

**PROBLEMS OF REFORMING ACCOUNTING AND FINANCIAL REPORTING
IN POST-SOVIET COUNTRIES
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Grigalashvili bidzina@gmail.com***Abstract:**

Like in the entire post-Soviet space, at the end of the last century, the change in the economic and political system caused the necessity of the reforms in all spheres of public life in Georgia. Even in the first years of the transition period to a market economy, there was revealed the vital importance of accounting and financial reporting for the correct management of the economic activities of companies. There was a need to create an appropriate accounting and reporting system for a market economy. Post-Soviet countries which are currently independent states, met these processes unprepared. They faced two major challenges: first, they had to create a national legal regulatory framework for accounting, and second, they had to transform the system in accordance with the requirements of the market economy.

Keywords: *Accounting, financial reporting, international standards, reformation, accounting policy*

JEL Classification: *H83, M40, M48*

I. INTRODUCTION

Studies have shown that the transformation of the accounting and financial reporting system was caused by various factors, namely: the current system was based on the requirements of state ownership and state administration; Companies were unable to develop their own accounting policies; Methods recognized in international valuation practice were not used in financial statements, therefore the balance sheet did not reflect the real picture of the company's assets; The revaluation of inventory could only be carried out by the order of the government; Statement of financial income - the balance sheet profit did not reflect the actual picture of the company's activities, since the accounting of income and expenses was based on cash accounting method; The current chart of accounts was unable to reflect the essence of business transactions that meet the requirements of a market economy, and so on.

II. RESULTS

The transformation of the accounting system has become problematic not only in Georgia, but in almost all transition economy countries. Based on the research of accounting reform processes in these countries, which was carried out at numerous meetings, conferences or seminars held in the Commonwealth of Independent States (CIS) and other foreign countries, the following was revealed:

- In republics, where unified accounting system was once in common, differences in accounting systems arose after they became independent states, although conceptual approaches are similar, namely, independent countries began accounting reform with the development of similar legislation.
- All countries have adopted the law about the „Accounting” and the corresponding provisions, both about the general accounting and reporting and certain issues of accounting;
- Reform processes were based on a previously developed and approved “concept” and “state program”;
- The system of state regulation has been preserved. Accounting is regulated by the government through the Ministry of Finance in all countries.

Research has shown that different regulatory models exist in different countries. The functions of the regulator are performed by state bodies, as well as professional organizations, stock commissions; Delegation of state functions occurs on separate issues and mixed regulation is ongoing. Two groups of countries can be distinguished, which are characterized: first, strict regulation of the national accounting system and second, a moderate regulatory system.

It is obtained that the accounting system is adapted to the economic model of the country, therefore, two accounting systems have been created in the world - "Anglo-American" and "Continental" ("European"). The first is characterized to focus on the needs of shareholders, creditors and multinational corporations, whereas the second is characterized to be in close connection with banks, to have detailed legal regulation of accounting and financial reporting, and to focus on government regulation and taxation. It should be noted that accounting systems have traditionally been closer to European ones both in Georgia and in other post-Soviet countries.

"International coordination" of accounting was created at the beginning of the last century and is still relevant today because of its significance. International professional accountancy bodies are doing a great job to achieve "harmonization" of accounting. Famous researchers from different countries have worked on the mentioned issues (E. Simmonds, A. Endhoven, E. Mason, E. Hopwood, R. Drury, J. Kerry, J. Samuels, D. Blake, O. Amati, P. Clark, L. Schneidman, I. Sokolov, V. Kovalev, V. Chaya, A. Sheremet, L. Bershtein and others), who have different views about it.

In the late 1990s, international organizations and professional associations began active work in post-Soviet countries to implement international accounting standards. There were two approaches on this issue: first, the recognition of international standards as national standards, and second, the development of national standards based on international standards.

The countries of the former Soviet Union have chosen the second path. So, the first was appeared "Kazakhstani Accounting Atandards", and then "Moldavian Accounting Atandards" followed after that. In Russian Federation, the traditional terminology has been preserved, and the normative acts were called "accounting regulations". Similar approaches were used in Armenia for the development of "Accounting Standards of the Republic of Armenia", "Accounting Standards of the Republic of Azerbaijan"- in Azerbaijan. The republics of Central Asia and the Baltics have also developed their own standards.

