



19th International Scientific Conference; Economics and Management 2014, ICEM 2014, 23-25
April 2014, Riga, Latvia

Questions of introducing and teaching international standards in Georgia

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Abstract

In terms of perfecting the market economy system in the country, introducing and exploiting the mechanisms of accounting and reporting facilitating the economic relations between the countries and making the economic results comparable is problematic. Many countries had or still have a similar problem. Georgia tried to solve this problem by the combined actions of the legislative and executive bodies. Changes in this direction have posed certain problems to the academic sector, too, and solving them has become quite urgent. This complex of problems has become the subject of the present study. The goal of the study is to consider the role of international accounting standards in Georgian economic system. Global economy has accelerated the need to move toward global accounting standards. Implementation of the international standards helps the countries to save on financial, human or other resources. Engaging in such a process is particularly beneficial for the countries with scarce resources. With their intellectual resources and by considering their past experience, they can make a valuable contribution to the international cooperation. Consequently, the purpose of the study was further specified to orient on the questions of introducing and teaching the international standards, identifying future trends in this direction, particularly for small countries like Georgia is, and demonstrating the positive role of the academic sector in this process. Georgia was successful in harmonizing the technical and professional standards in accounting and audit with the international standards. Several governmental and non-governmental organizations are participants of this process, namely the Parliament of Georgia (drafting the relevant legislative acts), Georgian Federation of Professional Accountants and Auditors (GFPAA), Accounting Standards Commission, Auditorial Activity Council and others. Conclusion is that it is both timely and necessary to converge and harmonize global (world) and local (country) standards into a single set of Global Accounting Standards. This will lead to a more stabilized and prosperous world economy, also it will help to resolve many of the world's financial reporting problems.

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Peer-review under responsibility of the Kaunas University of Technology.

Keywords: International standards; education; accounting.

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1. Introduction

Implementation and realization of different technical and professional standards in different fields of economy is quite important to improve and help rational operation of any economic system. The world economic system is gradually becoming unified, as both, the developed and developing countries, following their past experience, try to develop the rules of business and accounting, which would facilitate the economic relations and more or less consider the comparability of the outcomes.

The role of the international committees and commissions is particularly noteworthy for transient economies. The transition process from the planned economy to the market economy was quite painful and long for many post-Soviet countries, including Georgia. The state budget was particularly deficient at the starting point of the transient period, and therefore, sharing the international experience proved to be important and quite efficient. In particular, the financial and human resources were used to introduce the approved systems in other countries even more so when the country's strategic plans envisaged living with international standards.

On February 5, 1999, the Parliament of Georgia passed the Law of Georgia on Regulation of Bookkeeping and Accounting (enforced on February 11, 1999) making Georgia a pioneer among the post-Soviet countries in introducing the international accounting standards. The international standards allow successful registration of the economic operations in terms of the market economy and differ from the accounting system Georgia had until the 1990s in terms of imperative-administrative economy.

Introduction of the international standards is the "best finding". Standards can be adopted after careful consideration of the standards applied in other countries. A proposed standard is subject to so called "mandatory procedure", i.e. becomes a subject of public consideration. It receives final amendments, i.e. minor corrections following the national peculiarities. The International Accounting Standards Committee was founded in 1973 by the professional accountants' organizations of different countries to improve and harmonize accounting and financial reporting over the world. The international accounting standards incorporate up to 140 professional accounting organizations from over 100 countries of the world.

2. Illustrations

In the process of research were used the methods of analysis, synthesis and comparison. The data of official and non-governmental and international organizations were processed for the study purposes: legislative acts, scientific articles, reports of international organizations, etc.

Owing to the scarce and divergent statistical data, no quantitative analysis was done.

3. Results

Georgia, by adopting the full package of the International Accounting Standards, has made an important step towards the integration and alleviated unnecessary barriers. Large companies must accomplish accounting in line with the International Standards (IFRS). Since companies are compared by analysts with a focus on revenue dollars, investors tend to regard revenue as a measure of net worth. The corporations with higher revenues will benefit. Thus companies using IFRS standards for financial reporting will have a distinct advantage over US Multinationals using US GAAP [Fosbre, A., Kraft, E. & Fosbre, P. p. 70]. As for the small and medium enterprises, their accounting system should be based on the International Financial Reporting Standards (IFRS For SME). Besides, they are allowed to use the International Financial Reporting Standards.

The Law of Georgia on Regulation of Bookkeeping and Accounting considers the recommendations of the International Standards Committee:

- For most of the enterprises, the International Accounting Standards officially approved by the International Accounting Standards Committee became a mandatory and sole accounting system to be used.
- The Book-Keeping Standards Commission was established at the Parliament of Georgia with the participation of the financial information users. The Commission affiliates representatives of the Ministry of Finance, although most of its members are from the private sector. Therefore, the private sector has a decisive vote to regulate accounting in its own sector.

