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Implementation of global IFRS in the national accounting regulations, with special reference to Macedonia

Abstract

The process of adoption of IFRS is required by national accounting regulation of the countries, in order to harmonize the financial reporting standards and presentation of financial statements for external use. Conversation from national to IFRS has represented much more than a change in accounting rules and companies main concern is to understand the extent to which accounting differences between national standards and International financial reporting standards could affect their reported performance. Their adoption represents an essential element to obtain an integrated, competitive and attractive European capital market, and also a base for preparation of consolidated financial statements of global multinational companies. The transition to IFRS has meant fundamental changes for many European companies. IFRS conversion has not been viewed simply as an accounting exercise, but as a change in national accounting standards and in whole basis of financial reporting. IFRS information has affected the perception of firm's business performance, and firms have been enabled to produce financial statements that allow them to adopt a global financial reporting language as well as to be evaluated in a global marketplace. Communicating in one language to stakeholders enhances confidence in the business and improves finance-raising capabilities.

IFRS allows companies to benchmark themselves against theirs peers, and allows investors to compare firm performance with competitors globally. As Macedonia has a written law tradition, the compliance with all IAS enacted after 1999 and all post-1999 amendments to existing IAS was not effectively enforced in practice. The new Trade Company Law was enacted in April 2004, replacing the 1996 Law. The new Law states that the eligible companies, including large, medium sized, banking and insurance trading companies as well as companies listed on the Stock Exchange, should prepare their financial statements in accordance with the IAS, published in Official Gazette.

Key words: IFRS, implementation, national, conversion, regulation, Macedonia

Introduction

The IFRS (International Financial Reporting Standards) consist of a set of international accounting principles, the adoption of which aims at establishing clear rules within the European Union to draw up comparable and transparent annual reports and financial statements. Their adoption represents an essential element to obtain an integrated, competitive and attractive European capital market, which has impelled the European Commission to introduce this set of uniform accounting standards for listed EU companies.

The European Community Regulation 1606/2002 required companies listed in regulated European markets to adopt international accounting and financial reporting standards for preparing their consolidated financial statements as from January 1, 2005. The transition to IFRS has meant fundamental changes for many European companies. IFRS conversion has not been viewed simply as an accounting exercise, but as a change in national GAAP (generally accepted accounting principles) and in whole basis of financial reporting. IFRS information has affected the perception of firm's business performance, and firms have been enabled to produce IFRS financial statements that allow them to adopt a global financial reporting language as well as to be evaluated in a global marketplace [1]. Communicating in one language to stakeholders enhances confidence in the business and improves finance-raising capabilities. IFRS allows companies to benchmark themselves against their peers, and allows investors to compare firm performance with competitors globally.

This new performance measurement system has been expected to produce some differences in accounting rules between the set of national standards and IFRS, and firms' main concern has been to understand the extent to which accounting differences could change their performance. Proponents of accounting harmonization believe that comparability of financial statements worldwide is necessary for the globalization of capital markets. They suggest that there are many potential benefits that may arise from the use of one common set of accounting standards throughout the world. These include improved transparency, comparability and quality of financial reporting that lead to lower preparation costs, more efficient investment decisions and lower cost of capital for companies.

Opponents of harmonization note the magnitude of the differences that exist between countries and the high cost of efforts to eliminate those differences. They argue that because of different environmental influences, differences in accounting across countries might be appropriate and necessary.

Regardless of the arguments against harmonization, most agree that "the question is no longer Whether to strive for harmonization, but to what extent accounting practices can be harmonized and how fast" (Doupnik & Perera, 2007). Global accounting convergence presents a number of challenges for companies involved, their auditors and all users of the financial statements. Despite the widespread adoption of IFRS, there is relatively little research on the actual problems which companies face in implementing these standards.

[1] (PricewaterhouseCoopers, 2004).

Key issues and implications in process of IFRS convergence

Those companies that begin preparations sooner rather than later will be in a far better position to make the transition than those that wait until the last minute. Key lessons learned from IFRS conversions in Europe and elsewhere around the world include the need to not underestimate the transition effort and to start the planning process early. Organizations can begin to address and manage myriad critical issues now in order to ensure a smooth transition to IFRS. As a first step, management should have an understanding of the potential impact and implications that a transition to IFRS could have on their organizations. The following questions and answers address some of the many issues:[2]

- How will the move to IFRS impact external financial reporting in organizations?
- How will IFRS affect organization's business policies and procedures?
- How will IFRS affect organization's business processes?
- How will IFRS affect organization's people and resources?
- How will IFRS affect organization's internal management reporting?
- How will IFRS affect organization's methodologies?
- How will IFRS affect organization's financial reporting systems and underlying data?
- What education should be given to external users of financial statements?
- Will IFRS impact organization's stock price?

