

Lorena Mošnja-Škare*

UDK 657.01:338.24:338.984.4(497.5)

Izvorni znanstveni rad

GLOBALISATION IMPACT ON ACCOUNTING TRANSITION IN CROATIA

Uspješno restrukturiranje računovodstva u skladu s globalizacijskim ciljevima osobito je važno za tranzicijsku zemlju poput Hrvatske kojoj su prijeko potrebni svježi financijski resursi. Potrebno je postići kompatibilnost računovodstvenog sustava Hrvatske s računovodstvenim sustavima drugih zemalja, posebno zemljama - trgovinskim i investicijskim partnerima. Problem koji autorica razmatra jest kako ostvariti taj cilj: ustrajanjem na usavršavanju primjene MRS-ova ili ulaganjem napora u kreiranje Hrvatskih računovodstvenih standarda i njihovom harmoniziranju s računovodstvenim standardima drugih zemalja?

Introduction

The end of 1990s seems to be the right time to estimate the results of transition process in Croatian economy. This process has been accompanied by accounting restructuring since accounting system has to fulfil new information requirements arisen from transitional changes. After a decade of transition accounting system has undoubtedly changed, but is it reformed or restructured? Is the accounting transition completed? Would the achieved results serve the globalisation goals? Which are the guidelines for future accounting development towards globalisation aims? Croatian accounting was exposed to radical changes, so its transition wasn't just a reform with slight movements, but a process of restructuring. This was quite a challenge for accounting theoreticians and practitioners particularly because it had to be performed in complex globalisation surroundings. So, topics on accounting in the globalisation context are discussed in the paper. Then follow the results of the research on accounting restructuring in Croatia considering globalisation requirements and finally some thoughts on future developments are given.

* L. Mošnja-Škare, docentica Fakulteta ekonomije i turizma "Dr. Mijo Mirković", Pula. Članak primljen u uredništvo: 20. 03. 2001.

The research is done on the basis of data from questionnaires sent to a random sample of 1000 Croatian manufacturing enterprises with 14% response rate. Although wider sample would produce more accurate results, this rate of return can be considered satisfactory since practitioners' unwillingness to cooperate with researchers is a common problem with studies in Croatia. Still this sample size allows making conclusions representative for Croatian accounting with 10% error tolerance at the reliability level of 95% (considering the number of manufacturing enterprises according to the Register of corporate entities in Republic of Croatia at the time of research).

Accounting and Globalisation

There's no field of economic life that can function isolated, out of environmental influences. Such one is accounting. It is "the language of business", but each country has its own language developed under specific circumstances. Environmental factors of influence can be summarized in four groups (Lawrence, p. 13) as follows:

Cultural

- Assumptions and attitudes towards reporting.
- Personal beliefs, aspirations and motivations affecting information requirements.
- Interpersonal relationships affecting the level of acceptable government control.
- Social structure and the status of the accountant.

Political

- Level of government intervention.
- Level of foreign government intervention, including colonial influences.

Legal

- Extent of specific, detailed accounting legislation.

Economic

- Forms of organization.
- Sources of finance.
- Role of the accounting profession.
- Sophistication of users.

These factors produce different accounting systems, i.e. different "languages of business". The need to have single business language was never so urgent like

today and becomes more intensive day after day because of the globalisation process. There's a question - is this need for unique accounting language a consequence or prerequisite of globalisation? Is it true that "the globalisation of capital markets and the internationalisation of trade will push international accounting practices closer together" (Lawrence, p. 13) or that a standard accounting language enables the globalisation process to develop. Both claims are valid. There's no doubt that globalisation will produce compatible accounting frameworks but having harmonized accounting system will make it easier and faster.

