



## Level of Implementation of International Accounting Standards by Large Enterprises in Kosovo

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### **Abstract**

**Purpose:** This research will aim to provide a more complete view of the IAS implementation process by large enterprises in Kosovo and its impact on their financial position.

**Methodology:** For this research, we used primary and secondary sources. We conducted quantitative research through a customized questionnaire, which was completed by the accountants of 102 chosen companies, regarding the implementation of IAS and its impact on the company's financial position.

**Findings:** Based on data analysis, we have identified that the level of implementation of IAS is average, and the main factors of this are the complexity of IAS, cost of implementation, lack of knowledge, and adequate certifications about IAS.

**Originality/Value:** This paper aims to provide empirical evidence in the implementation of IAS in Kosovo and give a contribution to researchers in this field.

## **Introduction**

The financial health of business enterprises is important primarily for the enterprise itself, respectively for the shareholders of the enterprise and employees, but also for the society that uses the services of these enterprises. The most important indicator that reflects the situation of an enterprise is financial information, which reveals very important information for the enterprise and helps to make various analyzes to increase the quality of services, reduce their cost and increase the efficiency and success of its business. Financial information serves as a bridge of communication between stakeholders: shareholders of enterprise, their supervisors (government), and clients of their services (citizens). Quality of financial reporting is a key factor for a country's reliability, economy, and financial development, and foreign investment in that country. The presentation of financial information is very important to understand the success of the enterprise, but depending on the activity of the enterprise, their accounting information may be different. Therefore, considering these differences in the reporting of financial information, it has been necessary to create reporting standards, which guide enterprises in compiling financial statements and reporting financial information, unifying reports and helping to compare them properly.

International Financial Reporting Standards (IFRS) are Standards and Interpretations used by the International Accounting Standards Board (IASB). They include International Financial Reporting Standards; International Accounting Standards; IFRIC Interpretations; KIS Interpretations. To date, the IASB has approved 16 International Financial Reporting Standards and has revised and improved almost every International Accounting Standard (Mirza, Orrel, & Holt, 2008).

Through this paper, we will address the importance, advantages, and disadvantages that result from the application of International Accounting Standards, in different countries of the world, with further focus on the implementation of IAS by companies operating their business activities in Kosovo.

## **Literature Review**

International Accounting Standards have their advantages and disadvantages regarding their use. One of the main advantages is the unification of the content and presentation of financial information, which contributes to the understanding and comparison of financial information and on the other side, one of the disadvantages mentioned is the limitation to use creativity for the presentation of financial information (Diaconu, 2007). More than 100 countries report using IFRS. These standards today serve as a single unified language of financial reporting which can be easily and reasonably interpreted by users of financial statements (Hlaciuc & Mihalciuc, 2009). IAS and IFRS had their greatest development in 2002 when European Union legislation mandated that entities listed in Europe prepare their consolidated financial statements following IFRSs. This adjustment required about 8,000 entities in about 30 countries in Europe since January 2005 to report under IAS and IFRS approved in the EU. (European Parliament, 2002). Many researchers have studied the implementation of IASs in developing countries, most of whom could not clearly define the impact that the implementation of IASs may have on enterprises in developing countries. However, so far researchers have identified five important areas affected by the implementation of IASs, which are economic growth, education level, the degree of external economic openness, cultural membership in a group of countries, and the existence of a financial market (Zeghal & Mhedhbi, 2006). In research by Ball (2006), it was concluded that the implementation of IAS can bring numerous direct and indirect benefits for large companies. One of the main benefits is the competitive advantage in international markets, which is a value-added to the enterprises that apply IAS and IFRS, putting them in a more favorable position compared to competitors (Ball, 2006). Besides direct benefits, one of the indirect benefits that a large enterprise can derive from the implementation of IAS is the reduction in the investment risk for investors by reducing the cost of doing business to their capital (Deloitte, 2009). Developing countries face a problem while implementing IASs because of the differences and non-compliance between national accounting standards and IAS. This situation happened in countries such as Romania,