One of the questions is - will IFRS reduce the current level of complexity that exists in financial reporting? Given that it is a more principles-based reporting system around an accounting framework, IFRS lacks the extensive rules and detailed guidance for handling exceptions that are commonly found in many countries' local GAAP standards. The reduction in the number of accounting rules and exceptions could lead to a reduction in the complexity of financial reporting. However, fewer rules and exceptions will require companies to establish more robust policies and procedures internally to ensure that appropriate judgments are made consistently throughout the organization. Companies will also likely have to provide more information about judgments and assumptions in footnote and other disclosures. The transition to IFRS as one set of comprehensive global accounting standards will further reduce duplication of efforts and complexity in financial reporting. IFRS should enable these companies to streamline their accounting and reporting processes and to develop common policies and reporting systems across the organization and will provide greater flexibility in the use and location of finance resources.

Regarding the transparency of financial reporting a principles-based reporting system such as IFRS that requires consistent application across an organization has long been considered a way to increase the clarity of fi nancial reporting and minimize accounting-motivated structuring of transactions. Under IFRS, some believe that transactions can be reported more on the basis of the substance of the transaction rather than the need to follow

[2] Christopher Wright and Steven Hobbs, Journal "BANK ACCOUNTING & FINANCE", june 2010, p.21

complex reporting rules. IFRS also requires consistency within a given company in how it applies judgment to facts, as well as consistency in the reporting of data. IFRS generally requires more disclosures than most countries' local GAAP requirements. It requires companies to disclose accounting policies, judgments and estimates, as well as additional qualitative and quantitative information related to significant accounting transactions. It is expected that the increased disclosures will provide additional clarity
and guidance to the users of financial statements.

How will converting to or converging with IFRS affect company's external audit procedures and related audit fees? IFRS is predominantly more principles based, whereas U.S. GAAP is considered more rules-based. IFRS provides less guidance with regard to the specific interpretation and application of the standards. This distinct difference from current practice requires management to use more judgment in interpreting certain standards and their application to the company's business activities. Moreover, in certain situations, management will be required to exercise a significant amount of judgment in applying the standards, resulting in the need to document the company's rationale for the conclusions reached.

In addition to fees incurred relative to the financial statements audit, conversion to or convergence with IFRS will require updates to accounting policies, procedures and processes. In countries where management and external auditors are required to complete an assessment of internal control over financial reporting, both management and the auditors may need to spend additional time in the initial year ensuring that conversion or convergence efforts are integrated into the compliance requirements for this assessment. These additional activities also will result in higher external auditor fees in the initial year, which subsequently would be expected to decline and return to amounts comparable to prior fee levels.

How will the move to IFRS impact external financial reporting in organizations? First and foremost, IFRS will impact external financial reports through increased disclosure requirements. For certain transactions, IFRS requires management to use more judgment in making assertions supporting the measurement and recording of transactions. To provide transparency into these transactions and allow users of financial statements to understand clearly the assumptions and estimates used by management in the decision-making process, IFRS requires more qualitative and quantitative disclosures than many country-specific national standards requirements. From an operational perspective, conversion to or convergence with IFRS companywide provides an opportunity for multinational companies compelled to use multiple variations of GAAP for their recordkeeping and financial reporting in different countries, a challenge that is further complicated by the need to prepare various reconciliations between these different GAAP applications. IFRS enables these multinationals to improve the efficiency and flexibility of the financial reporting process. IFRS will allow them to streamline the close process by using a common set of accounting policies and procedures
throughout the organization.

How will IFRS affect organization's business policies and procedures? The far-reaching effects of IFRS fall into three general categories: accounting policies and procedures, contractual agreements and covenants and management incentives and compensation linked to fi nancial reporting. Accounting policies and procedures will need to be subjected to a diagnostic review to determine the extent, if any, to which changes need to be made to account for differences between current practice and IFRS. To the extent accounting policies and procedures do not require changes in specific areas, a company will want to ensure it can support and document the rationale for not making changes. Going forward, accounting policies and procedures will need to be subject to dynamic review, with proper revisions made for potential changes emanating from new facts and circumstances, new interpretations and specifi c issues affecting the geographic, segment or business-unit subsets of a company.

