



# **2nd Meeting of the Eurasian Corporate Governance Roundtable**

Sheraton Metechi Palace Hotel  
Tbilisi, Georgia  
7-8 June 2001



## *Transparency and Disclosure*

**The Eurasian landscape: IAS Gap Analysis**

by

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hosted by

**The National Securities Commission of Georgia  
The Georgian Stock Exchange  
International Regional Federation of Accountants and Auditors Eurasia**

with the support of



**The Government of Japan  
The Global Corporate Governance Forum**

## Armenia

In accordance with the Law of Armenia “On Accounting”, the responsibility for regulating accounting activities rests with the Ministry of Finance and Economy of the Republic of Armenia. In particular, the Ministry is responsible for:

- Approval of accounting standards
- Approval of a new chart of accounts
- Adoption of relevant regulations that govern accounting activities.

In accordance with Armenian Government Regulation # 740 dated 26.11.1998, national accounting standards based on international accounting standards are to be implemented since 2000; however, in 1999, new standards were implemented in 200 joint stock companies, as an experiment.

As compared with the situation in the past year and in view of changes in IAS, 2 standards were cancelled and 4 were added. Accordingly, as of today, Armenia has adopted 33 International Accounting Standards and a new Chart of Accounts. International Accounting Standards are implemented in Armenia on a step-by-step basis within a period of 3 years. In 2000, open and closed joint stock companies with the state share of 50 per cent or more filed financial statements prepared in accordance with IAS. This year, it is anticipated that financial statements prepared in accordance with IAS will be filed by all closed joint stock companies, regardless of the state share in their equity. Next year, limited liability companies will also be required to file financial statements prepared according to the new standards.

The significant impediment to broad implementation of IAS is the poor knowledge of IAS application issues, demonstrated by most accountants. The Association of Accountants and Auditors of Armenia takes comprehensive actions aimed at resolving this problem. Lectures and training seminars focused on IAS are held regularly. The assessment system for chief accountants of companies required to prepare financial statements in accordance with IAS has been introduced. The evidence of successful efforts taken by the Association in this regard is the developing relationship with the local USAID office. One of the problems relating to the implementation of IAS is that they are not written for any particular country and, therefore, do not give clear accounting instructions for specific situations.

## Georgia

On 5 February 1999, the President of Georgia signed the act “On Regulating Accounting and Reporting” into law. Under this law, the responsibility for progress of the accounting reform in the private sector rests with the Accounting Standards Commission under the Georgian Parliament and independent professional accountancy bodies.

The Law “On Regulating Accounting and Reporting” indicates the timeframe of the reform: 2000-2001, i.e. the reform should be completed by the end of this year. The work is going on according to schedule. In Georgia, IAS are used without changes and have been adopted as national standards. All Georgian companies must use a standard chart of accounts.

IAS were translated into Georgian and adopted without changes. These standards became effective since 1999, the original translation was made in 1997, and, in December 2000, IAS 2000 were translated. The translation will be updated each year.

The Georgian Federation of Professional Accountants and Auditors, one of the founders of IRFAA Eurasia, is active in the field of reforms in Georgia.

In accordance with the Georgian Law “On Regulating Accounting and Reporting”, the transition to IAS for joint stock companies becomes effective on 01.01.2000, and for limited liabilities companies and co-operatives – on 01.01.2001.

The full transition to IAS in Georgia can be considered an accomplished fact. Most companies have been

preparing financial statements in accordance with IAS since 2000. Only small businesses and not-for-profit organisations were allowed to apply old accounting standards. However, it is expected that special reporting standards mostly based on international standards will be developed for this purpose.

Among main problems that Georgia faced in respect of the adoption of IAS was the difficulty that most accountants experienced in applying IAS. Experts from the Georgian Federation of Accountants and Auditors believe that the main solutions to this problem are as follows: practical experience in applying IAS, availability of the necessary literature in sufficient quantity, accounting training – the area in which Federation professionals make strenuous efforts.