Portugal, Turkey, and others, where local accounting standards were not fully harmonized with international standards, so the accountants or financiers of enterprises in these countries have little knowledge of International Accounting Standards. The leaders of the four largest audit companies in the world (the big four) are considered to have the best knowledge in this area therefore they often engage in consulting local companies on the implementation of IFRS and IAS (Panagiotidou, 2015). Given the differences that may arise between national and international accounting standards, it is necessary to standardize different types of financial statements by drafting and implementing the same accounting principles, following IFRSs, which find the wide international application (Epstein & Mirza, 2006). On the other hand, many types of research show that the most important obstacles in the field of implementing IAS and IFRS are the complexity of IAS and IFRS and the tax orientation of national accounting systems (Larson & Street, 2004). The complexity of IAS has led to increased costs for many companies, which are required to adopt international standards and at the same time comply with the requirements of national law. Moreover, some of the IASs find little or no applicability for many enterprises operating in developing countries. In this regard, various researchers have concluded that the application or transition from national to international standards / IAS and IFRS, presents a heavy burden on entities because of its complexity and cost (Pellens, 2001). According to Jermakowicz, some of the challenges arise due to the complex nature of IASs and IFRSs - which are designed by large companies, the lack of guidance on the implementation of IASs, their constant change, the lack of knowledge about IASs by accountants, the transformation of IASB decisions into EU regulations and the parallel management of accounting systems (Jermakowics, 2010). Based on cost-benefit analysis, it is considered that the implementation of IAS and IFRS by large enterprises in developed countries, bring more benefits, affecting the improvement of their position in the capital markets, however, it is not the same situation for the enterprises in developing countries or those undergoing an economic transition. This is because the full implementation of

IASs and IFRSs in enterprises in developing countries outweighs the costs compared to the benefits (Neag, 2013).

Nevertheless, other authors, despite the challenges in implementation and the costs of transition, support the idea that the implementation of IASs has had a positive impact on overall financial performance and the position of enterprises, therefore increasing the value of accounting in general (Hung & Subramanyam, 2004).

### *Implementation of IAS in Kosovo*

The law that regulates accounting, financial reporting, and auditing in the Republic of Kosovo is Law no. 06 / L-032 which law harmonizes the national legislation with the directives of the European Union.

Kosovo Council for Financial Reporting- KCFR is an independent body that among other duties it is responsible to draft and approve Kosovo Accounting Standards following International Accounting Standards and other EU directives; Monitors the implementation of auditing standards by companies that are obliged to submit financial statements to KCFR; Monitors continual education, quality assurance, and disciplinary system. While for the financial sector in Kosovo, the CBK sets accounting requirements for institutions in this sector. The World Bank indicates that the reports of financial institutions meet the objectives of the CBK, but they do not fully comply with the "full IFRS". Therefore, in 2006 it concluded that "Corporate financial reporting in Kosovo is perceived to be of very low quality, except audited financial statements of financial institutions, which are perceived to be of relatively high quality" (The World Bank, 2012). Large enterprises must prepare financial statements under full IFRSs. These statements must be signed by the executive director and the financial director (if the financial director or chief financial officer is not a certified accountant, then the statements are also signed by the certified accountant from the Accounting Associations licensed by KCFR<sup>1</sup>. Large companies are obliged to publish financial statements. The low quality of financial reporting continues in Kosovo's largest business segment - micro-entities - and, to a lesser

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<sup>1</sup> UA-MF 07/2019 – Article 8

extent, in small and medium-sized enterprises. Financial reporting among financial institutions and entities audited by local or international firms is considered to have been improved significantly (European Bank for Reconstruction and Development, 2016). There is a lack of researches on this topic in Kosovo, therefore may be limitations during the research. The following results can provide a scientific contribution to research in this field.

### **Research questions and hypotheses**

This paper aims to provide information on the implementation of the IAS by large enterprises in Kosovo. Initially, the research will provide information about the legislation applicable in Kosovo and the regulatory bodies that supervise large enterprises in Kosovo. Through this research, we will be able to understand the changes in financial reporting after the year 2012 when the implementation of IAS by large enterprises has begun. Furthermore, the research will provide information about the advantages and disadvantages that large enterprises may have from the application of IAS, the main challenges of enterprises for implementing IASs, and how the implementation of IASs helps to improve the accounting environment in general and the development of large enterprises.

Based on this, the following research questions are addressed:

1. What is the level of IAS implementation to large enterprises in Kosovo?
2. How the implementation of IAS has affected the financial reporting of large enterprises?
3. Has the implementation of IAS contributed to the improvement of the accounting environment in Kosovo?

After these questions, we have drafted the following hypothesis:

*H1:* The level of IAS implementation by large enterprises in Kosovo is satisfactory and has improved their financial position

*H2:* Lack of professional certification of accountants of large enterprises has affected the unsatisfactory implementation of IAS

*H3:* Implementation of full IAS is complex and costly for enterprises in Kosovo

### **Research methodology**

The methodology followed in this paper is based on two data sources that consist of primary and secondary sources. For the theoretical part of the research will be used secondary data from the literature of various authors, scientific publications, official reports, and research from local institutes. Since there is a lack of research on this topic in Kosovo, primary data is a very important part of this research. Primary data will be collected through questionnaires conducted by accountants in several large enterprises selected as a representative sample. Within the 102 interviewed enterprises (out of 130 contacted enterprises) are enterprises from different sectors, with emphasis on the financial sector, manufacturing, trade, construction, etc. After the collection of primary data, they will be processed, to continue with the analysis and testing of the hypotheses of this paper.

