

# **Historical Review of Accounting Developments in Kosovo and Its Standardization (\*)**

**Nexhmie Berisha-Vokshi**

*University of Prishtina, Kosovo*

**Skender Ahmeti**

*University of Prishtina, Kosovo*

**Arben Dermaku**

*University of Prishtina, Kosovo*

**Sead Ujkani**

*University of Prishtina, Kosovo*

## **Abstract**

The history of accounting development in different countries, but also in Kosovo, testifies to the changes that the accountability has suffered as a result of the impact of various factors that influenced the introduction and development of accounting, changing forms of identification in accounting, then the change of accounting duties, etc. Kosovo before 1998 was a territory of former Yugoslavia and therefore reflected in the development of accounting choice that made in this field ex-Yugoslavia. So it has inherited from past a level of organization of accounting and its role, which is no longer appropriate to market demands and to new reports. But this level is not well suited to the

---

(\*) Bu bildiri, 19-22 Haziran 2013 tarihlerinde İstanbul'da organize edilen III. Balkanlar ve Ortadoğu Ülkeleri Muhasebe ve Muhasebe Tarihi Konferansı'nda sunulmuştur.

strategic goals of European integration and western country.

Also, foreign investors are concerned, inter alia, for obtaining reliable and coherent information to the IAS / IFRS, enabling them to take correct decisions and the inclusion of this information in their consolidated financial reports. Accounting adjustment in accordance and consistent with IAS / IFRS and the European Community directives is one of the tasks that must be fulfill for the European and western integration of Kosovo.

Thus, the need for tracking and identifying of the factors that influence in the making of important economic decisions, is presented in all historical stages that follow the development of economic activities in the business. To ensure optimal conditions in the economic entity, so that all business operators to take effective and appropriate decisions, it must provide basic information, which helps in this regard. In this case, for the unique role, distinct the information that provided by accounting.

**Key words:** Accounting, Financial Information, Accounting Regulation, Financial Statements, Financial Reporting, Accounting Law, International Accounting Standards.

**Jel Classification:** M41,M48

## 1. INTRODUCTION

The origin of accounting began in the early stages of development of human society, when they also began to record their economic activities, and this resulted in fulfill their need for financial information.

In general, as the official year for the development of accounting known year 1494, when Italian Luca Paciollo discovered the principle of double registration, especially in the accountability and communication of financial results by the managers against investors.

After this time, the process of developing accounting was done pretty quick steps; accounting records are developed and continually improved until today, when accounting takes the value of scientific truth.

So, accounting definition has historical character, which has changed

and developed during the evolution path, which is further processed by its researchers, both scientific as well as accountants. That accounting to be understandable and reliable must be constructed in accordance with specific rules and instructions. So, it is essential that accounting be worn with the generally accepted rules.<sup>1</sup> This, perhaps accounting is presented as an activity that mediates between the economic life of the unit and decision makers who manage it.

It follows that the main task of accounting is to process of economic data derived from finished transactions in the economic unit. Also, accounting is an important part of internal controls, thus providing information about how the administration of property by the managers of different levels of the unit. Given this, Accounting is defined as the process of measurement, evaluation, interpretation, communication of financial information for purposes of financial control and making effective decision of economic management entities.<sup>2</sup>

Accounting is often called the language of business. This is viewed nature of its historical development and application of accounting by all economic entities regardless of the type of business, profit, non-profit, governmental or private, university, etc..

## **2. THE ROLE OF ACCOUNTING INFORMATION DURING THE HISTORY OF ECONOMIC DEVELOPMENT AND HISTORIC CHARACTER OF ACCOUNTING**

All we constantly use information that we have on the decision making process easier. Information includes facts, ideas and concepts that will help us to understand the reality around us. To use the information we should be able to understand and to interpret it. At all stages of the historical development of the economy, the information has had a significant impact on economic decision-making and implementation. Also, it would allow the correct orientation economic entities in national and international markets.