Contractual agreements and covenantsare the second major category of policies and procedures affected by IFRS. They pose a unique set of issues in the year of conversion or convergence and in the prior and subsequent year. Many contractual agreements contain references to, and provisions based on, current accounting and reporting practices (U.S. or other GAAP) and even contain specific "books and records" requirements. Naturally, companies must be able to comply with contracts in order to meet their obligations and protect their rights. To the extent companies have historical contracts, or are in the process of entering into new contracts with financially tagged provisions, there are a number of considerations and possibilities.

How will IFRS affect organization's business processes? Any significant change to accounting standards, especially one as expansive as the adoption of or convergence with IFRS, will necessitate changes to internal control over financial reporting. A company will have to determine the extent to which the audit committee and senior management will want or need to weigh in on decisions about policy, choosing among options, the application of judgment and so on. These considerations may require the company to revisit its entity-level control framework. When policy changes drive procedural changes at either the operational or financial reporting group level, process documentation must also be updated. Companies will need to modify narratives, process maps and work flows; reconsider the nature and extent of key controls and scoping; redesign test plans; and test both the change management process (such as modifications to systems and spreadsheets) and the operation of the controls.

How will IFRS affect organization's people and resources? Companies embarking on a conversion to or convergence with IFRS will need to acquire or repurpose personnel who are conversant with IFRS in order to provide background to existing personnel for whom IFRS is a new phenomenon. Such personnel may come from any of several sources, both internal and external. Many companies operating in international markets may have subsidiaries that already prepare local/statutory reports in accordance with IFRS. Finance directors with such experience could be useful team members or leaders in managing a corporatewide conversion project, as they likely have either operated under IFRS for a while, participated in converting from local standards to IFRS when their country converted or both. Other companies will need to consider training internal personnel on an enterprisewide basis. Still others may need to hire new personnel with the requisite skills. If the latter need exists, companies should recognize that the longer they wait to acquire such personnel, the harder it will be to find them.

How will IFRS affect organization's internal management reporting? As noted above, companies will need to revisit virtually every fi nancial model they use in order to verify their assumptions are correct-or have been modified to be correct—under IFRS. Budgets and forecasts may need to be remodeled due to changes in reported fi nancial results. In M&A, the impact of the expected purchase price will need to be revisited, as well as the calculation of when or if M&A activity will be accretive to reported results postacquisition. In the event of planned divestitures, the reverse effect should be examined.

Operating users and creators of reports will need to be sensitized and kept current on the end use of reporting and the corporate policies and objectives driving their activities. Users and creators of reports will need to understand not only what data must be included in reporting but also why the data is required, where it comes from, where it is going and what its use accomplishes. These users and creators will also need to understand the impact any changes in what they do will have on upstream or downstream accounting determinations based on their work.

How will IFRS affect organization's methodologies? Companies will need and want to reach out to, and achieve consensus with, a variety of sources in deciding how to use judgment, authority and rationale in implementing and operationalizing IFRS. Sources of information and arbiters of judgment will include the audit committee, disclosure committee, regulators and standard setters, external auditors and other third-party advisors.

How will IFRS affect organization's financial reporting systems and underlying data? A number of IT supporting programs and interfaces will need to be changed or improved, depending on a company's industry and geographic diversity. IT resources, as with operating personnel, will need to be able to understand what needs to be achieved, and why, in order to support the infrastructure needs of both the accounting team and the operating teams that provide supporting data. Specific examples of IT program and support changes that might be necessary include consolidation programs and protocols; inventory costing systems; fi xed-asset subledgers, including enabling component depreciation; EPS spreadsheets and programs; M&A and forecasting tools; sales and accounts receivable registers; and project management tools to separately track research and development. In addition to the programs and interfaces required to facilitate external and internal financial reporting, those that support KPI metrics and financial ratios must also be addressed.

What education should be given to external users of financial statements? Although key issues will vary by industry, IFRS will infl uence the way management runs the business and assesses performance. One of the signifi cant trends reported in Europe, according to Ernst & Young's 2006 Observations on the Implementation of IFRS, was the increased use by management of "non-IFRS" measures: performance indicators not defined under IFRS when communicating business performance to the market. Indeed, the relevance of IFRS to the needs of external users is commonly raised as one of the main perceived weaknesses of IFRS. Clear, continuous and consistent communication with stakeholders will reduce the risk of misunderstandings and aid a smooth transition. Guidance should be developed providing both a high-level overview explaining the effects of IFRS adoption, as well as organization-specifi c, detailed descriptions of the most signifi cant accounting issues involved. Stakeholders should be made aware of the nature of and reasons for changes in fi nancial statements as a result of the IFRS conversion.