Hypothesis testing will determine the dependent variable and will evaluate the correlation and impact between the independent variables. For this, we will use the Chi-square test where if the value  $p < 0.05$  means that the tested variables are dependent and have an impact on each other and vice versa. Whereas, for the other two hypotheses, Kendall\_tau correlation testing will be used to evaluate the impact of independent variables on the dependent variable.

### **Empirical analysis and discussion of the results**

To test the hypotheses presented in this research, in addition to secondary data, primary data were collected from the survey of large enterprises in Kosovo, which under local law are required to implement IASs and prepare financial statements following IFRS. The data collected were analyzed and the hypotheses were tested through the Chi-square statistical test, and the Kendall correlation to test the dependence of the variables. According to this test if the value of  $p$  is  $< 0.05$ , then it shows that the tested variables are dependent and have an impact on each other, whereas if the value of  $p$  is  $> 0.05$ , means that the tested variables are independent and consequently are not influenced by each other.

The Chi-Square test was used to test the hypotheses, according to which the effect of variables on each other is tested. The Chi-Square test is calculated according to the formula:

$$X^2 = \sum [(O_{r,c} - E_{r,c})^2 / E_{r,c}]$$

$X^2$  = chi-square statistics

$O_{r,c}$  = the frequencies observed at level r of Variable A and level c of Variable B

$E_{r,c}$  = predicted frequencies at level r of Variable A and at level c of Variable B

$$E_{r,c} = (n_r * n_c) / n$$

$n_r$  = all frequencies observed at level r of Variable A,

$n_c$  = all frequencies observed at level c of Variable B, and

$n$  = sample size.

Results with a value less than  $p = 0.05$ , show that the tested variables are dependent and have an impact on each other, and vice versa, i.e. the results on the above value show that the variables are not dependent. The test results of the hypotheses presented are as follows.

**Hypothesis H1:** The level of IAS implementation by large enterprises in Kosovo is satisfactory and has improved their financial position will be tested through the following variables:

*Variable 1:* Complexity of IASs for implementation on enterprises in Kosovo

*Variable 2:* Frequent updating of IASs and lack of training

From the respondents, we understood how their assessment on the level of implementation of IASs in their enterprise, where 52% stated average level of implementation, 20% low level, 17% high implementation, and 12% very low implementation. Whereas in terms of the impact of the implementation of IASs on improving the financial position of the enterprise, 47% think that there has been an average impact, 37% a little, 10% very little, and only 6% think that the implementation of IASs has greatly influenced the improvement of the financial position of the enterprise.



Regarding the responses received from the respondents, it is concluded that the level of applicability remains low and subsequently the independent variables are tested to prove their impact on the dependent variable. The test results are given below:

The level of implementation of IAS and the impact on improving the financial position	V1 Complexity of IASs for implementation on enterprises in Kosovo	V2 Frequent updating of IASs and lack of training	Average
Very low	12	11	11%
Low	15	25	20%
Medium	65	58	60%
Very high	10	8	9%
<b>Total</b>	<b>102</b>	<b>102</b>	<b>100%</b>

**Table 1.** The level of implementation of IAS to independent variables for H1

Detailed results from the Chi-square test for each independent variable are shown below:

Results					
	Very low	Low	Medium	Very high	Row Totals
Certified auditor	1 (1.51) [0.17]	2 (3.43) [0.60]	7 (7.96) [0.12]	4 (1.10) [7.67]	14
Certified accountant	2 (1.29) [0.39]	5 (2.94) [1.44]	3 (6.82) [2.14]	2 (0.94) [1.19]	12
Accounting technician	7 (6.04) [0.15]	12 (13.73) [0.22]	36 (31.84) [0.54]	1 (4.39) [2.62]	56
None	1 (2.16) [0.62]	6 (4.90) [0.25]	12 (11.37) [0.03]	1 (1.57) [0.21]	20
<b>Column Totals</b>	<b>11</b>	<b>25</b>	<b>58</b>	<b>8</b>	<b>102 (Grand Total)</b>

*The chi-square statistic is 18.354. The p-value is .031282. The result is significant at  $p < .05$ .*

RESULTS		
	V1	V2
<b>Chi- Square statistic</b>	33.1231	18.354
<b>p-value</b>	.000127	.031282
<b>Result</b>	The result is significant at $p < .05$	The result is significant at $p < .05$

**Table 2.** Chi-Square test results

Through the Chi-square test, when the value of p is less than or equal to the level of significance defined, then it can be said that there is sufficient evidence to conclude that there is a correlation between the defined variables. Consequently, from the result of the performed test, we see that for both variables the value of  $p < .05$  so the variables are dependent and have an impact on each other. From this, we can

conclude that hypothesis *H1 The level of implementation of IAS by large enterprises in Kosovo is satisfactory and has improved their financial position* is rejected.