---

1 The Origin Of Accounting Theory, Michael Russell, article word count: 466

2 Sotiraq Dhamo, Financial Accounting, pg.7,2000

All this, then has increased the importance of the information that provided by accounting.

### **3. ACCOUNTING REGULATION BEFORE YEARS '98 IN KOSOVO**

In general, accounting regulation prior to '98-years in Kosovo was characterized by the appearance of the uniform accounting. This is because the enterprises, especially large ones, more and more difficulty accounting record keeping and taking the important economic decisions. To avoid changes and varied within the accounting and record keeping within the decision-making, took place uniform accounting. This uniformity is seen then in subsequent accounting in the enterprise, in the enterprise business changes, etc.

With the economic development at the time the uniformity of accounting also began to become mandatory. With the issuance of various laws and regulations were formed unique plan accounting, the content of accounts, balance sheets and all other forms of accounting identification.

Then the accounting system based on the accounting framework, which in its support then compiled separate plans for each enterprise accounting, which should definitely be in accordance with the uniformity of accounting records. Accounting framework used in Kosovo at that time consisted of ten classes, which then further resolve in group accounts, in the main account and sub accounts. Main accounts known as synthetic accounts whereas sub-accounts known as analytical accounts.

This framework and the accounting plan that used in Kosovo had many similarities with German accounting system, which also relied on uniformity of accounting and also consisted of ten classes.

If we examine this issue in more detail, then we can say that based on the Accounting law of the former Yugoslavia, Base Organizations of United works were obliged to prepare periodic accounts and final accounts, which concluded on 31 December of concerned. During 12 months periods were prepared four periodically accounts and finally the final account. The first periodically account is prepare on the period from 1 January to 31 March,

the second from April 1 until June 30, the third from 1 July to 30 September, while the quarter from October 1 until December 31. During the preparing of these periodic accounts are used forms-balance sheet of success and extra details, while in final account is prepare also the balance sheet. Further these accounts are submitted to the Social Accounting Service (AAC) and their monitoring has been highly centralized, meaning that it has had control of the authenticity of the data presented in them.

Thus, the data presented in the financial statements in the period before the war, having been highly centralized, served as an indicator of economic trends and for profit tax and turnover tax.

Significant difference between the then law and current regulation in force in the postwar period is that the financial statements then have had a unique format and this denies the right of subjects to choose their own form of having reported. While already the subjects are free to present their financial reports, but uniquely based reporting based on kosovar and international accounting standards. In this regard we have very clear the reasons for the change of the law then and the substitution of regulation 2001/30<sup>3</sup>, because, of having reported the standardized language of accounting is a requirement of the time and inclination to European Union integration, avoiding closure reporting boundaries, which had then no opportunity to reflect the comparability of financial statements, their reading and understanding by all users of accounting information, internal as well as those outside them.

Then, the other reason that justifies changing the law on accounting, was monitoring of financial reports, which was rigorous by accounting of social service. This is due to the fact that the main economic decision-making were centralized. It also not allow for public access to financial reports and thus deny the right of access to information by all interested users. This is then followed negatively on the ability and effectiveness in decision making. Now, especially to public entities, have a direct access to public from financial

---

<sup>3</sup> Regulation nr.2001/30 On the Establishment of the Board for Financial Report in Kosovo, 29.10.2001.

reports, where they then support their decision. Even then it was enough oversight of centralized surveillance is already divided, example: sector for tax issues examined by the Tax Administration of Kosovo, the rest remains for various government agencies, such as statistical entities, etc.

It may be noted that because of the importance that accounting information, which then and even today, presented a continuing need of accounting adjustment of certain legal provisions and harmonization with international standards. Accounting reports are the mainstay of business decision-making in the enterprise.

#### **4. ACCOUNTING REGULATION AFTER YEARS '98 IN KOSOVO**

##### **4.1 The need and reasons for changes in accounting regulation**

Successful functioning of market economy, no doubt requires a very high degree of safety of participants in the market circulation of goods, capital and labor.

