

Accounting During Three Time Periods: The Case of Kosovo(*)

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Abstract

It is impossible to evaluate the accounting process without first considering the socio-economic arrangements that Kosovo has undergone. Without pretending to make subjective conclusions on any socioeconomic system in this paper we have tried to consider the characteristics of accounting through different time periods in Kosovo. By separating the time periods analyzed into three time periods we pretend to evaluate and analyze the role of accounting during these periods. The first period will include the role of accounting up until 1990, second period will include the role of accounting from 1990 until 1999, and the third period will include the period from 1999 until 2013. The research paper concludes that the trend of fair presentation of

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financial statements in a transparent and legal manner is growing even though there is a negative climate in relation to this trend. We have also found that education at the national level in terms of knowledge relating to financial reporting is lacking because the population did not live in a social economic system that has had enough awareness for these reports; for the publicly owned entities we have found the same old story in terms of transparency, and they faced the same trend of non-reporting of financial position and financial performance.

Regarding the accounting we found an undesirable situation in the sense that the financial reporting was not done at regular intervals. Looking from 1999 until 2009 we have found a bad situation with regards to financial reporting. There were no differences by socially owned, public or private entities, because the process of privatization of socially owned entities was undertaken in Kosovo where low culture was seen during this process in terms of financial reporting.

Key words: Socio-Economic System, Accounting, Kosovo.

Jel Classification: M41, M42, M49

1. The period until 1990

It is known that Kosovo was part of Yugoslavia since the World War II and therefore it has implemented the economic policies and financial regulations of the same system. We will not pretend to analyze different time periods, for example from 1940 up to 1990, instead, we will perform a review of the role of accounting until 1990. In our opinion such a review would be critical because year 1990 is the turning point when Kosovo was occupied by Serbian state and two immediate processes happened at the time, that of the occupation and the transition from a socialist society into a market economy.

If we look at the role of accounting until 1990 we can say that this period was characterized by a socialist economy, and consequently it had a strict policy regarding the scope of regulation in the field of accounting. In the socialist economy, as we will call this period, accounting was regulated by a

strict law and it has been a tendency to limit the space for the interpretation of the financial position and the results. The purpose of accounting was not important because of the fact that private property was not present in the business units at that time; therefore this has diminished the importance of accounting. It is known that the meaning of accounting is only when the reports are used by owners to make assessment of their business. The functioning of the economy has been led by the state, which performed financial statement analysis and took decisions of political nature to cover deficits in financial reports of business units. This has been the cruelest form of not respecting the financial reports. We emphasize the fact that at this time period, financial reports were prepared based on strict laws and regulations, where the chart of accounts has served as the only guidance for bookkeeping and preparing financial statements. In addition, during this time period, social policy was taken into account, in the sense that the financial situation of the businesses was controlled, and if the businesses were reporting losses in any accounting period then these losses were covered by funds dedicated for that purpose. This way of acting in the management of business units has dominated until 1990 and as an effect it reduced the work efficiency in these units and thus reducing technological innovation in the work process of the business units.

It is worth noting that there were business units which, based on the market economy, have been profitable due to the fact that they had positive position on the particular economic sector, but the pricing policy has been dictated by the state and therefore we have faced the anomaly of market system. Market anomaly was presented in the moments when a business entity, if acted on the basis of supply and demand, then its business activity would have produced positive results, but quite the opposite happened, the economic entity suffered losses. Sector development of the social economy was not based on a market economy but was based on development plans of that time.

In our opinion the role of accounting in these circumstances has been limited by the fact that the financial reports were not used by business owners and the bankruptcy law (the guardian of economical activities) did not

function properly.

2. The period from 1990 until 1999

The possibility for the spread of market economy in times of occupation has been extremely limited, when it is known that the basic principle for a market economy to work properly is the existence of political pluralism and democracy, which lacked in Kosovo until 1999. This period is known as the worst time period for Kosovo, because it was occupied by Serbia, and this has reflected also in its economic life.

During this period, economic entities experienced two ways of living, because on one hand they had to pay liabilities to the Serbian state and on the other hand these entities had liabilities to pay to the parallel institutions of Kosovo. Describing the situation of this period is hard because it cannot be explored by reading books or papers, but this should be examined from our own experiences we have had. It is known that the year 1990 was the turning year in the former Yugoslavia because the process of political and economical transition was recognized and therefore this year is regarded as the turning point in terms of the way economic entities were treated. Since the former Yugoslavia underwent the process of disintegration it faced with wars on its territory which resulted in the autonomy of Slovenia, Croatia, Bosnia, and Macedonia. As regards to the development of the same process in Kosovo, Serbia faced obstacles because a silence denial process was developed as a reaction to the circumstances created after the classic occupation by Serbia. As a direct result, Kosovo's economic entities that had been present until 1990, were reorganized and joined the economic entities of Serbia and all the Albanian employees were expelled from work. This was the time when private economic entities were established by the Albanians in Kosovo. This period is characterized by a discrimination of Albanian businesses because the Serbian state organized different expeditions to take away the profits of economic entities.

