

FINANCIAL REPORTING IN ALBANIA AND KOSOVO

A LITERATURE REVIEW

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Abstract

During the years the economy has changed and with her changed the methods that accounting uses. As the methods changes, the role of the accounting information is always the same. It has to tell us the real situation of every entity in each country. This situation is seen in their financial statements. To compare them are needed to be of the same format. This is assured from the international accounting standards that different entities used to prepare their financial statements. But not all the entities in different countries have to use international accounting standards. To see this fact, I have chosen to discuss financial reporting in Albania and Kosovo, two western Balkan countries that aspire to enter in the European Union. To do this I see the accounting development of these two countries and the accounting law of each of them. Finally I see the similarities and differences between the two countries and the effects in its quality.

Keywords: Economy, financial statement, financial reporting, international accounting standards, accounting

INTRODUCTION

The increase of the globalization of world markets has led to the need of the entities for real accounting information. This accounting information is assured from the financial statements that these entities prepare. To understand and compare these financial statements it is needed the same format for them. This format is obtained from the national and international accounting standards. Having the same format the financial statements serve to all of their users, assuring them the information they need to enter in foreign markets or to compare with different entities

in the same country. Two are the objectives that the entities realize when they enter in foreign markets: lending capitals or investing there.

Albania and Kosovo perform many transactions with each other, so we are interested in the financial statements that these two countries entities prepare. The entities of the two countries use national and international accounting standards during their activities.

From 2008 Albania uses national and international accounting standards to make the financial statements. National accounting standards are used from small and medium entities and from micro entities and the international ones are used from listed entities, from public interest entities and from entities that fulfill in the same time two conditions: their total revenues are about 9 million € and have more than 100 employees.

While in Kosovo from 2002 they use national accounting standards for small and medium entities. International accounting standards are used from 2012 in all the entities that operate there.

From all the work papers that I have read, it is seen that high quality of financial reporting has big entities and financial ones. This is approved from the World Bank reports too. I could say that this is a consequence of an auditing procedure for these entities.

FINANCIAL REPORTING AND ITS IMPORTANCE

We mention above the concept financial reporting, so it is needed to explain it. From business dictionary (<http://www.businessdictionary.com>) we have the following explanation: “Financial report is a set of documents prepared usually by government gencies at the end of an accounting period. It generally contains summary of accounting data for that period, with background notes, forms, and other information”.

Financial reporting is achieved from preparing financial statements for all the entities. These financial statements will be prepared according to national and international principles to be so reliable and comparative.

High quality of financial reporting is the main factor for reliability, economic and financial development of a country and for the entry of foreign investments in it. In a country that this standard is not applied and where the capital markets are not well organized the entry of foreign investments is very difficult. Thus reliable and qualitative financial reporting is an important factor of economic development of a country. So we could say that a qualitative financial reporting (Dhamo, 2009) depends on:

1. Economic environment; a stable economy and fiscal policy
2. Business legislation; flexible and applicative

3. Economic and business structure; The major part of the businesses are small and medium enterprises.
4. The level of professional preparation and professional organizations; In Albanian universities the most part of the subjects are theoretical one than practical so it needs to arrange this disadvantage. About the organizations they are well prepared and organize different trainings about the profession and fiscal policy.

So to have a qualitative financial reporting it is needed that all the entities have the same rules for their accounting. From 2005 this is assured from the international accounting standards.

ACCOUNTING DEVELOPMENT IN ALBANIA

In our country the accounting has an early tradition. Its beginnings dated from the Ottoman Empire, which generated instructions to keep the transactions.

After that, in 1912 Albania declared the Independence and the laws for accounting began changing. At first Albania used the Turkish methods because the most part of its administration came from Turkish one. In 1924 with the initiative of the Fan Noli's government opened the first school of accounting and trade in Vlora, that was called the Trade School of Vlora. This school was with European and Western direction. In 1929, Zogu's Kingdom drafted the Law of Accounting. And from that time the accounting had a quick development.

