

# A COMPARITIVE STUDY ON ACCOUNTING HEREDITY: THE CASE OF EX SOVIET COUNTRIES VERSUS OTHER EASTERN EUROPEAN COUNTRIES<sup>394</sup>

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*Abstract: This paper aims at investigating the existence of accounting heredity in some of Eastern European countries. Accounting heredity assumes that at the time the economic paradigm changes, a new accounting system emerges, enclosing both genes from the existing accounting system, as well as genes from a new accounting system used as an inspiration.*

*Data was gathered by sending questionnaires to academics in the respective countries. S-au primit răspunsuri din 5 țări. Studied countries fell into two categories: Ex Soviet countries (Republic of Moldova & Ukraine), and other Est European countries (Romania, Republic of Macedonia and the Czech Republic). It analyses the survival of communist accounting practices in the post-1990 accounting systems and identifies other eternal influences that shaped these accounting systems.*

*Keywords : Accounting Heredity, Accounting Change, Accounting Genes, Eastern European Countries, Accounting History*

## The research Conceptual Framework

Calu (2005) proposed a *genetics approach* to changes occurred when a new accounting systems is adopted due to changes in the economic and political environment, emphasizing the notion of *heredity*<sup>395</sup>. The premise is: the emergence of a new accounting system (in splitting points) requires the existence of two “parents”: present international accounting reality, and the previous status, meaning the national accounting history. The main mechanism consists of the transmitting of concepts (genes) from one accounting systems generation to another involves the existence of *dominant* genes (that are manifest from the start, in the case of a new accounting system) and *recessive*<sup>396</sup> genes (that become manifest after a certain amount of time). Therefore, when a new accounting system emerges, accounting concepts and practices not found at any of the parents could have operated previously. Also, former accounting concepts and practices can be reactivated during the accounting system’s existence. Although we borrow concepts

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<sup>395</sup> In a strict biological sense, heredity is the characteristic feature of animate beings to pass down genetic characteristics to their offspring. In a general sense, the notion can be defined as the propriety of a thing or phenomenon to depend on momentary actions and prior successive conditions.

<sup>396</sup> According to Calu (2005), the meaning of this term differs from its original meaning. In biology, a recessive gene becomes manifest after one or more generations, as « the segregation law » states.

and the general mechanism from genetics, this approach to accounting history does not entirely superpose to the heredity mechanisms in biology.

When a new accounting system is conceived, the fertilization takes place “in vitro”. Multiple embryonic variants are abandoned at different development stages up to the time when a certain viable embryo is selected to be implanted in the economic environment. Subsequently, given no splitting points in the economic environment, the interventions upon the accounting system are similar to genetic changes made in order to acquire a transgenic<sup>397</sup> organism.

## Research hypotheses and data analysis

*Our research framework hypotheses are the following:*

**H1:** *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents;*

**H2:** *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

This paper aims at demonstrating the above hypotheses during the period that followed the collapse of the socialist economy, that is, the years 1989-1990 in several Eastern European countries (Romania, Republic of Moldova, Republic of Macedonia, the Czech Republic and Ukraine). Data was gathered by sending questionnaires to academics in the respective countries. The questionnaire was emailed to accounting academics in Eastern European countries during the month of March 2008. We have received replies from academics in the following countries: Moldova, Republic of Macedonia, the Czech Republic and Ukraine. For the study of the Romanian case, we used as research method the oral history and historiography.

**H1:** *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents*

To demonstrate this research hypothesis, we analysed genes transmitted from the previously existing accounting systems in the four countries as to financial statements and accounting practices.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukraine
1.	Balance Sheet	Yes	Yes	Yes	Yes	Yes
2.	Profit & Loss Account	Yes	Yes	Yes	Yes	Yes
3.	Accounting Policies (Descriptive information)	No	No	Yes	No	No
4.	Notes	Yes	Yes	Yes	No	No
5.	Statement of most important economic indicators	No	No	No	No	No
6.	Directors Report	Yes	No	No	No	No
7.	Cash Flows Statement	No	No	No	No	No
8.	Statement of Changes in Equity	No	No	No	No	No
9.	Other.....	No	No	No	No	Yes <sup>398</sup>

### *The content of financial statements after the collapse of the socialist economy*

We note that all countries display the same numerical emphasis of the financial statements (balance sheet, profit and loss account and in certain cases notes), a gene characteristic to previously existing accounting

<sup>397</sup> A transgenetic organism contains one or more artificially induced genes.

<sup>398</sup> Statement of Financial Position (some note for Balance Sheet).

systems. The lack of descriptive information, such as accounting policies and the absence of cash flow statement and the statement of changes in capital, confirm the existence of hereditary traits from the previously existing accounting system.