## **Kazakhstan**

Kazakhstan was one of the first among the CIS countries to begin the transition to IAS. At the end of 1995, this country adopted the Accounting Law that provided for all the actions necessary to make the transition. Currently, the leading role in this regard is played by the Chamber of Auditors of Kazakhstan in co-operation with the government agencies.

As of today, Kazakhstan has adopted about 30 national accounting standards; all of them are brought as close to IAS as possible. The chart of accounts based on IAS was also adopted. In general, the process of adopting new standards met no resistance either from the government agencies, or from most rank and file accountants, despite natural difficulties relating to significant differences between new and old national standards. Training programmes implemented for several years by the Chamber of Auditors with the support of the Kazakhstan Office of USAID were very successful. Although many accountants still experience difficulties with applying national standards, there is a new generation of accountants familiar only with IAS, because all tax returns and financial statements are prepared in accordance with new IAS-based standards.

## **Russia**

The reform process in the area of accounting standards in Russia has dramatically improved since Regulation of the Russian Government # 1072-• dated 26 July 2000 took effect. This Regulation introduces the Action Plan of the Russian Government in the field of social policy and upgrading of the economy for 2000-2001. The Government's Action Plan provides for the implementation of IAS without indicating the area and extent of the IAS application. The Plan states: «The transparency of activities of enterprises and organisations will be ensured by the implementation of International Accounting Standards, mandatory enforcement of transparency requirements concerning the information about financial and business activities.»

Accounting reforms in Russia are slow. New national standards and the existing chart of accounts do not allow preparing financial statements in full compliance with IAS. The majority of Russian organisations will report in accordance with Russian Accounting Standards that will comply with IAS in terms of basic principles as the conditions and needs are created. The Accounting Reform Programme indicated that 22 accounting standards would have been developed and adopted by January 2000; as of today, only 14 standards have been adopted, and these documents do not fully agree with one another and with other regulations. Some adopted standards do not comply with principles and objectives of International Accounting Standards in terms of key issues.

## **Tajikistan**

Difficult economic situation and unstable political environment in the country led to Tajikistan's lagging behind other countries in the implementation of economic reforms. However, the Government begins to take comprehensive actions, and, among these actions, the accounting and audit reform is not at the bottom of the list. On 8 January 2001, Tajikistan's Government decided to speed up the transition to new accounting standards. The Government Programme "Changing Economic Entities" was adopted. The main problem at this stage is what path will be chosen for the reform. The Ministry for Finance insists on the development of strictly national standards that would be based on specific characteristics of the economic situation in the country. Public professional bodies, such as the Public Institute of Professional Accountants and Auditors of Tajikistan, insist on the adoption of International Accounting Standards that,

of course, would cater for features specific to national economic environment, but would be as close to IAS as possible.

The responsibility for the accounting reform process rests with the Accounting and Reporting Methodological Department of the Ministry of Finance of Tajikistan.

Tajikistan has not adopted a programme of accounting reform. Standards are issued regularly, but they chiefly comply with regulations of the Russian Federation. Four standards based on IAS were adopted in Tajikistan.

## **Uzbekistan**

After considering the transition to IAS, Uzbekistan's Government arrived at the conclusion that their full adoption would be too time-consuming for a number of reasons. Among most important reasons are substantial differences between IAS and existing national standards, certain specific features of local tax laws. That is why, it was decided to develop new national standards based on international standards and as close to them as possible. At present, there are 21 standards effective in Uzbekistan. Each standard is based on the relevant international standard, but there are differences between respective local and international standards.

Uniform procedures for the state regulation of accounting activities in Uzbekistan could not be enforced in all sectors of the national economy without a generalising law on the organisation of the accounting system, methodology of maintaining accounting records and preparing financial statements. Moreover, references to some accounting aspects in different regulatory documents that govern the development of a new economic system in the country did not ensure the unity of the accounting framework.

