HISTORY OF ACCOUNTING REGULATION IN THE EUROPE AND ITS EFFECTS ON THE ACCOUNTING REGULATION IN CROATIA

Danimir Gulin  
Faculty of Economics Zagreb, Croatia  
e-mail dgulin@efzg.hr

Spajić Ferdo  
Faculty of Economics Zagreb, Croatia  
e-mail fspajic@efzg.hr

Vesna Vašiček  
Faculty of Economics Zagreb, Croatia  
e-mail vesna.vasic@mfin.hr

Žager Lajoš  
Faculty of Economics Zagreb, Croatia  
e-mail lzager@efzg.hr

Abstract

The subject of this paper is the development of the accounting harmonisation process in the world. The aim of the research is to establish how the specific phases of the accounting regulations harmonisation affected the countries in transition, Croatia being an example. The research was carried out on the basis of the available sources and research methods (historical analyses and comparisons). The results may be presented in the following way:

The accounting regulations harmonisation phases are:
1. Napoleon's laws phase from 1807 (Code de Commerce)  
2. Directives phase from 1978 (Directive IV and VII)  
3. **US GAAP accounting standard and the International Accounting Standards (IAS) phase since 1995.**

The results of the research in the regulations harmonisation development in the EU have shown that in the late last century, the member countries were intensively transforming their accounting regulations based on the EU Directives (IV and VII) according to the International Accounting Standards.

The countries in transition, among which Croatia, have been coordinating their accounting regulations with the harmonisation phases, particularly the phase 3 – by application of the International Accounting Standards. The companies listed on the Croatian financial markets shall publish their financial statements according to the IAS. The companies not listed shall publish their financial statements (a) according to the IAS (large joint-stock companies) and (b) in accordance with the legal provisions (accounting law or companies law) governing the small and medium-size companies.
The harmonisation on the global level has been significantly reflected in the Croatian public sector accounting, which follows the current trend of abandoning the cash basis and gradual application of the accrual basis.

1. OBJECTIVE OF RESEARCH

The research of this topic has been carried out to obtain the answers to the following questions:

1. Where is the genesis of the accounting regulations and the beginnings of harmonisation?
2. Which are the existing accounting regulations in the developed countries (G7 and EU) and the Croatia’s neighbouring countries?
3. What is the current situation and which are the potential models of development and harmonisation of the Croatian accounting regulations?

The research is based primarily on the comparative analysis of different models of the accounting regulations and their harmonisation.

2. ACCOUNTING REGULATIONS DEVELOPMENT

2.1. Results of a research in the European accounting regulations development

In the 17th century, during the rule of Louis XIV, the French administration was headed by a very influential person Jean-Baptiste Colbert ¹ who reported directly to the king. One of his tasks was to prescribe the establishing and organisation of companies, trade rules and taxes. He was assisted by the young and ambitious Jacques Savary who proved very successful in the interpretation of the Italian trade practice as well as in the critical analysis of the French trade. Colbert appointed Savary a member of the Commercial Reform Council in 1670. Savary prepared the Commercial Act ("Ordonnance du Commerce") promulgated by the king in 1673.² In the law, Savary was guided by the principle that a good trade law should contain the provisions related to accounting and financial statements. This French law ("Code Savary") became a model example how to govern the economy, and was soon after the first French edition translated in Germany, Netherlands, England and Italy. The law was very positively evaluated by the famous German accountant Eugen Schmalenbach. For Schmalenbach,³ the Law was useful for illustrating the large number of examples of frauds and bankruptcies in France as well as methods of resolving such problems. For that reason, some European countries directly

¹ Norstrom C., Jacques Savary and Le Partaif Negociant, Mer, navires et gestion, une histoire en chantier, Seventh Conference on Accounting and Management History, Saint-Nazaire 2001., p.22.
² Ibid, p. 22.
accepted the Savery Law as their own (Belgium and Netherlands), and the others (such as Sweden and Germany) used it as a basis for drafting their own laws. It should also be emphasized that the French Law from 1673 was not accepted by the United Kingdom as the most developed industrial country in the 17th c. Moreover, the United Kingdom followed a track different from the continental model.4

