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COMPARATIVE ANALYSIS OF MACEDONIAN AND ALBANIAN ACCOUNTING AND INTERNATIONAL FINANCIAL REPORTING STANDARDS FRAMEWORK*

ANÁLISE COMPARATIVA DA CONTABILIDADE MACEDÔNIA E ALBANESA E AS NORMAS INTERNACIONAIS DE RELATO FINANCEIRO

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ABSTRACT

The purpose of the paper is to compare national accounting standards of Macedonia and Albania with International Accounting Standards of the International Financial Reporting Standards (IAS/IFRS). It looks at approaches of these two countries regarding the aspects of financial reporting and analyses differences and similarities. The paper also analyzes the characteristics of both accounting systems, and it examines the main changes that have been made in recent years. It presents the main differences and similarities in accounting practices with the particular emphasis on tangible and intangible assets, inventories and money. The adoption of IFRS is supported in many countries inside and outside the European Union, including Macedonia and Albania. There have been made many changes in IFRS implementation in both accountings systems. As a result of economic integration, the harmonization of financial reporting has become important for both countries.

Keywords: Accounting standards. Financial reporting. Comparative analysis.

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RESUMO

O objetivo deste artigo é comparar as normas de contabilidade nacional da Macedônia e da Albânia com as Normas Internacionais de Contabilidade (International Accounting Standards) / Normas Internacionais de Relato Financeiro (International Financial Reporting Standards) (IAS / IFRS). O estudo observa as abordagens destes dois países em relação aos aspectos das demonstrações contábeis e analisa as diferenças e semelhanças. Também, são analisadas as características de ambos os sistemas de contabilidade, bem como as principais mudanças que foram feitas nos últimos anos. Ele apresenta as principais diferenças e similaridades nas práticas contábeis, com ênfase especial nos ativos tangíveis e intangíveis, estoques e dinheiro. A adoção das IFRS ocorre em muitos países dentro e fora da União Europeia, incluindo a Macedônia e a Albânia. Foram feitas várias mudanças na implementação das IFRS em ambos os sistemas de contabilidade. Como resultado da integração econômica, a harmonização da informação financeira tornou-se importante para ambos os países.

Palavras-chave: Normas de contabilidade. Demonstrações contábeis. Análise comparativa.

1 INTRODUCTION AND LITERATURE REVIEW

Different countries use different ways in preparing and reporting accounting information. Yet differences in accounting and reporting standards make it difficult to compare domestic companies with those in other countries (WHITE; SONDH; FRIED, 2003). The recent trends are for unification of practices with purpose of decreasing costs and increasing benefits for decision makers. Those trends are addressed to International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

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). As processes of globalization have become increasingly evident, there have also been calls for international accounting harmonization (IAH) of accounting practices (BAKER; BARBU, 2007). Brown and Tarca (2005) warn that the future of the IASB is tied to the successful introduction of IFRS in Europe. Thus, implementation of IAS and IFRS is very a progressive step and challenge for Macedonia and Albania, and their financial systems. Adopting the International Accounting Standards as national standards was thought to be the best tool for building a comparable and transparent financial reporting system that would help investors make informed financial decisions (VASILEVA-MARKOVSKA; ERNST & YOUNG, 2007).

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; BUIJINK, 2005). In 2002 the regulation of the European Parliament and of the Council introduced as obligatory the use of IAS for publicly traded companies. The use of IFRS is obligatory for publicly traded companies and for preparing consolidated accounts since 2005.

In Macedonia the 1999 volume of IAS was translated and published in the Official Gazette, and they were therefore endorsed as the national accounting standards. Financial statements were prepared in accordance with a translated 1999 volume of the IAS published in the Official Gazette. Because Macedonia has a written law tradition, all IAS enacted after 1999 and all post-1999 amendments to existing IAS were not applicable in Macedonia, as they were not published in the Official Gazette. Therefore, financial statements prepared in conformity with the 1999 translation could not claim compliance with full IAS, as financial

statements should not be described as complying with IAS unless they comply with all the requirements of each applicable Standard and each applicable Interpretation of the Standing Interpretations Committee (ROSC, 2003).