International Accounting Standards (IAS) are created to serve globalisation process and its development influences their formulation. "Some countries use international accounting standards directly as national standards (for example, Malaysia, Singapore and Zimbabwe) while others use international accounting standards as the basis for national standards (for example, Egypt, India and Kenya are using all the standards this way whereas some developed countries have used specific international accounting standards to fill gaps in their national requirements). Many countries develop their own requirements in such a way that they conform with International Accounting Standards. ... Australia, Canada, the United Kingdom and the United States generally adopt more detailed national standards than international accounting standards whereas other countries, such as Tanzania, have adopted less detailed national standards that generally conform with international accounting standards." (Accounting..., p. 150) Although the term "standards" - "standardization" is used, accounting harmonization is better accepted term by theoreticians and practitioners. It is inconvenient and even impossible to have uniform accounting system because all of these environmental influences, but these differential factors don't prevent coordination of accounting systems, i.e. harmonization. "Through harmonization the varying accounting systems will be brought together but recognition is given to the fact that no single model exists for worldwide application. The single authorized global model that would result from standardization is unlikely ever to be established irrespective of the globalisation of trade and industry, and of capital and money markets" (Lawrence, p. 250). The same author describes arguments supporting harmonization and its obstacles which can be summarized as follows.

For harmonization:

- Harmonization provides more efficient use of global resources, i.e. global distribution of private sector finance. Comparability of information is crucial for investors all round the world. Also, new markets in Eastern Europe and such one is Croatian should be able to disclose their financial statements in the way familiar to potential investors. That makes pressure on new arising market countries to become a part of accounting harmonization process.

- Multinational companies would benefit from harmonization because of easier consolidation of foreign subsidiaries, easier development of accounting systems which should meet the requirements of the stock exchanges around the world, consistency of internal management accounting, easier communication within the group, mobility of accounting staff, reduction of auditing cost.
- More financial control over multinational companies could be achieved by governments of developing countries because of minimized differences between foreign and domestic accounting practices.
- Harmonization could assist to the national tax authorities to determine the total income of a given subject.
- Simplifying the job and decreasing the costs of international accounting firms specially the costs of staff movements and training.
- Increased understandability and usefulness in the benefit of trade unions, international credit agencies, accounting academics, regional accounting groups, etc.

Against harmonization:

- Unwillingness to accept accounting principles of other countries.
- Different information requirements of different user groups with different influences in different countries (investors, tax authorities, government, employees).
- Difference between legal requirements in the country and international standard requirements.
- Different accounting development history resulted in different starting positions of countries.
- Different ideas of harmonization for various public and private organizations dealing with harmonization tasks.

It can't be misunderstood that these organizations are really the obstacle of harmonization. They differ in the way to perform the harmonization process but have the same mission: to make accounting systems around the world compatible. Many organizations make efforts to achieve that goal: European Union, United Nations, Organization for Economic Cooperation and Development as public organizations and International Accounting Standards Committee, International Federation of Accountants, Federation des Experts Comptables Européens as private organization including others like Confederation of Asian and Pacific Accountants, American Accounting Association, European Accounting Association.

Despite of the obstacles, accounting harmonization will continue to develop. Many barriers can slow down this process but it is a phase of accounting evolution that nobody can stop. Globalisation and accounting harmonization is our easy predictable future.

Accounting Transition in Croatia in the light of Globalisation

Accounting system has been reformed in Croatia many times in the past, but since early 1990s it's not just the reform, but also the accounting transition that is happening. The transition had a task to turn the accounting system from the passive uniform system existing to serve statistical purposes and law requirements of planned economy towards the active, creative, innovative, market and profit oriented instrument designed to provide reliable, relevant, intime, accurate information for rational decisions making. That's its real role it has in market economies all round the world. "Accounting reform (i.e. transition) is a major element in legal and economic reform and a prerequisite for the introduction of capital markets, the promotion of investment, and the efficient functioning of the corporate sector." (Accounting..., p. 11/. Still, changing its nature itself doesn't mean efficient participation in globalisation process, which could be realized by acceptance and implementation of International Accounting Standards directly or as the basis of national standards. Croatia chose the first alternative, i.e., the direct implementation of IAS what was regulated by Croatian Law on Accounting from 1993. Croatian Board for Accounting and Accounting Standards was founded with the task to enable IAS implementation. So, the legal framework was set up and the accounting practitioners were supposed to adopt IAS and they did it more or less successfully. From one side, they were used to many changes typical for planned environment, but from the other side, none of them was so radical. It was real challenge for them. The fact that the last ex-Yugoslavian Law on Accounting from 1989 was essentially different comparing to previous laws because it was partly compatible to accounting practice in the world (Spajić, p. 80/, made this transition little easier.