Will IFRS impact organization's stock price? The experience of adopting IFRS in Europe and other parts of the world was that the conversion from the various versions of local GAAP to IFRS did not impact market ratings. However, the experience did show that companies needed to do a good deal of explaining to the

market about the change and the potential implications, and the market needed to do a significant amount of internal IFRS education to understand how and where the differences should impact the financial results.
Clear and early communication about the impact of IFRS on financial results can provide a competitive advantage and will, at the very least, minimize the potential negative impact on stock price.

The move towards global standards

The goal of the IFRS Foundation and the IASB is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. In pursuit of this goal, the IASB works in close cooperation with stakeholders around the world, including investors, national standard-setters, regulators, auditors, academics, and others who have an interest in the development of high-quality global standards.

Progress toward this goal has been steady. All major economies have established time lines to converge with or adopt IFRSs in the near future. The international convergence efforts of the organisation are also supported by the Group of 20 Leaders (G20) who, at their September 2009 meeting in Pittsburgh, US, called on international accounting bodies to redouble their efforts to achieve this objective within the context of their independent standard-setting process. In particular, they asked the IASB and the US FASB to complete their convergence project.

Table 1 – List of countries that adopted IFRS

Country	Status for listed companies as of December 2011
Argentina	Required for fiscal years beginning on or after 1 January 2012
Australia	Required for all private sector reporting entities and as the basis for public sector reporting since 2005
Brazil	Required for consolidated financial statements of banks and listed companies from 31 December 2010 and for individual company accounts progressively since January 2008
Canada	Required from 1 January 2011 for all listed entities and permitted for private sector entities including not-for-profit organisations
China	Substantially converged national standards
European Union	All member states of the EU are required to use IFRSs as adopted by the EU for listed companies since 2005
France	Required via EU adoption and implementation process since 2005
Germany	Required via EU adoption and implementation process since 2005
India	India is converging with IFRSs at a date to be confirmed.

Indonesia	Convergence process ongoing; a decision about a target date for full compliance with IFRSs is expected to be made in 2012
Italy	Required via EU adoption and implementation process since 2005
Japan	Permitted from 2010 for a number of international companies; decision about mandatory adoption by 2016 expected around 2012
Mexico	Required from 2012
Republic of Korea	Required from 2011
Russia	Required from 2012
Saudi Arabia	Required for banking and insurance companies; full convergence with IFRSs currently under consideration
South Africa	Required for listed entities since 2005
Turkey	Required for listed entities since 2005
United Kingdom	Required via EU adoption and implementation process since 2005
United States	Allowed for foreign issuers in the US since 2007; US SEC committed to global accounting standards and IFRS best placed to meet that need in the US (see SEC February 2010 statement on global accounting standards), awaiting decision regarding use of IFRSs for domestic companies

Source: http://www.ifrs.org

Financial reporting framework in Macedonia

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. 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. Each large and medium size commercial entity, commercial entities specified by a law, as well as commercial entities performing banking activities, insurance activities, commercial entities listed on the Stock Exchange and commercial entities, the financial statements of which are included in the consolidated financial statements of the above mentioned commercial entities, shall be obliged to prepare and submit financial statements in accordance with the adopted International Accounting Standards, published in the "Official Gazette of the Republic of Macedonia". [3]

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. Accounting regulation is driven by the Ministry of Finance, which also regulates and collects taxes. On the other hand, implementation of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) is not an enclosed process, but it is the standard-setting process which takes into account the needs of all accounting information users.

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

[3] World Academy of Science, Engineering and Technology , 2009

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.).

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 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 presentation of 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).

Conclusion

Increased economic globalization over the past twenty years sparked demand for a single, worldwide set of high-quality accounting standards. Countries gradually began turning to IFRS - the guidelines created by the International Accounting Standards Board. By the end of 2011, 120 nations and reporting jurisdictions permitted or required IFRS for domestically-listed companies. Accurate and transparent business and corporate reporting are in the spotlight today, more than ever before. National and also international market conditions and frequent company failures both highlights needs for transparency and efficiency in the process of generation and dispatching of information. Transparency is necessary in order to meet regulators and authorities requirements, while efficiency is important for enabling company executives to quickly respond to changing market conditions and meet investors and analysts needs.

The benefits of standardized and high quality financial reporting are: lower preparation costs, simplified and international access to information, standardized information recognized and understood by all recipients, high degree of required transparency by regulators, enhanced analytical capabilities and most important of all: enhancement of informed and efficient investment decisions.

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