Because of this, according to article 479, paragraph 2 of the Company Trade Law, commercial entities shall be obliged to prepare and submit annual and consolidated accounts in accordance with the adopted IAS, published in the Official Gazette of the Republic of Macedonia. The IAS shall be updated on an annual basis, so as to be harmonized with the current standards, as revised, amended or adopted by the International Accounting Standards Board". In Macedonia, the Trade Company Law requires the following companies to prepare their annual/consolidated accounts in accordance with IFRS as published in the Official Gazette of Macedonia: large companies, medium sized companies, banks, insurance undertakings, companies listed on the Stock Exchange, and companies being part of the consolidated accounts of some of the above mentioned types of companies.

Albania has prepared a new Country strategy and Action Plan (CAP) in 2008 which is based on the World Bank (WB) Report of 2006 on the Observance of Standards and Codes on Accounting and Auditing (A&A ROSC) in Albania (SWISS COOPERATION OFFICE ALBANIA, 2008). This strategy, was developed by the National Steering Committee (NSC), comprised 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 (SWISS COOPERATION OFFICE ALBANIA, 2008).

The enhancement of financial reporting should not be viewed as an objective for its own sake. But, it is much more than this and there is a need of all country's stakeholders to participate in micro level as well in macro level. High quality financial reporting is the basis of a well functioning market economy and the core of a country healthy financial system. The adoption of IFRS in Macedonia and Albania is expected to increase comparability and accountability of financial information of public and private entities. This will lead to more transparency for decision-makers.

The importance of high quality financial reporting is expressed by Figure 1 (case of Macedonia). As figure shows European Integration is the first strategic objective because European Union (EU) granted Macedonia candidate status on December 17, 2005.

	Strategic objectives and benefits
European Integration	Adopting and implementing relevant portions of the <i>acquis communautaire</i>
Improved Access to Credit	Facilitating the access of smaller-scale corporate borrowers, including small and medium enterprises, to credit from the formal financial sector by shifting gradually from collateral-based lending decisions to lending decisions which are based on the financial performance of the prospective borrower
Private Sector Growth & Job Creation	Allowing shareholders and the public at large to assess management performance, thus influencing its behaviour and use of resources
Development Markets of Capital	Contributing to foreign portfolio investment; allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which will result in a better allocation of resources
Financial Sector Development	Help mobilize domestic savings
Financial Stability	Strengthening Macedonia's financial architecture and reducing the risk of financial market crises and their associated negative economic impacts, including through increased transparency about the financial condition and performance of public interest entities

Figure 1 - The importance of high quality financial reporting

Source: National Steering Committee (June 2006, p. 26).

The paper sought to analyze and present the national accounting systems and local GAAP of Macedonia and Albania. The paper using qualitative and quantitative method is focused on the main differences and similarities between them. According to the implementation of IFRS many changes were made to both accounting systems.

After the introduction and literature review the paper presents the case of Macedonian and Albanian accounting system. In the fourth part follows the presentation of comparative analysis between two systems. In conclusion there are resumed the main findings of the qualitative and quantitative analysis based on Macedonian and Albanian accounting systems.

2 CASE OF MACEDONIAN ACCOUNTING SYSTEM

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.

Unification and domestic accounting practices harmonization have effects in preparing and reporting the information for accounting information users. Accounting regulation is driven by the Ministry of Finance, which also regulates and collects taxes. But, implementation of IAS/IFRS is not an enclosed process, but it is the standard-setting process which takes into account the needs of all accounting information users. 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.

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. 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., 2004, p. 6).

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 (IAS) 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 presenting the 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 (1999), 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: a) constancy; b) consistency; c) keeping of records of the changes as they occur. The general rules (criteria) of assessing the accounting statement items shall be: a) caution (carefulness), the principle of accomplishment and equal values-impairities; b) individual assessment of property and obligations; c) linkage of the balance sheet in the time; d) material meaning.

2.1 Intangible and Tangible Assets

In Macedonia, according to the Law on Accountancy (articles 32-42) intangible investments shall include: a) initial investments; b) goodwill; c) investments in research and development; d) patents, licenses, concessions and other material right, as well as; e) the investments in procuring intangible investments.

According to Law on Accountancy, 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.

Rules concerning tangible investments are provided by the Rulebook for Accounting Standards and Law of Accountancy. Tangible investments according to Macedonian Law of Accountancy shall include: a) natural resources (land and forests); b) the means of work (buildings, equipment, multi-year plantations, basic flock and other means of work), as well as; c) investments in procuring natural resources and means of work.

Depreciation rates shall be determined independently by the Entity, provided that the annual depreciation rates determined by the nomenclature of depreciation 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. If the pattern can not be determined reliably, the straight-line method shall be used.