High level of security implies the possibility that market participants be well informed in order to be confident in assessing the risks and be free to decide what they want and what you require.

The ability to protect the public interest lies in ensuring that they should have accurate information and reliable, in which they support their decisions to invest. Being in service to the public interest you have to do more efforts to help businesses to exercise their economic activity in the most transparent and better way. While we are witnessing that the Western developed world has gone through a crisis of public confidence, is more than necessary to work for protection from possible crises that would lead to loss of confidence in financial reporting system.

A reliable system and stable financial, is basis for economic development, capital market and other economic segments. And to achieve all this, in Kosovo, there should be an operational and financial reporting based on international accounting standards (IAS) and the code of conduct for all financial reporting participants.

The need and reasons for changes within the accounting regulations presented with the opening of our country's doors toward more developed European countries and beyond. This explains the fact that with increasing ties and trade relations, investment, foreign capital flows in our country, etc., first of all requires the use of an extensive information and reliable enabling the realization of these goals. Such information is complete and unique achieved only because of changes in accounting regulations and the introduction of information at international level. All this makes to increase the flexibility of accounting regulation with change from the rigid rule of law laid down in previous accounting law.

The reason for the international standardization of accounting fulfill the need for economic development, globalization of economy, increasing the effectiveness of economic decisions, especially the increasing the security of investors to obtain information from financial statements. We say this, perhaps the construction of financial statements in conformity to the same international level makes it possible for investors to feel capable and confident to invest in foreign capital markets and thus internationalizing their investment.

All these, and many other reasons, lead to the need for changes in accounting regulation in Kosovo, all this in amending the Law on Accounting, after that period (year '98), and its replacement with a new accounting law, or more specifically with Regulation. 2001/30 "On establishment the Board of Financial Reporting of Kosovo and Financial Reporting Regime of Business Organizations." This difference justifies the time required for raising awareness and responsibility of accountants to Kosovo to win the trust of society overall as very important reasons for change and a tendency towards the internationalization of financial reporting.

Taking in consider the fact that in the postwar period in the economic life in our country appeared quite large changes, it has become necessary to review and improve the legal regulation of accounting, in order that he be able to respond to new phenomena set from the impact of modern developments. New phenomena arise frequently and this is the time to request the development of accounting consistent with those developments, so be prepared to reflect

the economic events with precision and fidelity. The need for changes in the bookkeeping dictates the environment for economic development. New economic phenomena affecting in the appearance of changes in accounting regulations, so that accounting provides accurate information and appropriate. But post-war Kosovo was in a very specific situation: Kosovo had not a genuine legacy accounting adjustments in market economy conditions, there was no accounting regulatory bodies, and also was in terms of an emerging state. And of course this specific situation there was not influence how and to determine the characteristics and modes of regulation in the field of accounting, process which was led by international experts charge for this purpose.

Finally note that, for successful realization of this process in Kosovo, is not sufficient appropriate changes in the regulation of accounting and financial reporting consistent with international standardization, but also required that the work done by accountants and their professional bodies for continuing professional education, either individually or organized by professional bodies. It should also make full harmonization of legislation relating to accounting with other laws related to, e.g. legislation of commercial law, civil law, fiscal legislation, etc.

#### **4.2 Changes in accounting law and other legal acts, type and importance of each change**

In support of legal authority in Kosovo, after the postwar period, after '99, was issued Regulation no. 2001/30 "On the Establishment of the Board of Financial Reporting of Kosovo and Financial Reporting Regime of Business Organizations" ("The law on financial reporting"). This regulation established a new framework of rules for bookkeeping, and that the following would emerge and the essentials of the reasons mentioned rules. Law and regulations promulgated regulations must rely on professional regulation, associated with the issuance of the regulation of accounting principles and standards.