The research into the genesis of the accounting regulations is based on comprehensive references5 and projects containing the results of previous research. The historical origin of the accounting regulations, being the legal prescription or professional governing of the accounting, goes back to the 17th century France. The most significant contribution in prescribing the obligation to draft the balance sheet and profit and loss account was provided by Jacques Savary and Jean-Baptiste Colbert by drafting Code de Commerce in 1673 (original title: Ordonnance de Commerce). The French trade law included the minimum of accounting requirements, the most important being:6 “all companies, regardless of their size, should keep the accounting diary, written correspondence, and annual inventory”. Based on the Savary's trade law, in 1809, the Napoleon's Code de Commerce was adopted. That trade law was the basis for the trade laws in the other European countries (Belgium, Netherlands, Germany, Sweden, etc.). That was also the beginning or the first phase in the accounting regulations harmonisation process at the European level. For the analysis of the accounting regulations development and its harmonisation, the results of research in the EU countries are relevant.7

Table 1: Start of the accounting regulations in the EU countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade law (companies law)</th>
<th>Start of accounting regulations</th>
<th>Start of audit regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Allgemeines Hofdekret</td>
<td>1768</td>
<td>1899</td>
</tr>
<tr>
<td></td>
<td>Handelsgezetetzebuch</td>
<td></td>
<td>Allgem. Handelsgezetetzebuch amendments to</td>
</tr>
<tr>
<td>Belgium</td>
<td>Code de Commerce</td>
<td>1807</td>
<td>1873</td>
</tr>
<tr>
<td></td>
<td>Code de Commerce</td>
<td>1807</td>
<td>Document parlamenteires de Belgique</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>1788</td>
<td>1912</td>
</tr>
</tbody>
</table>

4 The Netherlands separated from the continental model (French-German) in the 20th century, building its own model of accounting regulations. See Walton P., ibid, p. 289.
7 Current EU members
<table>
<thead>
<tr>
<th>Country</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>1895</td>
<td>1895</td>
<td>1914</td>
</tr>
<tr>
<td></td>
<td><em>Laki Osakeyhioista</em></td>
<td><em>Laki Osakeyhioista</em></td>
<td><em>Laivalmistelukunnan edhatusostukseki Osakeyhtioista</em></td>
</tr>
<tr>
<td>France</td>
<td>1673</td>
<td>1807</td>
<td>1867</td>
</tr>
<tr>
<td></td>
<td><em>Ordonnance de Commerce</em></td>
<td><em>Code de Commerce</em></td>
<td><em>Code de Commerce</em></td>
</tr>
<tr>
<td>Greece</td>
<td>1920</td>
<td>1952</td>
<td>1955</td>
</tr>
<tr>
<td></td>
<td><em>Company Law</em></td>
<td><em>Code of Books and Institute of Sworn-in-Records</em></td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>1921</td>
<td>1921</td>
<td>1963</td>
</tr>
<tr>
<td></td>
<td><em>Companies Act</em></td>
<td><em>Companies Act</em></td>
<td><em>Companies Act</em></td>
</tr>
<tr>
<td>Italia</td>
<td>1882</td>
<td>1882</td>
<td>1865</td>
</tr>
<tr>
<td></td>
<td><em>Commercial Code (Civil Code)</em></td>
<td><em>Commercial Code (Civil Code)</em></td>
<td><em>Rivista di Aministrazione e Contabilita</em></td>
</tr>
<tr>
<td>Luxemburg</td>
<td>1807</td>
<td>1807</td>
<td>1915</td>
</tr>
<tr>
<td></td>
<td><em>Code de Commerce</em></td>
<td><em>Code de Commerce</em></td>
<td><em>Code de Commerce</em></td>
</tr>
<tr>
<td>Germany</td>
<td>1794</td>
<td>1794</td>
<td>1887</td>
</tr>
<tr>
<td></td>
<td><em>Preussisches Allgemeines Rech</em></td>
<td><em>Preussisches Allgemeines Rech</em></td>
<td><em>Beeidete Buchrevisoren (Lubeck, Hamburg, Bremen)</em></td>
</tr>
<tr>
<td>Netherlands</td>
<td>1811</td>
<td>1838</td>
<td>1910</td>
</tr>
<tr>
<td></td>
<td><em>Code de Commerce</em></td>
<td><em>Code de Commerce</em></td>
<td><em>Code de commerce (Chambers of Commerce)</em></td>
</tr>
<tr>
<td>Portugal</td>
<td>1755</td>
<td>1756</td>
<td>1930</td>
</tr>
<tr>
<td></td>
<td><em>Junta de Comercio</em></td>
<td><em>Aula de Comercio</em></td>
<td><em>Comora dos Revisores Oficiais de Contas</em></td>
</tr>
<tr>
<td>Spain</td>
<td>1829</td>
<td>1829</td>
<td>1943</td>
</tr>
<tr>
<td></td>
<td><em>Codigo de comercio</em></td>
<td><em>Codigo de comercio</em></td>
<td><em>Instituto de Censores Jurados de Cuentos</em></td>
</tr>
<tr>
<td>Sweden</td>
<td>1848</td>
<td>1855</td>
<td>1912</td>
</tr>
<tr>
<td></td>
<td><em>Companies Act</em></td>
<td><em>Accounting Act</em></td>
<td><em>Stockholm Chamber of Commerce</em></td>
</tr>
</tbody>
</table>
Based on the results of the research in the beginnings of development of the European commercial regulations, the following conclusions may be drawn:

1. French trade law (1673 of J. Savary and 1807 of Napoleon) became the model example for development of the trade laws of the European countries.
2. Trade laws (companies laws) are the origin of development of the accounting regulations of the European countries.
3. The audit regulations were first (19th c.), as a rule, derived directly out of the trade laws (Austria, Belgium, France, Netherlands, Sweden, Ireland, Luxembourg) and later (start of 20th c), the legal authorities for adoption of the regulations were obtained by the audit chambers or associations (Denmark, Finland, Italy, Netherlands, Portugal, Spain, Sweden).

2.2. Development phases in the accounting regulations harmonisation

Development of the accounting regulations harmonisation in Europe may be divided to three phases being:

1. Napoleon's laws phase from 1807 (Code de Commerce)
2. Directives phase from 1978\(^8\) (Directive IV and VII)
3. US GAAP and IAS accounting standards phase \(^9\) (EU Commission publication)\(^10\)

The Napoleon's trade law from 1807 started the first phase of the international accounting harmonisation. The first circle of countries directly adopting the French law were Belgium and Netherlands. Directly after that, the French law served as a basis for drafting the trade laws in Germany and Sweden, and later also in the other parts of the continental Europe. The 1807 Law prescribed the obligation to draft the balance sheet and the profit and loss account. The amendments to the trade law from 1867 for the joint stock

---

\(^8\) In 1978 it was the European Economic Community (EEC)

\(^9\) This phase is called the “international standardisation”, previously encompassing also the companies listed on NYSE, which therefore used US GAAP.

companies stipulated the obligation to draft the semi-annual account as well as its contents. The semi-annual account was to be available for the audit.

After almost more than a hundred years, in 1978, the adoption of the EC Directives started the second phase of the accounting harmonisation process. The end of hostilities after the World Wars I and II, brought the new rapprochement of the developed European countries. The Rome Treaty of 1957 established the common market\(^{11}\). Free flow of goods, capital, and people, as well as expansion of the community, required the development of common institutions and harmonisation of the national regulations. By adoption of the Directives, the legal instruments of harmonisation of the European Community were agreed. For the growing number of companies acting on international basis, some of the Directives directly encompassed the accounting (IV and VII) and audit (VIII). What followed was the process of harmonisation of the national laws. Italy (1991)\(^{12}\) was the last to harmonise its accounting regulations with the EU Directives IV and VII. Soon after the latest harmonisation, the deficiencies of the Directives IV and VII were observed and their limitations for the continuation of harmonisation. Among the restrictions, three deserve major attention: \(^{13}\)

(a) **Options** - The Directives (IV and VII) contain a number of options for various needs of the member countries at their adoption. If the aim is to harmonise the accounting practice, the options applied in different ways are not desirable on long-term basis. To change the options, the Commission mechanisms are narrowed and for each change the EU Council of Ministers should meet. For that reason, the Directives are not the best instrument for the future of the harmonisation.

(b) **Deficiencies** - The Directives lack the specific accounting fields and issues related to the cash flow statement, lease, and exchange rate fluctuations treatment. These areas are included in the IAS and the US GAAP or national standards of other countries. The EU Commission does not intend to include them in the Directives, although these topics are discussed by the European accounting advisory forum. \(^{14}\)

(c) **Accountancy development** – When drafted and adopted, the Directives were a serious attempt of harmonisation at the EU level. The financial market development and new financial instruments deepened the gap between the “obsolete” Directives and growing accounting needs. The accounting frame (assumptions, principles, accounting standards) have grown rapidly in the eighties and particularly in the nineties. A major gap occurred between the Directives and the accounting frame developed in the IAS or the US GAAP standards. That conviction prevailed in the EU Commission in mid nineties and the decision was made to resolve the gap.