According to Law on Accountancy, 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 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.

According to Law on Accountancy, 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.

According to Law on Accountancy, 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:

- a) 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;

- b) 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).

2.2 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.

2.3 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.

3 CASE OF ALBANIAN ACCOUNTING SYSTEM

In Albania financial statements must be submitted annually. National Accounting Standards (NAS) and IFRS apply for certain companies, effective January 1st, 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 power since January 1st, 2006 (http://www.spialbania.eu/admin/js/filemanager/files/web/2008program/projects/ifrs/firstmeeting/03%20SPI%20Albania_Statutory%20framework_july%202.pdf)

In April 2008 was translated the whole set of IAS/IFRS together with the commentary in Albanian language, but they become compulsory from January 1st, 2008. However, according to ROSC (2006) main findings concerning Regulatory Framework in Albanian case are as follow:

- a) the legal framework on financial reporting in Albania is characterized by some lack of cohesiveness. In addition, laws and regulations need to be adequately communicated to entities which are expected to comply with them in order to facilitate compliance with the law;
- b) there is very limited availability of published financial information in Albania. The current requirements on filing and publication of financial statements are not in line with international best practice in this area, for example, the requirements of the First, Fourth, and Seventh EU Company Law Directives;
- c) a new accounting law aims to address many of the shortcomings of the previous accounting and financial reporting requirements. The accounting requirements in the previous accounting law, General Accounting Plan, and the Bank Accounting Manual were not satisfactory to ensure high quality financial information for public interest entities on which users could make informed economic decisions. They did not cover key areas such as: consolidation; leasing; construction contracts; and impairment of assets. The new accounting law attempts to address these issues by requiring the use of International Financial Reporting Standard for public interest entities and simplified reporting requirements for SMEs. However, the section of the law establishing the applicable accounting standards has been postponed until January 2008 so as to accommodate the translation of IFRS and finalization of National Accounting Standards which have been published in the June 2006. Therefore, in the meantime a vacuum has been created since the old accounting law which outlined the previous "accounting standards" was repealed when the new law became effective.

In order to address shortcomings in the previous accounting law, a new accounting law was recently enacted. The new law requires the use of IFRS for the preparation of the legal and consolidated financial statements of public interest entities and NAS for the preparation of all other financial statements. The Accounting Law (2004) requires following entities to prepare their financial statements according to Standards prepared by Board of IAS translated in Albanian language, article 4:

- a) listed entities in a official stock exchange and theirs subsidiaries, subject of consolidated accounts;
- b) second level banks, financial institutions, same as banks, securities funds, insurance and reinsurance companies and all licensed companies for performing investment activity in securities, even to when they are not listed in a official stock exchange;
- c) other large economic entities, unlisted in an official stock exchange when they exceed limits defined by Council of Ministers for annually revenues and employees number.

All other corporate sector entities must prepare their financial statements in accordance with NAS drafted by the National Accounting Council (NAC) and approved by the Minister of Finance.

According to NAS 2 (Financial Statements Presentation, p. 5), financial statements are consisted of the: a) Balance Sheet; b) Statement of Profit and Loss Account; c) Statement of Cash Flow; d) Statement of Changes in Equity; and e) Notes.

Financial statements will be prepared based on materiality concept. National Accounting Standards will not be implemented for intangibles articles (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 effect on their economic decisions.

According to paragraph 11 (NAS 2), financial statements should be presented at least each year, same as is required from article 14 of Law n^o. 9 228, For Accounting and Financial Statements. When balance sheet date of a reporting economic entity change and annually financial statements are presented for longer or shorter period than one year, reporting economic entity will present, except the period that financial statements covered, and following information:

- a) reason for using shorter or longer period;
- b) the fact that comparative amounts for income statement, changes in equity, cash flow, and notes respectively are not completely comparable with other periods.

3.1 Short-term Assets

According to paragraph 19 (NAS 2), following assets are known as short-term assets:

- a) cash and its equivalents, except in case when they cannot use within, at least 12 months after balance sheet date;
- b) assets that are predictable to realize within usual business cycle (time from buying materials that enter into process and theirs converted in cash or in other instrument that is ready to be converted in cash) of reporting economic entity (even if it longer than 12 months, for example inventories and some receivables from activity);
- c) assets held mainly for trade goals (for example financial investments held for trade);
- d) assets that expected to realize within 12 months after balance sheet date (for example, financial investments that are expected to sale, and maybe will be sale within coming 12 months).

