

Moldovan Accounting Profession

Insights from a conversion to an international practice



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- Accounting profession in the EU with recent developments
- Daily issues encountered in the Moldovan accounting profession
- Investors consideration given to financial reporting
- Benefits of a conversion to IFRSs in Moldova

Accounting profession in the EU with recent developments

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Directed towards promoting the quality, comparability and transparency of the financial reporting

- EU as a single market
- IFRSs as the worldwide financial reporting language
- Reporting process efficient and transparent
- SMEs with a simplified accounting process and reduction of administrative burdens



Accounting profession in the EU with recent developments

EU as a single market

- The role of the European Union is to bring together the trading and expertise of the Member States on a single unified market
- Common goals and aspirations for all the Member States
- Member States adhere to a consistent set of rules and regulations: the EU Directives
- Common monetary market: the EURO



Accounting profession in the EU with recent developments



The EU has 27 Member States which are directly bind to comply with the EU's regulation without the need for national legislation being in place. This implies the treaties for which the Member States have subscribed to when adhered to the membership of EU.

- Human rights;
- External trade regulations;
- Food and safety regulation, etc.

Also, EU's directives bind Member States to the objectives to be achieved within a certain time-limit, but leave national authorities to decide on how to implement them.

- Fourth Directive: Annual accounts of companies with limited liability
- Sixth Directive: VAT uniform basis of assessment
- Seventh Directive: Consolidated accounts
- Eighth Directive: Statutory audit

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Accounting profession in the EU with recent developments



Accounting and audit directives (4th, 7th and 8th) promote the International Standards (such as: IFRSs, IASs and ISAs) for financial reporting and auditing the accounts of Companies registered in any of the Member States.

Although, certain differences currently exists on this conversion, the EU Commission co-operates closely with international bodies: International Accounting Standards Board (IASB), International Federation of Accountants (IFAC), OECD, World Bank, UNCTAD, etc.

Currently, the EU Commission is putting a lot of emphasis on accounting for SMEs and simplification of administrative requirements for these companies.

Accounting profession in the EU with recent developments



Accounting for SMEs in the EU:

- The importance of internal and external accounting as a source of information for owners and managers of small enterprises and their different stakeholders is steadily growing.
- It is of crucial importance that the accounting systems applied by small enterprises meet their actual needs, providing necessary information yet avoiding unjustified administrative burden.
- A recent study is currently undertaken by the EU Commission which comprised both the existing accounting requirements for SMEs, the users' perceived needs for accounting information from SMEs as well as the SMEs' own needs for accounting information in the non-financial business economy in twenty selected European countries

Accounting profession in the EU with recent developments



The objective of the study is to present an 'Accounting guide for SMEs' which:

- Contributes to the development of good accounting practices for the European SMEs and reduce the unnecessary high administrative burden
- Provides Member States and stakeholders with information about current good accounting practices in Europe for SMEs
- Presents recommendations on good accounting practices in specified accounting areas for the European SMEs and it will indicate areas within the accounting field where the administrative burden could be reduced without having a material impact on the quality of the financial information that is published by these SMEs.

Accounting profession in the EU with recent developments

- Quality of financial statements
- Comparability of the financial information
- Transparency of information for a free and efficient capital market
- Efficient reporting process
- Value For Money of financial information
- Reduced cost on producing the financial statements



Daily issues encountered in the Moldovan accounting profession

Issues encountered in the Moldovan accounting profession



Focused on complying with the national rules and regulations and in meeting the requirements of the fiscal authorities rather than providing transparency to the business in front of its stakeholders

- Based on national accounting rules
- Follows a fiscal approach
- Legal form prevails the commercial substance
- Administrative burden on getting the relevant documentation
- Difficult to follow an understand by a foreign investor
- Weak regulation for private companies to perform a statutory audit

Issues encountered in the Moldovan accounting profession

The professional judgment of the accountant is often impaired by the strict and demanding regulations which in most of the cases are not in line with the economic reality of the business.

It was noticed that in the daily practice the accountants are not focused on getting the right figures in the financial statements through proper use of accounting principles.



Issues encountered in the Moldovan accounting profession

Consequently, there are often cases when the financial statements of a Company are materially misstated because items like the following are not considered:

- Accruals for expenses for which the supporting document (i.e. invoice) is not yet available
- Impairment of doubtful and bad debts
- Write down of non-financial assets to their recoverable amounts



Issues encountered in the Moldovan accounting profession



The professional judgment is a key skill for preparers, auditors and regulators of financial statements, especially under a principles-based accounting regime

While a principles-based accounting system better serves the needs of business, the markets and the public interest. Principles-based standards provide a framework within which the economic substance of transactions can be faithfully represented, especially in a complex and changing environment, but such an approach requires the use of 'good' judgment by preparers, auditors and regulators

Although current efforts in Moldova are trying to align to the above the existing legislation turns accountants in bookkeepers for fiscal authorities

Issues encountered in the Moldovan accounting profession

Additionally, the statutory audit requirements for private Companies, both Joint-Stock and Limited Liability, in Moldova should be improved in order to benefit from the following:

- Reliable financial reporting and accounting function
- Provision of systems improvement advice for Companies undertaking an audit
- Developed accounting profession and learning curve for quality of financial reporting functions



Investors consideration given to financial reporting

Investors consideration given to financial reporting



Timing

- Historical information is valuable when is available in a very short period of time
- Usually key investors are looking to receive financial statements within 3 months from yearend

Reliability

- Information provided is a key source for future decisions and perspectives
- Unreliable source of information is decreasing the confidence of any future investor in the Company

Quality of information

- The financial statements should include all key aspects of the business
- Also, high quality financial statements should be comparable and consistent. Therefore, financial benchmarking is favoured

Investors and consideration given to financial reporting

Nowadays the finance department of a firm has a broad range of roles to undertake inside and outside its business and carries large responsibilities especially in fields such as Stakeholders Management which is increasingly gaining in importance.

The roles and responsibilities of a finance department are important for the smooth operation of the business:

- Management has sufficient information to act and take decisions
- Lenders and investors are informed about the performance of the Company
- The wealth and return to shareholder are properly assessed

Investors and consideration given to financial reporting

In order to meet all the demands the reporting process should ensure

- Organized accounting functions
- Consistent accounting methodology and policies
- Adequate Management Information Systems
- Proper roles and responsibilities are set
- Clear time tables and reporting requirements



Benefits of a conversion to IFRSs in Moldova

Benefits of a conversion to IFRSs in Moldova



Common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

Consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries.

Progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

Benefits of a conversion to IFRSs in Moldova

The IFRSs is a standard and principles-base reporting framework, whereby accounting standards are developed from an agreed conceptual basis with specific objectives.

- It allows prepares to exercise judgment in providing true and fair view financial statements.
- The conceptual framework provides the background for further developments of the accounting standards



Benefits of a conversion to IFRSs in Moldova

The conversion cost in Moldova will imply the following:

- Training cost for the staff engaged in the reporting functions
- Improvements to the existing accounting software
- Time spent by prepares in order to accommodate with the requirements of the international standards



Thank you



Andrei Stan
Supervisor
Baker Tilly Moldova

Tel. +373-22-233003, Fax. +373-22-234044

Email: andi.stan@bakertillyklitou.md

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