A full-fledged accounting reform could not be implemented without a new modern Accounting Law that would be fully compliant with internationally recognised principles and methods. The adoption of the Accounting Law on 30 August 1996 ensures the implementation of uniform procedures for the state regulation of accounting activities in all companies, institutions and organisations of different ownership types. The Accounting Law ensures the establishment of new accounting standards that are compliant with IAS, provides for the underlying accounting framework and main principles in Uzbekistan and also indicates rights, obligations and liability of entities in the area of accounting as well as requirements to the preparation and presentation of financial statements.

The Accounting Law, along with a new Chart of Accounts, Regulations on the Structure of Manufacturing and Selling Costs Attributed to the Production Cost of Goods and Services and on Procedures for Determining Financial Results, the updated Auditing Law, Uzbekistan's National Accounting and Auditing Standards, is a complete legal framework of accounting activities for all entities within the territory of Uzbekistan.

Articles of the Accounting Law are further developed in Uzbekistan's National Accounting Standards (UNAS). As of 1 January 2001, 17 national standards were approved and became effective.

All accounting standards that are being applied or developed comply with IAS.

In our opinion, there are no fundamental differences between Uzbekistan's accounting system (UZAS) and IAS that could impede the meaningful analysis of Uzbekistan's companies. However, in spite of the fact that, in terms of the presentation, financial statements prepared in accordance with Uzbekistan's standards are close to those based on IAS requirements, there are a number of differences between these systems in terms of contents. As a result of these differences, assets and profitability of Uzbekistan's companies are normally overstated, and, before comparing Uzbekistan's and foreign companies, these differences need to be removed.

## **Ukraine**

Economic reforms in Ukraine have naturally led to the accounting reform based on international harmonisation and standardisation. For this purpose, on 28 October 1998, the Cabinet of Ministers of

Ukraine adopted the Accounting Reform Programme based on IAS (Regulation # 1706). The Accounting Methodological Council under the Ukrainian Ministry of Finance was established to co-ordinate the Programme implementation efforts.

With the assistance and active support provided by the United States Agency for International Development, the Ukrainian Federation of Professional Accountants and Auditors developed a number of draft national accounting standards that complied with IAS. Afterwards, these draft standards formed the basis for Ukrainian Accounting Standards that were developed and approved by the Ukrainian Ministry of Finance as key standards for the preparation of financial statements of enterprises and organisations. On 16 July 1999, the Law was adopted. It became effective since 2000. The approved list of standards contains 24 standards that fall into four groups. The first group consisting of seven standards deals with the preparation of financial statements and was adopted during the first six months of 1999. It has been applied since 2000. The second group comprising five standards should be applied in accounting for property, plant and equipment, intangible assets, loans payable, etc. It was expected to become effective since 2000. The third group should be applied in accounting for revenue, expenses and profit or loss. The standards of the third group were adopted in September – October 2000. The fourth group deals with accounting for investments, taxes, dividends, changes in exchange rates, prices, inflation. These standards were expected to be approved in 2000-2001. As of today, 20 Ukrainian Accounting Standards have been adopted.

A new chart of accounts that allows maintaining accounting records in accordance with new requirements has also been adopted.

IAS became effective for financial statements of Ukrainian banking institutions on 1 January 1998. Ukrainian banks were the first to make the transition to IAS. The National Bank of Ukraine prescribes financial accounting and reporting rules for Ukrainian banking institutions. One of the transition features in the banking system is the development of a new chart of accounts with a detailed commentary on the application of each account. However, at present, there are some deviations from IAS that relate to the principles of maintaining accounting records in banks, which do not allow us to report the same profit or loss as we would report in accordance with IAS. That is why, additional transformation procedures are needed to prepare IAS financial statements.

Since 1999, all joint stock companies submit financial statements prepared in accordance with IAS to the Securities and Exchange Commission of Ukraine. Therefore, we may say that Ukraine has taken the main steps to harmonise and standardise the accounting system based on international standards.

However, there are some difficulties with the application of international principles. The tax law prescribes the depreciation rates that are substantially different from those determined in accordance with international principles. The value added tax is calculated on the earlier of the date of payment or sale (of goods or services). These and other deviations are impediments to the full application of international accounting principles. Profit or loss reported under national accounting standards is still different from that reported under IAS.