---

\(^{11}\) The Community went through several institutional forms such as EEC, EC, and, since Maastricht 1991, EU.

\(^{12}\) Among the members at the time.


\(^{14}\) European Accounting Advisory Forum
By the 1995 Notification, the EU Commission started the third phase of the accounting harmonisation process. Already in the eighties, and particularly in the nineties, the number of the European companies listed at the NYSE who were supposed to prepare their financial statements according to the US GAAP was growing. Also, the International Accounting Standards Committee (IASC) reached in 1995 an agreement with the International Organisation of Securities Commissions (IOSCO). According to the agreement, the organisation shall recommend to its members (national commissions) to use IAS in drafting the financial statements of the listed companies.

Significant for the harmonisation (1995) was the relation between the Directives and IAS. In 1994, the European Accountants’ Federation (FEE) studied the differences between the Directives and IAS. The conclusion was that IAS, with minor exceptions, are consistent with the EU Directives and may be proposed as a qualified basis for drafting of the financial statements. The other research of differences between the Directives and IAS was carried out by the EU Commission in late 1997. Its conclusion (same as that of FEE) was that, all options taken, there are only minor differences in the consolidation field. IASC then decided to examine each standard not in harmony with the Directives. The most efficient way of harmonisation of IAS and the Directives, even at minimum, in the area of consolidation would be through a higher influence of the EU Commission to the IASC Council. That means also a higher number of votes (of EU members) in the IASC Council. There are at least two disturbing factors for a higher EU influence in IASC Council, namely: (1) EU is unable to dictate the IASC Council members and (2) EU members are not a cohesion block, instead there are significant differences between Great Britain and the continental EU (primarily Germany and France).

Thus the EU Commission in 1995 adopted the internal document pointing out to the problems of the international companies’ financial reporting. The companies should draft two sets of financial statements. One should be harmonised with the Directives and the other should be harmonised with the international financial markets requirements. Between them, there are sometimes significant differences with positive and negative effects on the financial markets. One of the best known German “global players” Daimler Benz in early nineties went on NYSE listing. For transfer to NYSE, they had to adjust their financial statements to the US GAAP standards. The adjustment was defeating. According to US GAAP, Daimler Benz expressed high losses as opposed to the profits expressed according to the German trade law harmonised with the Directives IV and VII. The expressed losses were negatively reflected on international investors, with a (short) fall of the market share value as a consequence.

---

15 International Accounting Standard Committee (IASC)
16 International Organization of Securities Commissions (IOSCO)
17 Federation des Experts Comptables Europeens (FEE)
19 Flower J., The future shape of harmonisation,…cited work, p. 287.
22 Commission Internal document (COM 95) Art. 3.3.
3. EU AND G7 COUNTRIES ACCOUNTING REGULATIONS
STATUS

3.1. The current accounting regulations of the developed countries

When we speak of the accounting regulations, we should have in mind two sets of
business entities subject to the accounting regulations. They are (1) legal entities listed on
the national or international financial markets and (2) legal entities not listed on the
financial markets. Their accounting is governed by the laws or standards of the
accounting profession.

A research in the accounting regulations of developed countries encompassed the EU
countries plus G7 group countries other than EU members.

The research was carried out on the basis of several sources, among which the most
significant are: (1) European Accounting Guide,23 (2) European Accounting Review24
and (3) Statistics of the International Accounting Standards Committee (IASC/IASB)25.

Based on the research, the following may be established for the status of the accounting
regulations for legal entities listed and those not listed on the financial markets:

Table 2: Application of legal regulations to entities listed and those not listed on
financial markets

<table>
<thead>
<tr>
<th>Entities</th>
<th>Companies Law (Enterprise Law) or Accounting Law</th>
<th>Accounting standards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>national stock exch. (nat. stand. or IAS or US GAAP)</td>
<td>intern. stock exchange IAS or US GAAP</td>
</tr>
<tr>
<td>Not listed</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Listed</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