The research dealt with some frequently discussed issues on IAS appliance for tangible and a part of current assets - inventories.

Depreciation methods

Depreciation methods suggested by IAS are linear, functional and decreased balances method. Table 1 shows the results of exploring their use in Croatia.

Table 1

IMPLEMENTATION OF DEPRECIATION METHODS PROPOSED
BY IAS IN CROATIA IN LATE 1990s

Depreciation method	%
Linear	76
Functional	15
Decreased balance	3
Other	6

Source: Author's research.

The dominance of linear method is evident while functional method is used five times less frequently comparing to linear and decreased balance and other methods are almost not in use. Although the IAS proposes the use of different methods, such uniformity is the result of permission to use only linear method for tax purposes. So, despite of inconveniences of applying linear method in some circumstances, it's widely used in order to avoid double work. Moreover, one method is not supposed to be used for all types of assets, but as the consequence of previously described uniformity; (a) in 99% of cases the same depreciation method is used for all types of assets, (b) in 1% of cases depreciation methods are combined for different types of assets.

It seems that in this field, accounting didn't turn to an active system yet, but is still bounded by obligatory requirements.

Depreciation rates

Tax rules are often the first and only step in determination of depreciation rates instead of IAS requirements.

Table 2

DEPRECIATION RATES IN CROATIA IN LATE 1990s

Depreciation	%
Defined exclusively according to tax rules	85
Defined according to IAS beside tax rules	15

Source: Author's research.

These results confirm the previous results. Obviously, simplicity of implementing tax rules prevails the benefits of structuring an accounting policy based on IAS proposals, which could provide more reliable information on depreciating tangible assets.

Depreciation policy reviewing

IAS also requires reviewing of the depreciation policy considering the changes of expected economic benefits, obsolescence, decreasing efficiency of assets, etc.

Table 3

REVIEWING OF DEPRECIATION POLICY IN CROATIA IN LATE 1990s

Frequency of reviewing	%
Regularly reviewing	12
Irregularly reviewing	41
No reviewing	47

Source: Author's research.

Obviously, this IAS requirement is not fulfilled except in 12% of cases. Since depreciation methods and rates depend on tax rules there's almost no need for reviewing, just following tax rules changes. That's inherited from planned economy era without own accounting policies.

Revaluation policy

Table 4

REVALUATION POLICIES IN CROATIA IN LATE 1990s

Revaluation performing	%
Continuously	1
Only for financial statements purposes:	
- once a year	16
- by exception	28
- only if it's legally required	44
- no revaluation	11

Source: Author's research.

It's not surprising that in most cases revaluation is carried out only because of legal requirements, since it had to be done by the law for many decades of high inflation rates in Croatia. That's a kind of tradition and in case of moderate inflation rates, performing book and fair value adjustments look needlessly despite of IAS. Consequently, the accounting information usefulness is questionable for decision makers.

Capitalization or costing policy

IAS require capitalization of expenses made to improve tangible assets and to increase their future economic benefits and costing them if they are not made for this purposes, but just for repairment and maintenance with no economic benefits increase. The first requirement is met in 74% and the second in 92% of cases. So, almost in third of cases costing is done when it's not appropriate, and evidently less mistakes are done with capitalization.

Inventory methods

Table 5

INVENTORY METHODS IN CROATIA IN LATE 1990s

Inventory methods	Raw material	Finished products
FIFO	21%	10%
LIFO	4%	3%
Weighted average	60%	29%
Specific identification	0%	2%
Other	15%	56%

Source: Author's research.

The method most in use for raw material is weighted average method and it's in accordance with IAS. That's not the case with finished products inventories. This and other three methods proposed by IAS are used for finished products inventories but not so widely like "other methods" among which is the most popular planned price method. Actually, it's not a method but a technique of cost measuring (IAS allows the use of standard costing). Planned cost is in use because of simplicity. Then inventory corrections are performed because of negative or positive differences comparing to actual cost.

While it was clear why linear method is so dominant considering tax rules, it was interesting to find out what are the main factors influencing the inventory method choice.

