmonization of national legislation with EU regulations in the context of financial reporting, and by the monitoring and control of the application of IFRS in the preparation of the financial statements in the country.
The research shows that in the process of licensing the certified accountants in Republic of Macedonia should be determined by the education as a fundamental requirement for certification of practitioners. Also, it is necessary to determine the minimum education required for managers in a company with training course imposed by legislation in the field of using the information from financial reports in everyday business activities and the implementation of IFRS. In Macedonia, the formation of an independent body to monitor and control the application of International Financial Reporting Standards is urgently needed. In this regard, the most important, is the full implementation of laws and regulation of accounting and financial reporting in the country.

A strategy that synchronizes the variables of this research, an adequate qualification of certified accountants, managers with higher level of education and training particularly in medium, small and micro entities, an acceleration of the full implementation of the Regulation on accounting with the establishment of the Institute of certified accountants, as well as institutional monitoring and control of the correct application of international financial reporting standards and the application of the Code of Ethics, and therefore, reducing the timeframe for convergence of international regulations with national regulations and ensuring complete harmonization of financial reporting based on International Financial Reporting Standards in the Republic of Macedonia, will facilitate the sustainable development of Macedonian companies and will indirectly influence on the economic development of the country.

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