- Private accounting was isolated from state accounting. The Law of Georgia differentiated between the accounting standards for large corporations and small enterprises.
- The number of small enterprises increases annually followed by increased demand for professional accountants. The enforcement of the Law was followed by the harmonization of the teaching courses at vocational and higher institutions.

The question of staff training and retraining is topical for the rational operation of the market economy. In this respect, the Provision “On granting professional accountancy qualification to the applicants by GFPAA” of October 12, 2005 is worth mentioning. The Provision incorporates the provisions about the international educational standards adopted by the International Accountants’ Federation and national requirements for the professional accountants’ qualification adopted by the UN Trade and Development Conference, and as a consequence, by the decision of the Accountants’ and Auditors’ Federation Board (of 28.12.2009), the amendments were made to the Provision. IFAC educational standard, which is the professional accountants’ educational standard, is effective in Georgia.

Establishment of a unified reporting system helps improve the competitiveness of the Georgian enterprises. A Georgian accountant acts in line with the Tax Code of Georgia, Customs Code of Georgia, Labor Code of Georgia, Law of Georgia on Entrepreneurs and Law of Georgia on Accounting and Reporting. As a result, any entrepreneurial subject, as a tax-payer engaged in manufacturing, trade or service on the one hand, who manages his company with the businessman’s fairness and diligence on the other hand by discharging his representation power under the charter and legislation is obliged to hire a professional accountant.

The international Accounting Standards form the accounting information database allowing the enterprises making timely decisions based on the collected and well-ordered information. Achieving the company aims and not discharging the state tax liabilities becomes a priority. Georgia successfully differentiated between the financial reporting and the tax reporting. This means that a change in the tax policy must not have a major impact on the financial reporting [Nemsadze K., Martiashvili N. p.17].

The only aim of accounting of an enterprise in terms of imperative-administrative economy was to submit tax accounts. The system lacked the lever allowing the managers making economic decisions based on relevant and contemporary financial indicators. Prior to the introduction of the international standards, the managers had to analyze their businesses through labor-consuming and hard work to process the data. Besides, that the principles used to gain the data failed to give a complete picture of one’s economic activity.

In Georgia, like in other developed economies, they try to harmonize accounting with the business law. During the assets reporting, the following issues are accented: peculiarities of financial reporting, income and cost registration by an accrual method, accounting techniques, registration of the accounts receivable, inventory holdings, long-term assets, fixed assets exploitation, intangible assets. Accounting information plays a crucial role in those processes. For globalizing companies accounting reports are a vital means of internal communication between managers and employees from different national backgrounds [Gebhardt, G. p.4].

When considering the problems, the priority is given to the requirements of the Georgian Law on Entrepreneurs and Tax Code of Georgia. The latter is noteworthy in respect of income and profit taxes, in particular, it fixes the procedure to consider income and profit taxes, deductions from gross income, tax registration of incomes and costs, realization of the income taxation principles, administration of income and profit taxes. Other noteworthy issues are VAT, specific articles of VAT registration, indirect tax or excise, customs tax, property tax, tax-payer’s rights and obligations, practical issues of tax law violations and sanctions.

As for the liabilities and capital registration, the accent is made on the current liabilities, income registration, money value in time, long-term rent registration, investments and obligations, capital, money turnover at an enterprise and its registry, shares as securities, shares issued and in turnover. It should be noted that despite certain attempts, the market of organized securities is still in the phase of origination.

The academic sector of Georgia tries to respond to the market economy challenges. In the past, the accountants’ training standards and training programs were oriented on large companies ignoring the differentiation between low, medium or high levels. The work to provide low-, medium- and high-level training programs and share other countries’ experience is under way. In particular, the accent is made on the accountants’ training within the limits of the craftsmanship and educational programs at vocational colleges (third level) and public colleges (fourth level).

4. Conclusions

Georgia tries to establish itself on the international market and improve its mechanism of market economy by introducing the principles of market economy. Implementation of the international reporting standards can be considered as one of the most successful attempts of the economic reforms in Georgia.

The attempts to introduce the international experience to the fields of accounting and audit in Georgia can become exemplary for other countries, as the accounting system meeting the requirements of the market economy is the precondition for the economic growth and improved performance.

Proceeding from the foregoing we consider:

- Introduction of the international standards is the positive development in Georgian economy, because international accounting standards can be adopted after careful consideration of the standards applied in other countries and has made an important step towards the integration and alleviated unnecessary barriers.
- Georgia tries to establish itself on the international market and improve its mechanism of market economy. If the Georgian enterprises and organizations use the international standards, which are used by most of the countries, the business relations will benefit more and more.
- Introduction of the international reporting standards can be considered as successful attempts of the economic reforms in Georgia.
- The international Accounting Standards form the accounting information database allowing the enterprises making timely decisions.
- The academic sector of Georgia tries to respond to the market economy challenges. The work to provide training programs and share other countries' experience is under way.

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