The dynamic environment in Kosovo, the financial reporting requirements were inadequate, high standards of accounting expertise were



needed in financial management, accounting and auditing. In the postwar period Kosovo needed, and yet, for such expertise, as found in the critical phase of its development. Effective accounting will help businesses to grow and to develop, and that arose was the new accounting rules, with the main objective of raising the quality of financial reporting in Kosovo.

Such accounting regulation aims to address many of the shortcomings of previous accounting and financial reporting, may not have opportunity to ensure high quality financial reporting, especially of economy entities with public interest, where users supporting their decision . In this regard, new accounting rules designed to accomplish addressing these issues, seeking enforcement of IAS and Kosovo Accounting Standards (KAS) for commercial organizations set forth. The choices contained Accounting Law based on the principles of the Directives IV and VII of the EU and IAS's, where all economic entities are responsible for the accuracy of their financial statements.

The regulation 2001/30 represents business organizations (either annual turnover of 100,000 €, or with assets worth over € 50,000)<sup>4</sup>, except for small corporations<sup>5</sup>, and enterprises with publicly owned and social enterprises<sup>6</sup>, preparing their financial statements in consistent with KAS and IAS. So financial reporting required to be transparent and comparable, which reached internationally standardized presentation.

This regulation requires also from banks, insurance companies that financial statements to submit in accordance with IAS<sup>7</sup>, and these statements to published and given to the public whenever they are required. The importance

---

4 Regulation 2001/30 On the Establishment of the Board for financial reporting in Kosovo and the regime of financial reporting of business organizations, Section 4.1

5 Small corporations are the ones that have annual revenues of less than € 100,000 and total assets of less than € 50,000, Kosovo-ROSC, p.7, item 15

6 Regulation 2001/30 on the Establishment of the Board for financial reporting of Kosovo and the regime of financial reporting of business organizations, Section 4.2

7 Regulation 2001/30 on the Establishment of the Board for financial reporting of Kosovo and the regime of financial reporting of business organizations, Section 4.3, section 3.6

of changing the law to apply the standards in financial reporting, seen assisting in the progress of financial reporting followed with transparency and intelligibility by all users of accounting information, because of it highlights what standards should apply, who should use and what kind of standard, how to set standards, and based on current law and adequate to support a regime and compliance of financial reporting in accordance with international standards.

Such a legal framework encourages the generation of financial information of high quality. This information generated by such a system, will have their real value not only to investors, employees, suppliers, etc., but also to policy makers that faced with the making decision how to allocate financial and human resources to assist economic development.

All this justifies the fact that the reliability of financial information is linked to the direct way with level of economic development. When the public is not safe to give trust financial reporting, it is discouraged to make investments, so that it prevents the growth and development of capital market. The importance of this regulation is exactly in the continuous reduction of public skepticism about this information.

A special importance of this regulation was seen in the establishment of Board for Financial Reporting of Kosovo, as a body to determine the standards. The main functions of the Board are set out in section 3 of this law, which functions if elaborate more widely, pointing out the significance of changes with the new law. First, the Board issued accounting standards in accordance with IAS (section 3.3). The Board also issued auditing standards in accordance with international standards (Article 3.4). It also establishes standards for training and technical issues for certification of accountants and auditors licensing (Section 3.9), and has responsibility for licensing of auditors (Section 3.10).

If we summarize these changes will be noted that the joint significance derived from them, lies precisely in increasing confidence by the users of financial information, the possibility of comparability of our financial reports, their readership by investors not only those domestic.

So, if we make an analysis if for no very profound changes that have mention of the postwar period, it may be easily concluded that, since then, a situation we are in front of the fundamental changes in the field of bookkeeping and construction of financial statements, which can easily be called cultural evolution in this field, which is expected to be realized still more in the future.

On the other hand, with all the advantages of this regulation, it would be good to mention also some of its shortcomings<sup>8</sup>, which have been noted and is thought to be complemented by the new accounting law<sup>9</sup>, which came into force at the end of the month July of 2011. The main purpose is to facilitate, maintenance and improvement of financial reporting in Kosovo, in order to develop the reliability of the information of investors in the financial community reporting system.