The results of the research, particularly on the basis of the IASC statistics, show that the
companies listed on the national financial markets of the developed countries are basing
their financial statements on the trade laws (predominantly) or accounting laws (to a
minor extent). International companies listed on the European companies stock markets
must adjust their reports to the national standards of these countries26 or report according
to the IAS or US GAAP standards. The companies not listed on the financial markets
(small and medium-size companies other than joint-stock companies) make their
financial statements according one of the laws (companies law, accounting law, or e.g. in
the USA according to the tax law). In the EU countries, the companies not listed on the
financial markets prepare their financial statements according to the law on companies

---

24 EAR No. 2/93, 2/94, 2/97, 4/00.
25 www.iasc.org
26 These are requirements of the Securities Commissions
(or law on enterprises), which were by 1991 harmonised with the EU Directive IV and VII. Accordingly, the basis of the accounting regulations for the companies other than joint-stock companies are the EU Directives incorporated in the legal provisions. The accounting regulations are implemented on the basis of the existing accounting infrastructure (legal provisions, standards, and accounting bodies or councils). The status of the accounting infrastructure in the EU member states, expanded by G 7 members may be illustrated by the following table:

Table 3: Status of accounting infrastructure in the legal provisions of the developed countries (EU + G 7):

<table>
<thead>
<tr>
<th>Country</th>
<th>Companies law (Companies law)</th>
<th>Law (Decree) on accounting</th>
<th>Accounting standards (principles) board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Belgium</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>France</td>
<td>X*</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Finland</td>
<td>X*</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Ireland</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Italy</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Netherlands</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Germany</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Portugal</td>
<td>X*</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Spain</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Sweden</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>G. Britain</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Canada</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Japan</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>USA</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

*Note: Countries having the law on companies (enterprises) that refers to the accounting law. All the developed countries have either national accounting standards or national accounting principles.


Out of the encompassed 18 countries, among which the most developed countries of the world, the basis of the accounting regulations in 13 countries is the law on companies (law on enterprises). A smaller number of countries has an accounting regulation in form of a decree, regulation or executive order derived out of the trade law. In some countries, such as the USA, the financial statements of the companies listed are prescribed by the

---

27 G 7 encompasses: USA, Canada, Japan, Germany, France, Italy, and G. Britain
securities commission (SEC)\textsuperscript{28} and the companies not listed prepare their financial statements according to the tax regulations.

3.2. The current model of harmonisation of the EU accounting regulations

The studies of differences between the Directives and IAS have shown minor differences (results of FEE and the EU Commission). However, major part of the accounting frame is “not covered” by the Directives. For that reason, the harmonisation process should go further than the national regulations, at minimum to the group consolidation. That is possible only by inclusion of IAS or US GAAP into the national regulations. At the EU level, there are two groups of accounting analysts with different views of differences between IAS and US GAAP. One group\textsuperscript{29} claims that IAS are the “Trojan horse”\textsuperscript{30} of the US GAAP. They claim that in the first twenty years (until 1993) IASC did not issue any standard significantly different from US GAAP. The other group of authors\textsuperscript{31} claims just the opposite, i.e. IAS are not the same as US GAAP. According to them, there are significant differences in treatment of: goodwill, interest association methods, assets write-off (and assets value adjustment), pension plans, translation of financial statements of subsidiaries with currencies in hyperinflation economies, control definitions, consolidation methods, requirements in IAS 32 and 39, and profit per share (EPS).

The globalisation process brought by major international companies (“global players”) requires a further accounting harmonisation. With regard to the growing number of their “global players”, the EU members found their \textit{modus vivendi} in how to determine, at least on temporary basis, the rules of proceeding of the companies listed on international financial markets. Therefore, the EU Commission offered, as a compromise and a temporary solution (until 2005)\textsuperscript{33} the following proposal:\textsuperscript{34}

\begin{table}[h]
\centering
\caption{New strategy of the EU Commission accounting harmonisation}
\begin{tabular}{lccc}
\hline
Type of financial statements & \textit{“Global players”} & Other major companies & Small and medium-size companies \\
\hline
\hline
\end{tabular}
\end{table}

\textsuperscript{28} Securities and Exchange Commission (SEC)

\textsuperscript{29} This group is led by John Flower, Director of Center for Research of European Accounting (Brussels)

\textsuperscript{30} The term used by Nobes C. of PwC.

\textsuperscript{31} Led by the well-known accounting analyst Cairns D. who wrote the latest issue of Applying International Accounting Standards, Butterworths, London, 1999.