According to a study made from Professor Binaj and Flutura Kalemi (<http://www.kkk.gov.al>) (2012) the development of accounting in 100 years of Albanian Independence is divided into three periods:

1. First period 1912 – 1944. In the structure of the modern state of Albania was necessary a finance and accounting structure, that would collect taxes and lately administrated them. This was a difficult period for Albania because its funds were very limited. In the first years as we said above there were ottoman methods of accounting and from 1929 was the law of the kingdom. This was a very modern law for that time and helped the financial reporting to have a high level of quality. It brought a regularity of keeping accounting with a high level of accuracy and purity. We can find many documents of that time to certify this.
2. Second period 1944 – 1992. In this period the economy in Albania was centralized and the accounting was centralized too. In 1947 the Finance Ministry published the first Accounting Plan that was based in the Russian experience. Then in 1965, there were made different changes to the plan to take off the Russian experience and was created Unique Accounting Plan to centralize more the economy administration and the accounting information. The main documents in this period approved from the Finance

Ministry. In this period were developed the high and middle education. In 1954 was created Economic Institute and in 1957 this institute appends to Tirana University as Economic Faculty. Then in 1973 in the Agricultural Economic Faculty, near Agricultural Institute of Kamza, was opened the department of finance and accounting for agriculture. In these two universities were educated many professional accountants. We can mention here many pedagogues such as: Lefter Krriqi, Xhemil Çela, Njazi Boçari, malo Frasheri, Laze Ajazi etc. one of the most famous was Aristotel Pano, who turn the accounting in scientific subject and created the characteristics of Albanian school of analysis.

3. Third period 1992 till now. Here we can mention that Albania is a country that entered lately in the market economy, so its methods of accounting are linked with its social and economic conditions. Here we could say that accounting reform in Albania has passed through two phases (Bollano, 2010):
 - The first phase 1993 – 2004. It began with the law no. 7661 “For accounting” of the January 1993. This law determined the methods of keeping accounting, evaluation of account elements and preparing the financial statement. It was fulfilled with the General Accounting Plan that included the main rules of accounting and the accounts that every entity used, except public and bank sector. After that was made the law for business entities that included the rules of publication of financial statements and auditing aspects. Then manuals for bank and public accounting were prepared too. Then in 1998 began the certified accountants and authorized accounting experts licensing.
 - The second phase 2004 till now. It began with the law no.9228 “For accounting and financial statements” that was approved from the parliament in 2004 and entered into force in January of 2006. It was a law that developed the accounting based in national and international accounting standards. In 2006 were published the national accounting standards which entered into force from 1 January 2008 and were improved from 1 January 2015 to be adapted to the financial reporting standards for small and medium enterprises.

Actually in our country the structure of financial reporting is organized in three levels: In the first level are the entities that apply international financial reporting standards. They include:

- a. Listed entities and of public interest such as: banks, assurance companies, securities funds when they are not listed in a stock exchange etc
- b. Other big entities that are not listed in a stock exchange when they accomplish for two years at the same time the following conditions:

- ✓ Their annual revenues are about 9 million € and
- ✓ The average yearly number of employees is above 100.

In the second level are the small and medium enterprises that apply 14 national accounting standards. According to the law 10042 of 22 December 2008 small entities are considered they which have their annual revenues or total of balance under 360000€ and the average yearly number under 50 employee, while medium entities are considered they which have their annual revenues or total of balance between 360000 - 1786000€, and the average yearly number between 50 - 250 employees.

In the third level are micro entities that did their financial reporting according to national accounting standard 15. According to the law no. 10042 micro entities are considered they which have their annual revenues or total of balance under 71430€ and the average yearly number under 10 employees.

Actually from 1 January 2016 will be applied a new standard for NGO-s, national accounting standard 16. According to the law no. 7638 "For trading entities" in Albania we have four juridical forms of businesses:

- a) Collective entities; that are unlimited entities.
- b) Limited entities
- c) Unlimited and limited entities
- d) Anonymous entities (corporate)

Above we discuss about the rules of accounting.