Regulation 2001/30 in Section 8 says that “sanctions and penalties that may be imposed for violation of requirements set by regulation 2001/30 as regards the revision of accounting standards, licensing and certification, and financial reporting will be determined with an administrative order.” So do not set out the responsibilities of the Board to strengthen the financial reports, it submitted to the responsibilities of the Board for licensing auditors. The Board has the authority to issue accounting regulations in Kosovo, but lacks the capacity to exercise its regulatory authority. While in Law no. 04/L-014 Kosovo Council for Financial Reporting<sup>10</sup> have to set committees to ensure implementation of relevant EU standards, including guidelines no. 78/660/EEC, no. 83/349/EEC, and no. 84/253/EEC of EU<sup>11</sup>.

---

8 World Bank on the implementation of standards and codes, ROSC, 2006 [www.scaak-ks.org](http://www.scaak-ks.org)

9 Law no. 04/L-014, 28.07.2011

10 In the new law, Kosovo Financial Reporting Board replaced with Kosovo Council for Reporting Standards (KCRS), Chapter III of this Law.

11 Article 15, paragraph 1, Law no. 04/L-014, 28.07.2011.

Another difference to be noted that there is within the members of the Board for Financial Reporting, which according to regulation 2001/30, the Board consisted of seven members, one of the KGB and six others from Kosovo business community, accounting profession and revision. In the new law the Council appointments are made by the Government, upon proposal of the institution, where one member is from the Central Bank of Kosovo, a member of the University, a member of the Ministry of Finance, a member of professional associations licensed by the Council, three members coming from the business community, who have knowledge and experience in finance and business administration.

In this case we think that this change in the composition of the Council members is more advantageous, since it enables the absorption of institutional capacity and prevent any dangers to set the rules by narrow groups of members.

Another important change that is present in the new law relates to the coverage of micro enterprises<sup>12</sup> with accounting rules. They have not been covered by previous rules that were in effect since 2001 until the second half of 2011. This weighs even more important when we consider that micro enterprises, according the size, covering a large part of total businesses<sup>13</sup>. The critics for accounting and reporting applicable to micro enterprises will be governed by the Council, in order to minimize the administrative work for micro enterprises, always with the main goal that costs are not high, not to exceed the benefits arising from their financial reporting.

---

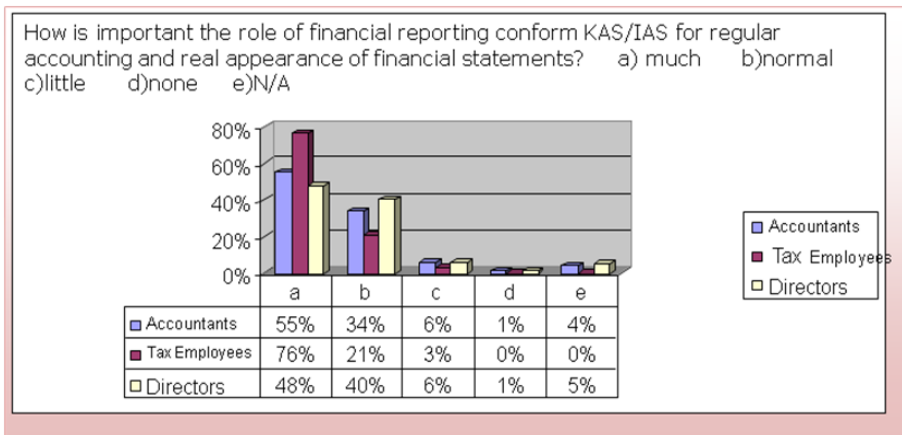
12 Article 4, section 1.4, 1.4.1, 1.4.2, 1.4.3, paragraph 2, Law no. 04/L-014, 28.07.2011.

13 Micro enterprises under number of workers (1-9), covering 98.32% of the total business. Chamber of Commerce, Ministry of Trade and Industry source, statistical review, 2007.