Experts from the World Bank, the US Agency for International Development, the Organization for Economic Cooperation and Development, German Technical Cooperation, the Barents Group and the Carana Corporation assisted Georgia and other post-Soviet countries.

From the conducted analyses, we find out that Georgia's approaches to accounting reform significantly differ from other states of transition economies. The first steps towards reform were taken in 1995 with the adoption of the Law of Georgia on Entrepreneurs (Law of Georgia, 1994), the German Technical Cooperation (GTZ) made a significant contribution in it. This normative act introduced certain innovations in the country's accounting system, in particular, the structure of the "balance sheet" and "profit and loss statement", methods for assessing balance sheet items, the state of small businesses, and the length of the financial year were determined, etc. As a result, the financial reporting system of Georgia has become closer to the European one.

The next stage of the reform - "Accounting Regulations"- is associated with the adoption of the Law of Georgia (Law of Georgia, 1999), according to which International Accounting Standards were declared as the national standards of Georgia. This was followed by the hasty cancellation of existing regulations with its negative consequences, which became the subject of criticism for many economists and practitioners. The study of the materials shows that in all post-Soviet countries the system of state regulation of accounting is preserved, at the same time, there is a great desire of professional organizations of accountants to master the regulation mechanism.

The "Law of Georgia on Accounting and Financial Reporting Audit" (Law of Georgia, 2012) defines the status of a certified professional accountant, accredited professional organization, professional certification and continuing education standards, etc. But the main task to create a regulatory accounting body remains unresolved.

The government also gradually came to the conviction that continued reforms were necessary and, accordingly, the "Law of Georgia on Accounting, Reporting and Auditing" was adopted (Law of Georgia, 2016). It establishes the legal framework for financial accounting report and presentation of financial statements in Georgia, professional certification, auditing and legal basis of state supervision in these areas. Under the law, a state sub-agency of the Ministry of Finance of Georgia was created - the "The Service for Accounting, Reporting and Auditing Supervision". The service is responsible for the implementation, translation and maintenance of other procedures related to International Financial Reporting Standards, Interpretations and International Financial Reporting Standards for Small Businesses. Despite the fact that supervision is undergoing at the appropriate level, the above-mentioned regulations lack the specifics of certain accounting issues. Thus, this situation cannot be called an ideal government regulation.

As a consequence of the analysis, companies need more detailed explanation of how to set up their own accounting system. They need appropriate regulatory and methodological materials not only in the preparation of financial statements, but also in current accounting. As R. Dzadzamia note about this problem: "International accounting standards do not regulate the accounting rules for individual object. These are financial reporting standards, not accounting standards" (Dzadzamia R., 1998). Accordingly, the regulations, which are in force in the country (standards, instructions, regulations, etc.) should include not only the rules for preparing financial statements, but also the entire accounting cycle of economic activity. In this regard, it is often necessary to

implement projects improving standards. Respectively, the (IFRS) standards state that “The IFRS Improvement Project aims to reduce or eliminate contradictions between alternatives, iterations and standards” (IFRS, 2015).

The factors preventing the establishment of a "unified accounting system" in the practice of international standards around the world can be considered the following: socio-economic characteristics of the country, general political relations, differences in the legislative system, general level of education, the level of centralization of economic management, the nature of the capital market development, inflation rate, etc.; the constant changes in international standards, complex text, translation quality problems, etc.

Georgia should also consider the fact that in accordance with the Association Agreement with the European Union, the country has undertaken to make its legislation in accordance with European directives. In this regard, the note of the expert of the Committee on International Standards P. Clark is interesting: "Many countries feel that they have to choose between EU directives and international standards when it comes to accounting. Research shows that it is possible to use both systems simultaneously, but this does not mean that countries can borrow everything without any exceptions from European directives." (Clark P., 1997). We believe that Georgia should reconcile these two systems in its legislation.

III. CONCLUSION

There are similarities and significant differences in the accounting systems of different countries; It is possible to group countries by accounting systems, but still the system of all countries are sovereign; Despite of the fact that there is an objective need and effort to get close accounting systems across the world, it is difficult to achieve absolute identity; Georgia should establish a national accounting system based on harmonized European directives and international standards.

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