In the law 10091 of 5 March 2009 are determined the types of the entities that are subject of auditing and they are:

- a. The entities that apply international accounting standards
- b. Limited entities that accomplish twoof three conditions: (i) total of assets is about 285710 €, (ii) total annual revenues are about 214290 €, (iii) number of employees is above 30.

Finally we could say that in Albania financial statements are prepared for an accounting period that is the same with calendar year and are submitted until 31 March of next year. They are prepared in local currency that is ALL (Albanian lek) (1€ = 140 ALL)

According to the World Bank reports we could say that the quality of financial reporting in Albania is of low quality, despite big entities and financial ones.

ACCOUNTING DEVELOPMENT IN KOSOVO

The accounting development in Kosovo is seen into two periods:

1. Before the war; During this period the accounting in Kosovo was according to the Yugoslavian legislation. According to that Kosovo uses for its accounting the

Yugoslavian standards until 1999. These standards included Unique Plan that was the same for all the entities of Yugoslavia territory.

2. After the war; the accounting in Kosovo had positive development. In the first years the accounting was according to the regulation of UNMIK 2001/30. According to this Kosovo Board for Financial Reporting was created. This board in 2002 composed 18 Kosovo accounting standards, which were according to the international accounting standards. This board certified the accountants and auditors of financial statements. Kosovo accounting standards were used from small and medium entities, while the others use international financial reporting standards. In 2011 was approved the law 04/L – 014 “For accounting, financial reporting and auditing.” This law defined as responsible authority for accounting Kosovo Council for financial reporting. According to this law the entities are divided into four groups for financial reporting, which are:
 1. Big entities that accomplish these conditions:
 - a. Annual revenues above 4 million €
 - b. Total balance assets above 2 million €
 - c. Average yearly number of employees above 50
 2. Medium entities that accomplish these conditions:
 - a. Annual revenues between 2 - 4 million €
 - b. Total balance assets between 1 - 2 million €
 - c. Average yearly number of employees between 10 - 50
 3. Small entities that accomplish these conditions:
 - a. Annual revenues between 50000 € - 2 million €
 - b. Total balance assets between 25000 € - 1 million €
 - c. Average yearly number of employees until 10
 4. Micro entities that accomplish this conditions:
 - a. Annual revenues under 50000 €
 - b. Total balance assets under 25000 €
 - c. Average yearly number of employees under 10

According to this law accounting and auditing for the first three is under the international financial reporting standards, while the fourth is organized according to the law of the council. But we can mention here that in the law there are many gaps about using Kosovo accounting standards. Big and medium entities are audited the others not.

Financial statements for the entities in Kosovo are prepared for an accounting period that is the same with calendar year and are submitted until 30 April of next year. They are prepared in local currency that is euro (€)

According to the World Bank reports we could say that the quality of financial reporting in Kosovo is of low quality, despite big entities and financial ones which are audited. Kosovo has low quality of auditing too. This because, Kosovo Council for financial reporting didn't make many controls.

THE SIMILARITIES AND DIS SIMILARITIES BETWEEN THE ACCOUNTING DEVELOPMENT IN ALBANIA AND KOSOVO

Below we treat separately the accounting in Albania and Kosovo. We could say that both of them sustained their legislation according to the fourth and seventh directives of European Union. This comes from their desire to enter as soon as possible in it. The similarities and similarities between them are:

1. According to the groups of financial reporting in Albania we have only two groups of entities: them which use national accounting standards and them which use international financial reporting standards. In Kosovo we have four groups that use international accounting standards.
2. The accounting period of preparing financial statements is the same.
3. The currency of financial statements in Albania is Albanian Lek, while in Kosovo is euro.
4. The submission dates for financial statements are different between Albania and Kosovo; respectively 31 March and 30 April.
5. In Albania the auditing of financial statements is according to juridical organization and their annual revenues, while in Kosovo only medium and big entities are audited.
6. In Albania the responsible authority for the development of accounting is National Accounting Council, while in Kosovo is Kosovo Council for Financial Reporting.
7. Albania and Kosovo use national and international accounting standards and have updated the lasts with the last changes.

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