Table 6

FACTORS OF INFLUENCE ON INVENTORY METHODS CHOICE IN CROATIA
IN LATE 1990s

Factors	Estimated importance
Simplicity	3.6
Costs of implementation	3.5
Quality of resulted data	4.6
Tax effects	3.8

Source: Author's research.

It's obvious that the most important factor is quality of data resulted from application of selected inventory method. This can be a reason for prevailing use of weighted average method, which doesn't result in overestimated inventories, or in their costs. The use of planned cost is more a kind of tradition in ex - planned economies.

Fixed and variable costs

IAS demand including just a part of fixed costs related to the normal production capacity in inventory value. Division on fixed and variable costs is done in 72% of enterprises, but that's not the case with the rest of 28%. Furthermore, entire fixed costs are included in inventory value in 45% of cases, while just 55% of enterprises follow the IAS requirement considering normal production capacity. This has a good reason in Croatia. Because of the long-lasting war, it is hard to determine the normal production capacity in majority of enterprises and that's serious obstacle in implementing IAS 2. /Spremić, p. 12/. So, most of the enterprises estimate their normal production capacity on one-year basis and that's not in accordance with the definition of normal capacity.

Loan, storing, administrative, selling costs

The IAS requirement is to include loan, storing, administrative, selling costs in the value of inventory only if they are directly related to the current condition and location of inventories.

Table 7

LOAN, STORING, ADMINISTRATIVE, SELLING COSTS AND INVENTORY
VALUE IN CROATIA IN LATE 1990s

Inventory policy regarding loan, storing, administrative, selling costs	%
Included (always)	15
Not included (never)	48
Included only if directly related to inventories	37

Source: Author's research.

Approximately one third of enterprises follow the IAS requirement, while in other cases inventories are overestimated or underestimated for this group of costs. Obviously, it is easier to have uniform policy regarding these costs and always include them in the inventory value or never do that, than treat each case separately to estimate the existence of direct relation with inventories.

Net realizable value estimation

The IAS points out the need to estimate the net realizable value of inventories regularly. It is very important to compare the book value with net realizable value of inventories and to write off the book value to the level of net realizable value if needed to avoid overestimation. This specially stands for enterprises where inventories take considerable part of balance sheet.

Table 8

THE FREQUENCY OF NET REALIZABLE VALUE OF INVENTORIES
ESTIMATION IN CROATIA IN LATE 1990s

The frequency of estimation	%
Regularly	21
Once a year - when preparing financial statements	32
In case of particular need	39
Never	8

Source: Author's research.

Small part of enterprises doesn't ever make net realizable value estimations and that's a good result, but it is still just around one fifth of them who do it regularly. The majority of enterprises estimate the net realizable value in case of particular need such as unstable business circumstances, demand decrease, obsolescence, etc.

Acceptance of IAS in Croatia means taking a part of accounting harmonization process in the world necessary for globalisation goals. But harmonization also means that other countries are supposed to implement IAS directly or as the basis for national accounting standards. That would produce similar accounting policies comparable throughout the world. For example, linear depreciation method is dominant in Croatia like in majority of other countries, but in other countries, other methods take greater part than in Croatia. Decreased balance method is peculiar for e.g. Finland, Japan. Progressive methods are widely implemented also in Germany, France or South Africa, Mexico. Revaluations, book value adjustments to the level of fair value are not performed regularly but that's the case with many countries in the world, particularly in some conservative accountings like German or Japanese.

Low share of LIFO method is comparable with Austria, Great Britain, Hong Kong, France but not with SAD or Italy where this method dominates. High share of weighted average method is also typical for Germany, Japan or France, while planned cost method is transition countries' feature. Net realizable value is compared with historic costs of inventory like almost everywhere in the world (e.g. not in China), but in some countries (Netherlands, Denmark, Sweden, Finland, Ireland, Brazil, Mexico), it is done on current replacement value basis.

Future Prospectives

Croatia is a little country which survival depends on foreign markets and financial resources. That's why it's crucial to get involved in globalisation process as effective and efficient as possible. Hand by hand with globalisation goes accounting harmonization worldwide. That's why it is necessary to make Croatian accounting compatible to the accounting systems of other countries, particularly with trade and investment partner - countries. The question is in which way to achieve this goal: through further work on better implementation of International Accounting Standards (IAS) or through efforts made for creating Croatian accounting standards harmonized with other countries' accounting systems.