All other assets are presented as long-term assets.

3.2 Inventories

According to paragraph 6 (NAS 4: Inventories) inventories are assets: a) held for sale in usual flow of reporting economic entity; b) are present in production process; c) in material form or acquisition for usage in production process or performing services.

According to paragraph 11 for initial recognition (NAS 4), inventories initially are measured with cost. The inventory cost include: cost of all materials related directly with production, and converted cost of those materials in finished products. According to paragraphs 24 and 25 for inventory depreciation (NAS 4), 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 in accounting losses from depreciation in the moment 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. They are cases when products are damaged before sold, or products are kept in such quantities that cannot be

sold enter a reasonable period time. In such case, the inventory cost should be decreased to achieve the net realizable value.

3.3 Long-term Tangible Assets

Paragraph 10 (NAS 5: Long-term Tangible and Intangible Assets) explains initial recognition. A long-term tangible asset should be recognized in the balance sheet only if:

- a) the asset is controlled by reporting economic entity;
- b) possible future economical benefits will occur in the reporting economic entity due to the asset usage;
- c) a reliable asset cost evaluation can be performed.

According to paragraph 11 for initial recognition (NAS 5), an element of long-term tangible assets fulfilling the criteria to be recognized as an asset in the balance sheet, is evaluated with its costs where is included:

- a) purchase cost (including import taxes and other non refundable taxes, after that commercial sales and rebates are excluded);
- b) other direct cost to bring the asset in its destination and fix it according to its usage conditions (including production costs, if any);
- c) evaluated initial cost of the future asset dismantling and of the land repercussion, if their evaluation is in accordance with the provision policies, as it is described in NAS 6.

3.4 Short and Long Term Liabilities

According to paragraph 20 (NAS 2), following liabilities are known as short-term liabilities: a) 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.

4 COMPARATIVE ANALYSIS

In Macedonia the basic assumptions for composing accounting statements shall be constancy, consistency, and keeping of records of the changes as they occur. In Albania financial statements will be prepared based on materiality concept.

In case of Macedonia, 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. In case of Albania, the requirement to value inventory with the lowest value among cost and net realizable value, obliges the reporting economic entity to record in accounting losses from depreciation in the moment when depreciation happens.

However, in order to test the similarities and dissimilarities between the two sets of standards (the Macedonian and Albanian ones) and within the IFRS are used Jaccards' association Coefficients. The source of information for the empirical analysis was also the information gathered by closely analyzing the regulations mentioned above.

For each of the identified elements we proceeded to achieve a comparison between the accounting treatment as it appears within the two accounting referential considered for analysis. Thus, for each possible and/or existent accounting treatment within at least one of the considered accounting referential we have allocated the 1 or 0 value, where the 1 value shows that the considered accounting treatment exists within the considered accounting referential, and the 0 value is given for the situation when the considered accounting treatment isn't found within the considered accounting referential (STROUHAL et al., 2008).

Calculation formula for the Jaccards' Coefficients shows as follows:

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

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

Where:

S_{ij} represents the similarity degree 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, pp. 415-436).

Results show quite high level of similarities between analyzed systems of financial reporting (see Tables 1, 2 and 3). The major differences are given by the level of required disclosed information.

Table 1 - Measurement of similarities and dissimilarities

		Mac./Alb.		Mac./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	Property, Plant and Equipment	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: Strouhal and Deari (2009).

Table 2 - Jaccard's similarity coefficients

Similarities	Mac.	Alb.	IFRS
Mac.	1.000	0.467	0.471
Alb.	0.467	1.000	0.563
IFRS	0.471	0.563	1.000

Source: Strouhal and Deari (2009).

Table 3 - Jaccard's dissimilarity coefficients

Dissimilarities	Mac.	Alb.	IFRS
Mac.	0.000	0.533	0.529
Alb.	0.533	0.000	0.438
IFRS	0.529	0.438	0.000

Source: Strouhal and Deari (2009).

5 CONCLUSION AND RECOMMENDATIONS

Based on theoretical discussion and research findings in this paper, we can conclude that 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. As Strouhal and Deari (2009) said: “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”.

The qualitative and quantitative analysis based on Macedonian and Albanian accounting systems proves that similarities and differences can be found. The major differences are given by the level of required disclosed information. The results of performed analysis show that candidate country as Macedonia and especially Albania have progressed its accounting towards international referential. Improving financial reporting with no doubt is expected to have a positive impact for both countries.

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