Regarding the role of accounting during this time period, we can conclude that it was not present, as compared with the role that the accounting

should have had. During this period the economic entities kept two sets of books, one for the purposes of audits which were conducted by Serbian authorities and the second one for their private use, which means that at this time, the economic entities in Kosovo had begun to realize the importance of accounting. During this period only a limited number of entities were organized as corporation, because most of them were individual based entities, therefore the development of accounting was very slow.

3. The period from 1999 until 2013

Year 1999 was the turning point for Kosovo because in June it won long-awaited freedom. From this year on, economic entities started their economic activity, due to the conditions which were created. This time was characterized by the absence of formal state institutions and as a result all business activities were “tax free”. This was a normal situation when taking into account the circumstances created, but for normal circumstances it probably represented unfavorable conditions. Over time government institutions were established which were in charge of regulating the business environment, conditions and normal functioning of institutions in general.

Regarding the accounting we encountered an undesirable situation in the sense that the financial reporting was not done at regular intervals. If we look back from 1999 until 2009 we have a not so good situation with regards to financial reporting. There were no differences by socially owned, public or private entities, because the process of privatization of socially owned entities was undertaken in Kosovo where low culture was seen during this process in terms of financial reporting. It is known that the main purpose of privatization is to increase the efficiency of the privatized entities which in itself should increase the number of employees, but such a thing did not happen because the process of privatization has not met its goals. We can freely say that Kosovo Privatization Agency (KPA) has failed to demonstrate transparency of the position and financial results of the privatized entities. There was no transparency in financial reporting in none of the cases, based on which, conditions to assess the worthiness of privatized entities would have been

created. As a result of not reporting the financial position and performance, economic entities were managed poorly and there was no measurement of the performance. When we consider these weaknesses in the management system of social properties, then the whole process should be considered doubtful with its intention to reduce the value of privatized entities for the purpose of abusing the process in general.

Even in the case of publicly owned economic entities¹ we encounter the same old story in terms of transparency of these entities. These entities faced the same trend of non-reporting of the financial position and results. The goal is the same as in the case of socially owned economic entities, to decrease the value of these entities and then privatize them. However, the government budgetary policy to transfer a certain amount of cash from the PTK's equity in the Kosovo budget was wrong, due to the fact that the value of the entity would fall, thus the sale price would be reduced. Accounting arguments indicate that when a total asset figure is large then the sale price would be higher than in cases when the total assets are small.

Regarding the accounting of privately owned economic entities, it is evident that they urged to report their financial position and performance in a transparent manner. In this form of ownership we distinguish sole proprietorship subjects while entities with more than one owner were very few, which conditioned fair reporting of economic entities. Usually for economic entities organized as corporations the financial reporting was mandatory. In Kosovo economic entities organized as sole proprietorship have the phenomenon of not reporting the real financial position and performance. The tendency of financial reporting is increasing when we consider the role of these reports in self-regulation of business activities of these economic entities.

¹ Social and public property are two categories mentioned in the economic vocabulary of our country even though I think I have arguments for treatment of these assets as state property.

Conclusion

The trend of fair presentation of financial statements in a transparent and legal manner is growing even though there is a negative climate in relation to this trend. By saying this, we consider the level of education of owner managers who have no information about the importance of setting the business on track in terms of financial reporting. It is known that the education at the national level in terms of knowledge relating to financial reporting is lacking because the population did not live in a social economic system that has had enough awareness for these reports. In the socialist system of economic values, information relating to assets, liabilities, equity, revenues and expenses has been limited for the public except that they emphasized that the work is being done in accordance with the approved plan. The need for financial reporting was lacking because economic entities were state owned.

As far as financial reporting objectives are concerned, we can conclude that the priority goal should be to increase the awareness of financial reporting at national level. This can be achieved by advancing learning programs at elementary and secondary schools and also higher education programs, where more information about financial indications should be given, which should lead to the increase of judgment about the market economy and private property. The role of private property needs to be emphasized in the sense of increasing the economic development and the alleviation of social problems in general.

Since we are talking about goals and objectives then in that case it is worth noting the formation of the general culture of the population associated with these categories in terms of public information through the press and through audiovisual means. Here, in particular we should mention the benefits that fair and reliable financial reporting provides to the legal entities by providing them with information relating to the indicators of performance, position and dynamics. At first glance the goals and objectives appear to be synonyms, but they differ because goals represent the external conditions of financial reporting while objectives relate to financial reports themselves and their content. In this context, it should be noted that financial reporting

purpose is to provide information that is useful to present, potential investors and creditors and others in making investment, credit, and similar resource allocation decisions.

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