The first alternative would probably better serve globalisation purposes without spending extra resources on creating a new set of standards. But on the other hand, considerable part of IAS could hardly be implemented in Croatia, particularly requirements dealing with accounting items for multinational companies. "Market

globalism is bringing about an increasing need for international accounting standards. This however does not obviate the need for the development of standards based on national accounting traditions. Although universally applicable standards on reporting and auditing are an objective for the future, the countries of Eastern Europe need to build accounting systems which respond to their own needs.” (Accounting..., p. 153).

So, the second alternative could make a system feasible to Croatian economic particularities. It doesn't need resources only to build CAS but far more to implement them, to get the accountants and accounting information users acquainted with them. Croatian accountants are used to frequent changes even before IAS and its changes, but another radical one would cause additional burden. It seems that in Croatian accounting something new is always introduced and we always learn and learn how to implement the news, instead how to use the things we learnt as effective and efficient as possible in creating accounting policies of high quality, in producing appropriate accounting information suitable to individual needs of its users. Information are there to be used, not just to be there. So, if we continuously just learn and learn the news, we'll never start to really practice them. Undoubtedly, permanent education of accountants is necessary but in order to implement improvements, reformed accounting solutions, not always to perform radical restructuring. So, with starting CAS, there's no way back to direct implementation of IAS. But still, IAS or some other widely accepted set of standards like Generally Accepted Accounting Principles (GAAP) or European Directives (ED) has to be considered as the basis for CAS or there's no hope for harmonization goals. Because of Croatian orientation to European Union and the struggle to become its member country, ED would probably be better choice than GAAP. The alternative is to hold IAS as the basis for CAS since both ED and GAAP will have to stick to IAS once when globalisation enters its last phases. Also, these solutions don't necessarily be alternatives; they can be combined with result of CAS based both on ED and IAS as complements. Such combination was the basis even for Croatian Law on Accounting (Proklin, p. 51).

Successful accounting restructuring considering globalisation goals is particularly important for such transition country like Croatia starving for fresh financial resources as it was previously mentioned. So, among arguments supporting harmonization, (potential) investors' and creditors' disclosure requirements will be the most important ones for Croatia. Considering the list of obstacles, there's no fear nationalism will be one of them. That's because Croatia is a country with a decade of direct implementation of IAS, so there's no some kind of national “Croatian accounting model” that wants to stay unchanged. On the other hand, a “forest” of legal requirements typical for Croatia can be significant obstacle, so the legal system needs considerable simplifications.

Conclusions

Accounting restructuring in Croatia is going on. From the beginning of 1990s till now and probably in the future, globalisation seriously influences its development. Direct implementation of IAS according to Croatian Law on Accounting 1993 can be estimated as a feature of rudimentary system without own standards, but it is also a step to realization of globalisation goals. Introducing Croatian Accounting Standards won't harm the idea of accounting harmonization since their creation and improvement will be based on widely accepted set of standards. Progressive economic collaboration with the rest of the world is vital for Croatia and that's why this country must take an active part in the globalisation process accompanied by accounting harmonization process as its prerequisite and consequence. With this mission, Croatian Association of Accountants and Financial Experts became a member of organizations, which make efforts to achieve harmonization goals. It is a full member of International Federation of Accountants, International Accounting Standard Committee, European Confederation of Institutes of Internal Auditing. The problem Croatia has to deal with while trying to successfully involve in harmonization process will be its different starting position in relation to more developed accounting systems of "western" countries. Since high-developed countries have stronger influence on the work of international or regional organizations dealing with harmonization, results of their job could be a reflection of influential countries' requirements. Previously presented research results on IAS implementation in Croatia prove that their requirements are often too complex and inconvenient for Croatian accounting development level and Croatian economy peculiarities, unless they would be better accepted. However, this is a common problem, not only for Croatian, but also for other less developed accounting systems. But, on the other hand, IAS implementation positively effected accounting development in Croatia - they were a temporary solution leading to Croatian own accounting standards. The CAS will better fit to specific needs of this transition country without losing harmonization tasks. That will bring the accounting restructuring process closer to the end. After that, slight changes and improvements that will follow can be described as reform of restructured accounting system, harmonized with other systems, enabling further development of globalisation process.