## Conclusion

The challenges to grasp the realization with successful of these major changes, which will still face accountants, are quite large, but should also be helped by the institutions that make accounting policies, and by Kosovar businesses that will implement in practice these new rules in the field of accounting and financial reporting.

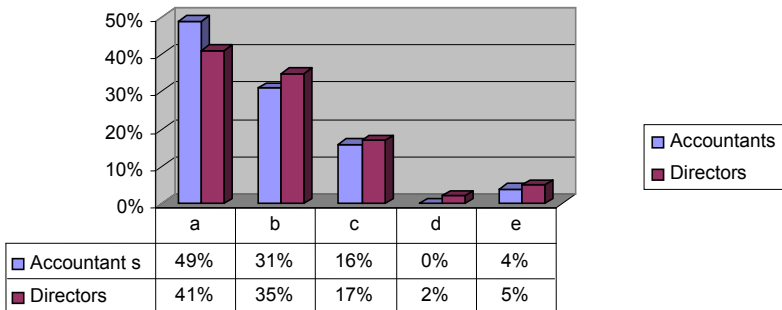
In the period before changing accounting rules, mostly from the ranks of accountants, business, tax administrators<sup>14</sup>, have responded positively to changes to financial reporting, the need and possibility of application of IAS in accounting field (see diagram 1), also the effects of standardization that will be reflected to users of accounting information, notably external users (see diagram 2).



<sup>14</sup> Surveyed 400 people. Campion selected: 212 accountants employed in commercial enterprises (75.5%), service (8%), manufacturing (1.9%), offices (1.6%), banks (9.9%), insurance companies (0.9%), Ltd (1.9 %). In addition to their were interviewed 59 accounting and independent auditors, 35 employees in tax administration 8 employees in the chamber of commerce, as well as 86 directors in small, medium and large (73.2%), banks (12.7%) insurance companies (9.3%), offices (4.6%).

How do you think that the application of IASs will have the opportunity of reading financial statements by external users?

a) much b)normal c)little d)none e)N/A



In the end we want to emphasize that all of this can be considered as a positive reality to face the great challenges that arise as a result of changes in the accounting field. Acceptance of the application of IAS by our country must be assessed as a positive step that will contribute to overall economic development, integration into the European Union and international capital market.

### References

- International Accounting Standards / International Financial Reporting Standards.
- Advanced Accounting, Dr. SotiraqDhamo, Tirana, 2005.
- Regulation. 2001/30 On the Establishment of the Board for Financial Reporting and Financial Reporting Regime Organizations, 29.10.2001.
- Law on Accounting, Financial Reporting and Auditing, no. 04/L-014, 28.07.2011;
- Greene, William H. Econometric Analysis, 4th ed., Prentice Hall, Engle-wood Cliffs, NJ, 2000;

- The origin of accounting theory, Michael Russell, article word count: 466
- Advance Accounting, postscript Kemp, ME Philips
- Accounting Theory and practice. M.EE. Glautier, B. Lindredown
- Clyde P. Stickney, Roman L. Weil, “Financial Accounting” USA.
- European Directives IV, VII, VIII, for accounting and auditing.

Değişmez değerlerin, bir hesap devresi içinde gerçekleşmiş bulunan değer azalışlarının, kayıp veya gider yazılmasına amortisman denir.

Rasim Saydar - 1946

Bilanço, ticaret evine ait mali ve iktisadi durumun belirli bir tarihte cepheden alınmış fotoğrafı gibidir.

Rasim Saydar - 1946

Bilanço, çok kere, olanı değil, gösterilmek istenileni göstermektedir.

Rasim Saydar - 1946

İşletmeye ait gider ve kayıplarla, gelir ve kazançların miktarlarını gider yerleri ile kaynaklarını göstermek üzere düzenlenen tabloya kayıt ve kazançlar hesabı denir .

RasimSaydar - 1946