



**Private Sector Accounting Reform Project
Bosnia and Herzegovina**



**Bosnia and Herzegovina
State Structure**

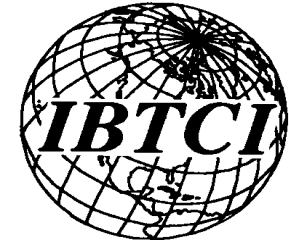
Under Dayton Agreement
Composed of
Two Entities

Federation of BiH

Republic of Srpska



**Private Sector Accounting Reform Project
Bosnia and Herzegovina**



**Federation of BiH
Responsible Institutions**

**Institute for Accounting and Auditing
FBiH (Government Institution)**

SEC of FBiH

**FBiH Association of Accountants and Auditors
(Private Sector)**

**Association of Accountants and
Finance Workers of HB (Private Sector)**



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Legal Accounting Framework in FBiH

LAW ON ACCOUNTING

Accounting Standards (IAS)

25 Accounting Standards
in force since 1999

7 Additional Accounting
Standards in force since 2000

Total- 32 New Accounting
Standards in force in 2000

- New Chart of Accounts and
Format of Accounts

LAW ON AUDITING

Auditing Standards

Translation of **IFAC**
Auditing Standards

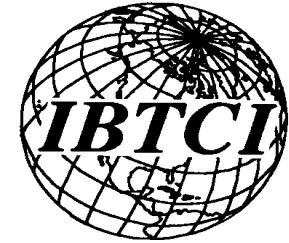
2 documents

34 Auditing Standards

10 Auditing Practice
Statements



**Private Sector Accounting Reform Project
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Republic of Srpska

Responsible Institutions

**Association for Accounting and
Auditing in RS**

SEC of RS



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Legal Accounting Framework in RS

Law on Accounting

Accounting Standards (IAS)

- **33** New Accounting Standards
adopted and published in 2000

Auditing Standards

Translation of **IFAC**
Auditing Standards

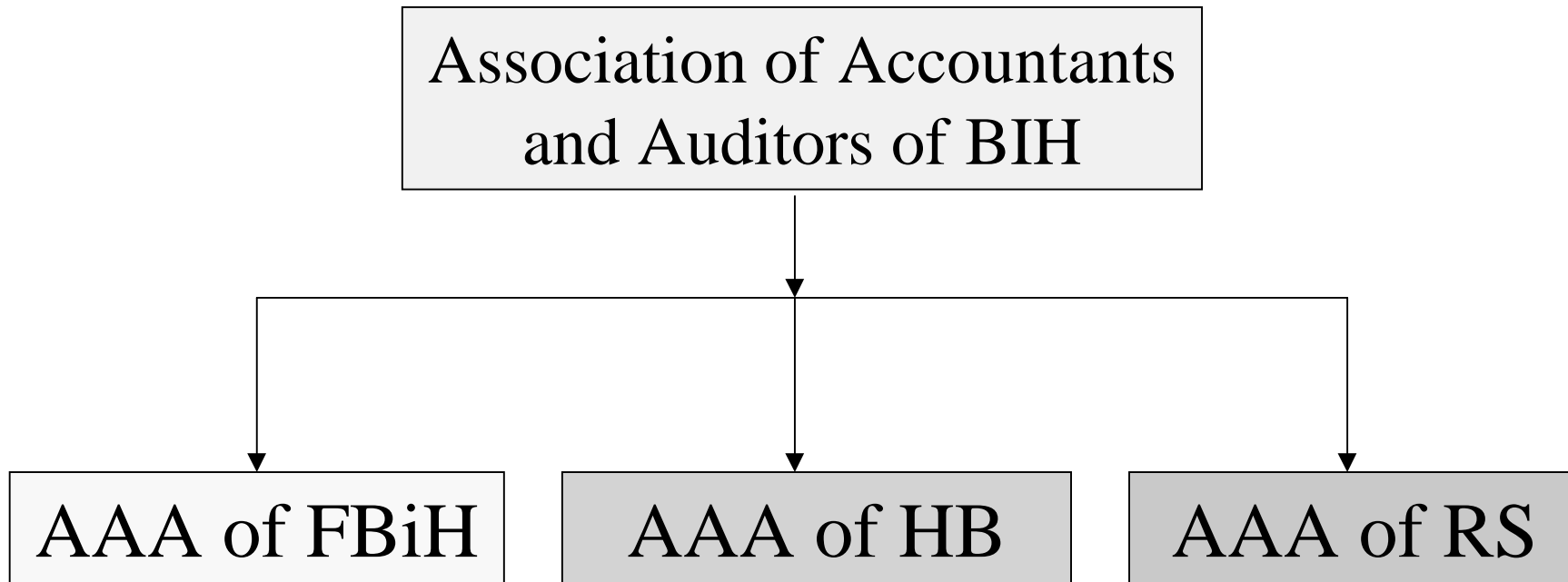
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34 Auditing Standards

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Private Sector Accounting Reform Project Bosnia and Herzegovina



TTCP – University Curricula

Stage one – Certified Bookkeeper

- 1. Preparing Financial Statements / Accounting an Introduction**
- 2. Financial Information for Management / Cost Accounting**
- 3. Managing People**
- 4. Information Systems**

Stage two – Certified Accounting Technician

- 5. Corporate and Business Law**
- 6. Business Taxation**
- 7. Financial Management and Control**
- 8. Financial Reporting**
- 9. Audit and Internal Review**

Stage three – Certified Public Auditor

- 10. Audit and Assurance Services**
- 11. Business Information Management**
- 12. Strategic Business Planning and**



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Conversion to IAS

Three Step Conversion to IAS accounting system in enterprises:

First step: Balance sheet conversion

Application of new Chart of Accounts, Conversion manual and basic IAS Principles

Second Step: Preparation of Financial Statements

Third Step: Cost Accounting Conversion

Methodology:

- 3 day seminar for enterprise accountants and auditors engaged in conversion
- 3 day visit on site in each enterprise and work with accountants
- Engagement of audit firms as subcontractors to do conversion
- From September till April 2002 converted 110 enterprises in BiH



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IAS Requirements	Application - Comments
<p>■ Valuation of intangible assets:</p> <p>- Initial valuation – determination of cost (purchase price plus all attributable expenditures)</p> <p>- Subsequent valuation</p> <p> Benchmark treatment – historical cost less accumulated amortization and other adjustments</p> <p> Revaluation fair value approach</p>	<p>About 60 % of enterprises have intangible assets and have done initial valuation properly.</p> <p>About 50% amortized IA by straight-line method. The other 50% keep their intangible assets out of use and did not amortize them. General recommendation is to write off assets not being used.</p> <p>About 20 % of enterprises revalued IA if price index increased more than 10% per year or from the latest revaluation. Enterprises did not use fair value approach.</p> <p>About 40% of enterprises do not have IA in the balance sheet</p>



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IAS Requirements	Application - Comments
<p>■ Recognition of expenditure of:</p> <p><i>Research</i></p> <ul style="list-style-type: none">- Period expense- Asset <p><i>Development</i></p> <ul style="list-style-type: none">- Period expense- Asset <p>Recognition and Measurement of:</p> <p>Goodwill</p> <p>Negative goodwill</p>	<p>About 80% of firms do not have research and development costs</p> <p>Among remaining 20 % of firms treatment is as follows:</p> <p>80%</p> <p>20%</p> <p>80%</p> <p>20%</p> <p>Enterprises do not have any goodwill or negative goodwill</p>



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IAS Requirements	Application - Comments
<p>2. Valuation of tangible assets</p> <p>Initial valuation – determination of cost</p> <p>Subsequent valuation</p> <p>Benchmark treatment (historical cost less accumulated depreciation and other adjustments: or</p> <p>Revaluation</p> <p>if price index increases by more than 10% per year or from the latest revaluation</p> <p>(FBiH AS 16). Fair value approach from IAS 16 did not adopted</p>	<p>All enterprises value fixed asset per purchase price plus all directly attributable expenditures to prepare asset for final use.</p> <p>All enterprises depreciated assets in use. Generally straight line method is in a use.</p> <p>Problems: Depreciation of:</p> <p>Assets not in use</p> <p>Assets in preparation process</p> <p>If price index increases more than 10 % per year or from the latest revaluation enterprises revalued assets. The latest revaluation was in 1998.</p>



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IAS Requirements	Application - Comments
<p>Impairment of Assets</p> <ul style="list-style-type: none">• Identifying an Asset that may be Impaired. Assessing value of fixed assets at 31.12.2000 in accordance with FBiH AS 36 Impairment of Assets?2. Measurement of Recoverable amount, net selling price and value in use in accordance with AS 36?3. Recognition and measurement of an impairment loss.<ul style="list-style-type: none">- expense in income statement- a revaluation decrease- amortized them in the next 5 years	<p>Only 8 % of enterprises assessed value of fixed asset in accordance with FBiH AS 36 at December 31, 2000. Only about 2% of enterprises recognised impairment loss at December 31,2000.</p> <p>Note: Before determination of opening balance sheet for privatization (before enacting FBiH AS 36 – before 31.12.2000) some enterprises estimated value of assets, mostly buildings, and decreased value and reduced the capital in order to have lower price for privatization process.</p>



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IAS Requirements	Application – Comments
<p>Investment and Related Parties</p> <p>1. Investment with less than 20% of voting rights (Cost Method)</p> <p>- Valuation and accounting treatment of investment in:</p> <ul style="list-style-type: none"> - Subsidiaries (Consolidation) - Associates (Equity Method) - Joint Ventures (Proportionate Consolidation) 	<p>About 30 % of enterprises have investment in banks (less than 20% of voting rights – mostly 1-2%) and initially valued by cost.</p> <p>About 15% of enterprises have investment in related parties - mostly joint ventures. In the future with development of capital market long term investments with more than 20% will increase.</p> <p>Problems: Subsequent valuation of investment, Preparing consolidated accounts, application of equity method,etc.</p>



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IAS Requirements	Application – Comments
<p style="text-align: center;">Inventories</p> <ul style="list-style-type: none">- Measurement<ul style="list-style-type: none">- Lower of cost or net realisable value - Costing system<ul style="list-style-type: none">- costs included in inventory- period costs - Cost Formula<ul style="list-style-type: none">- FIFO- weighted average cost formula- LIFO	<p>Almost 100% of enterprises actually do not apply basic principle of valuation of inventories at the balance sheet date.</p> <p>Problems:</p> <p>Managers – loss from write off to net realisable value</p> <p>About 20% of enterprises use appropriate absorption costing system in accordance with FBiH AS 2, all other enterprises used full costing system (all costs are included in inventories)</p> <p>Majority of enterprises use weighted average costing formula. (Recognised by Income Tax Law)</p>



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Second Step – Preparing of Financial Statemets

Content of Annual Report with fully Disclosure:

- Management Report
- Financial Statements
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement
 - Information on Shareholders Equity
 - Changes in Equity
- 3. Accounting Policies and Conventions
- 4. Notes to the Financial Statements
- 5. Other Information to the Shareholders

Third Step – Cost Accounting Conversion

Scheduled for next 12 months