LITERATURE:

1. *Adair, A. Downie, M.L., McGreal, S. Vos, G.*: "European Valuation Practice", E & FN Spon, London, 1996.
2. *Alexander, D, Archer, S.*: "European Accounting Guide", Harcourt Brace & Co, San Diego, 1995.
3. *Lawrence, S.*: "International Accounting", International Thomson Business Press, London, 1996.
4. *Mueller, G.G., Gernon, H., Meek, G.K.*: "Accounting - An International Perspective", Irwin, Burr Ridge, New York, 1994.
5. *Proklin, P.*: "Institutional Framework of Financial Statements in Croatia", in: XXXI. Conference on 'Accounting, Business Finance and Auditing in Contemporary Economic Environment', Proceedings, Croatian Association of Accountants and Financial Experts, Zagreb - Pula, June, 1996, pp. 43-59.
6. *Radebaugh, L.H, Gray, S.J.*: "International Accounting and Multinational Enterprises", John Wiley & Sons, New York, 1997.
7. *Spajić, F.*: "The Experiences in Application of International Accounting Standards", in: XXXI. Conference on 'Accounting, Business Finance and Auditing in Contemporary Economic Environment', Proceedings, Croatian Association of Accountants and Financial Experts, Zagreb - Pula, June, 1996, pp. 77-93.
8. *Spremić, I.*: "Can IAS 2-Inventories be Implemented in its Entirety in Croatia?", *Auditing*, 2, 12, 1997.
9. x x x: "Accounting Reform in Central and Eastern Europe", Organisation for Economic Co-operation and Development, Paris, 1991.
10. x x x: "Croatian Law on Accounting", *Narodne novine*, br. 90, 1992.
11. www.rif.hr

UTJECAJ GLOBALIZACIJE NA TRANZICIJU RAČUNOVODSTVA
U HRVATSKOJ

Sažetak

Svršetak devedesetih godina odgovarajući je trenutak za procjenu rezultata tranzicijskih procesa u hrvatskome gospodarstvu. Radikalne su se izmjene dogodile i u računovodstvenom sustavu u Hrvatskoj, jer su tranzicijske promjene postavile nove informacijske zahtjeve, pa se stoga njegov razvojni put ne može ocijeniti kao reforma s blažim pomacima, već kao proces restrukturiranja. Bio je to pravi izazov za hrvatske računovodstvene teoretičare i praktičare, osobito zbog utjecaja složenog globalizacijskog okruženja. Potreba za jedinstvenim "jezikom poslovanja" nikada nije bila tako izražena kao danas, a zbog globalizacije postaje sve intenzivnijom.

Rezultati istraživanja računovodstvene tranzicije u Hrvatskoj u uvjetima globalizacije zasnovani su na podacima prikupljenima anketiranjem slučajnog uzorka od tisuću hrvatskih poduzetnika prerađivačke industrije sa četrnaestpostotnim odazivom. Participaciju u procesu globalizacije moglo se postići prihvaćanjem i primjenom Međunarodnih računovodstvenih standarda neposredno ili kao osnove za nacionalne standarde. Budući da je Hrvatska odabrala prvu alternativu, istraživanjem su obuhvaćena neka često razmatrana pitanja o primjeni MRS-ova u području dugotrajne materijalne imovine i dijela kratkotrajne imovine - zaliha.

Uspješno restrukturiranje računovodstva u skladu s globalizacijskim ciljevima osobito je važno za tranzicijsku zemlju poput Hrvatske, kojoj su prijeko potrebni svježiji financijski resursi. Potrebno je postići kompatibilnost računovodstvenog sustava Hrvatske s računovodstvenim sustavima drugih zemalja, posebno zemljama - trgovinskim i investicijskim partnerima. Problem koji se razmatra u radu jest kako ostvariti taj cilj: ustrajanjem na usavršavanju primjene MRS-ova ili ulaganjem napora u kreiranje Hrvatskih računovodstvenih standarda i njihovom harmoniziranju s računovodstvenim standardima drugih zemalja?