We also note that in former countries from the Ex Soviet area of influence, immediately after the collapse of the communist regime, disclosure of financial and accounting information was weak due to the limited requirements for presentation: The Balance Sheet and The Profit and Loss Account. In Ukraine, there was only an emerging form of additional disclosure, unlike the former Socialist countries that were not a part of the USSR area of influence, where Notes to Financial Statements existed from the beginning, which indicates a higher degree of transparency.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukraine
1.	The existence of a “chart of accounts”	Yes	Yes	Yes	Yes	Yes
2.	Valuation of Goods for Resale at retail price	Yes	Yes	No	Yes	Yes
3.	Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity	Yes	No	No	No	Yes
4.	Use of a specific account for transportation costs on the purchase of an asset	No	No	No	Yes	Yes
5.	Use of a specific account (for example «small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa).	Yes	No	Yes	Yes	Yes
6.	Distinct recognition of small tools depreciation on their lifespan	Yes	Yes	Partial existence	Yes	Yes
7.	Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)	Yes	Yes	Yes	No	Yes
8.	Only legal reevaluation of fixed assets	Yes	Yes	Yes	Yes	Yes
9.	Recognition of the revenues at the time of cash collection	No	Partial existence	No	Yes	Yes
10.	The existence of alternative inventories’ valuation methods (First In First Out Method - FIFO, Last In First Out Method - LIFO)	Yes	Yes	Yes	No	No
11.	The existence of alternative depreciation methods (straight	Yes	Yes	Yes	No	No

	line method, declining method or other)					
12.	The existence of specific accounts to recognize impairments of assets (fair value lower than the book value)	Yes	No	Yes	No	No
13.	The existence of specific accounts to recognize the provisions (probable liabilities)	Yes	No	Yes	No	No

***The features exist in accounting system in the first years after the socialist economy***

The first nine characteristics in table 5, genes specific to the socialist accounting system, were mostly transmitted in at least two of the four countries concerned. The exception is the use of a specific account for transportation costs on the purchase of an asset.

The characteristics 10 to 13 in table 5, genes nonexistent in the socialist accounting system manifested themselves in the three countries where a process of creating a new accounting system: Romania, Republic of Macedonia and the Czech Republic. Due to the delayed reform (1998) in the Republic of Moldova and 1999 in Ukraine, the international genes (positions 10-13) are not characteristic to the accounting system from Ex Soviet countries at the beginning of the 1990s.

**H2:** *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

To investigate this hypothesis, we analysed the genetic changes that occurred from the collapse of the socialist economy to date.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukraine
1.	Balance Sheet	Yes	Yes	Yes	Yes	Yes
2.	Profit & Loss Account	Yes	Yes	Yes	Yes	Yes
3.	Accounting Policies (Descriptive information)	Yes	Yes	Yes	Yes	Yes
4.	Notes	Yes	Yes	Yes	Yes	Yes
5.	Statement of most important economic indicators	Included in the notes	Yes	No	No	No
6.	Directors Report	No	No	No	No	No
7.	Cash Flows Statement	Yes	Yes	No	Yes	Yes
8.	Statement of Changes in Equity	Yes	Yes	No	Yes	Yes
9.	Other.....	No	No	No	No	No

***The content of the financial statements in our days***

Accounting systems in all countries demonstrate the manifestation of a new gene specific to the international financial reporting model, that is mandatory descriptive information in Romania, the Republic of Macedonia, the Republic of Moldova & Ukraine, two new financial statements appeared: Cash Flow Statement and Statement of Changes in Equity, representing genetic changes that occurred in time.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukraine
1.	The existence of a “chart of accounts”	Yes	Yes	Yes	Yes	Yes
2.	Valuation of Goods for Resale at retail price	Yes	No	No	Yes	No
3.	Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity	No	No	No	No	No
4.	Use of a specific account for transportation costs on the purchase of an asset	No	No	No	Yes	No
5.	Use of a specific account (for example «small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa).	No	No	Yes	Yes	No
6.	Distinct recognition of small tools depreciation on their lifespan	No	No	No	Partial existence	Yes
7.	Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)	No	No	Yes	No	No
8.	Recognition of the revenues at the time of cash collection	No	No	No	No	
9.	Only legal reevaluation of fixed assets	Yes	No	Yes	No	No
10.	The existence of alternative inventories' valuation methods (First In First Out Method - FIFO, Last In First Out Method – LIFO.)	Yes	Yes	Yes	Yes	Yes
11.	The existence of alternative depreciation methods (straight line method, declining method or other)	Yes	Yes	Yes	Yes	Yes
12.	The existence of specific accounts to recognize impairments of assets (fair value lower than the book value)	Yes	Yes	Yes	No	Yes
13.	The existence of specific accounts to recognize the	Yes	Yes	Yes	No	Yes

provisions liabilities)	(probable					
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*The features exist in contemporary accounting systems*

The analysis of the evolution of accounting practices from the beginning of the 1990s to date demonstrates the disappearance of the genes specific to the socialist accounting system with certain exceptions (e.g. valuation of Goods for Resale at retail price in Romania and the legal revaluation of fixed assets in Romania and the Czech Republic).

### 3. Conclusions

Following the collapse of the socialist economy, we note a process of creation of a new accounting system in three of the countries analysed. The parents of this new accounting system are the accounting past and the international accounting present. On the other hand in the Republic of Moldova and Ukraine as a former USSR republic, environmental (cultures) factors delayed this process and during that time an accounting system similar to the previous one was used.

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