**Hypothesis H2:** Lack of professional certification of accountants of large enterprises has affected the unsatisfactory implementation of IAS

From the questionnaires, we found that 54% of respondents are accounting technicians, 32% certified accountants, 3% certified auditors, and 11% of respondents do not have any additional certification from accounting and auditing associations. In this regard, the H2 hypothesis has been tested, through Kendall tau correlation testing, through three independent variables.

		<i>Unsatisfactory implementation of IAS</i>		
Kendall_tau_b	<b>Lack of professional certifications</b>	Kendall tau Rank Correlation		
		Kendall tau	0.2	
		2-sided p-value	0.036	
		N	102	
	<b>Lack of training</b>	Kendall tau Rank Correlation		
		Kendall tau	0.1	
		2-sided p-value	0.043	
		N	102	
	<b>Lack of local guidelines for the implementation of IAS in Kosovo</b>	Kendall tau	0.4	
2-sided p-value		0.029		
N		102		

**Table 3.** Test results of H2

From the test result, we understand that there is a correlation between the level of education and the applicability of IAS. The value of p is less than 0.05, which means that the independent variables have an impact on the dependent variable, therefore the hypothesis *H2 Lack of professional certification of accountants of large enterprises has affected the unsatisfactory implementation of IAS* is accepted.

**Hypothesis H3:** Implementation of full IAS is complex and costly for enterprises in Kosovo

From the respondents' answers, 32% of them think that the implementation of complete IASs is very costly and complicated for enterprises operating in Kosovo, 54% on average, and 14% think that the implementation of IASs is easy and not costly.

The following table tests whether the application of full IAS is complex and costly and how this variable relates to the frequent changes and accountants' knowledge of IAS, and the high cost of in-country or out-of-country training on IAS, and management support for the training and advancement of accountants in this field.

<b><i>Implementation of full IAS is complex and costly for enterprises in Kosovo</i></b>			
Kendall_tau_b			
	<b>Frequent changes of IAS</b>	Kendall tau Rank Correlation	
		Kendall tau	0.3
		2-sided p-value	0.023
		N	102
	<b>Cost of additional training</b>	Kendall tau Rank Correlation	
		Kendall tau	0.2
		2-sided p-value	0.01
		N	102
	<b>Lack of management support</b>	Kendall tau Rank Correlation	
		Kendall tau	0.1
		2-sided p-value	0.036
		N	102

**Table 4.** Test result for H3

From the test results, we understand that the independent variables have an impact on the dependent variable, proving Hypothesis *H3: The Implementation of full IAS is complex and costly for enterprises in Kosovo.*

### **Conclusion and recommendations**

Large enterprises in Kosovo play an important role in the economy, being an important part among other factors that help and build economic development.

Due to the activity that these enterprises develop, the complexity they have, and the importance they represent, it is evident that many stakeholders are interested in the financial success of these enterprises.

Since their financial result is important and affects the interests of multiple stakeholders, a fair and accurate presentation of their financial information is necessary. Through the implementation of International Accounting Standards, we may have qualitative and fair reporting, therefore in Kosovo is a legal requirement to implement IASs, but there is still space for improvement in this regard.

From this research, we understand that the level of implementation of International Accounting Standards is still at an average level and consequently has not been able to improve the financial position of the enterprise. The main factors that can be emphasized the lack of knowledge about IAS, the lack of professional certifications in this regard, and the complexity of IAS to be applied in the enterprises operating in Kosovo. Although the local legislation in this field is harmonized with international standards, there is still space for proper implementation of this legislation.

Therefore, regarding the findings of this research, we can recommend:

- Publication of guidelines on the application of IAS to enterprises operating in Kosovo;
- Frequent training on the role, relevance, and implementation of IASs and IFRSs;
- Training on new standards or updates to existing IAS;
- Professional certifications in the field of accounting and auditing by licensed associations in Kosovo, for the company's accountants and financiers;
- Review the quality of external audits performed by independent companies, which ensure that the financial statements are prepared under IASs and IFRSs;
- Attendance of continuing professional education by accountants and financiers of enterprises.

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