\textsuperscript{33} Communiqué by the EU Commission to the Council of Europe “EU financial reporting strategy: the way forward” EU Commission 13. 06. 2000.

\textsuperscript{34} Flower J. The future shape of harmonisation…cited work. p. 296. European Commission proposal’s 1995.
The companies going to the foreign financial markets (“global players”) have the opportunity since 1998 (IASC-IOSCO agreement) to publish the financial statements according to IAS. They are the companies requiring the accounting frame for consolidated financial statements. The other companies from EU listed on the national financial markets or not listed at all prepare their financial statements according to the Directive IV and VII (with the use of IAS for consolidation). For the basic financial statements, the European companies may use IAS provided they are not contrary to the Directives. If a selected accounting policy from the IAS (method, procedure, or alike) is not in accordance with the Directives, the Directives shall apply.

The EU Commission sent on the 13th June 2000, the Communiqué to the Council of Europe requesting the support to continue the accounting harmonisation on the basis of IAS. The document contains the following EU Commission conclusions:

1. Prior to the end of 2000, the EU Commission shall present the formal legal drafts requesting from all the companies listed in the EU to prepare their consolidated financial statements from 2005 in accordance to IAS.
2. A mechanism will be developed to supervise the integration of IAS in the EU legislation.
3. Developing an infrastructure making possible the strict application of IAS. This task shall be resolved by issuing a guide for IAS application, by increased audit quality, and strengthening the coordination of the supervisor control.
4. Prior to the end of 2001, the EU Commission shall present the proposals for modernisation of the accounting Directives (IV and VII), so that they remain the basis of the financial reporting of all the companies (listed and not listed).

This EU Commission proposal was adopted on 17th June 2000. The cooperation of the EU Commission and IASC shall take place through the Contact Board. The Board shall continuously analyse the differences between IAS and the accounting Directives, as IAS may be applied only if they are in harmony with the Directives.

3.3. Accounting regulations of the countries neighbouring Croatia

Based on the statistics of the International Accounting Standards Committee (IASC-a) and the European Accounting Guide, the following results were obtained on the status of the accounting infrastructure of the countries neighbouring Croatia:

---

38 Contact Committee is formed by the EU Commission
Table 5: Place of the accounting regulation in the legal provisions of the countries in transition neighbouring Croatia

<table>
<thead>
<tr>
<th>Country</th>
<th>Law on companies</th>
<th>Law on accounting</th>
<th>Accounting Board</th>
<th>National accounting standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bosnia and Herzegovina</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Hungary</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Slovenia</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Croatia*</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Note: The Croatian Companies Law does not contain provisions related to the financial reporting of the legal entities governed by the law.
Source: www.iasc.org.uk; European Accounting Guide, 1995

We may conclude that in the most countries, the accounting regulations are traditionally encompassed by the accounting law. Also, in all countries, there are accounting boards (mostly within the framework of the accounting and audit professional associations). Bosnia and Herzegovina is not present at all in the IASC statistics. The activities of the board for accounting and accounting standards are carried out by the national associations of the accountants and auditors. The alternative is to form the accounting standards boards within the associations (Bosnia and Herzegovina, Yugoslavia, Slovenia, and Hungary). The national accounting standards were developed by Bosnia and Herzegovina (on the basis of IAS) and Slovenia. The Hungarian Accounting Law is based on the EU Directives and IAS. In Yugoslavia the 1996 Accounting Law was a replica based on the last Accounting Law of the former Yugoslavia dated 1989. The association of accountants and auditors of Yugoslavia (that is the accounting standards body) voted in 1998 for the direct application of IAS.

4. STATUS AND PROSPECTS OF THE ACCOUNTING REGULATIONS IN CROATIA

4.1. Accounting regulations of the private (commercial) sector

Croatia is aspiring to the European integrations. It is encompassed with the globalisation process. The international institutions, financial markets and organisations require the harmonisation of regulations. The compatibility and comparability of regulations with the

39 www.advokatska-komora.co.yu/zakoni/z_racun.htm
40 Yugoslav official journal 46/96 and 60/96
41 Yugoslav official journal 12/89, 35/89, 3/90, 42/90, and 61/90
42 www.iasc.org.uk/frame/cen1_12d.htm
43 World Bank, WTO, EBRD, stock markets or Mc Donald’s, Coca-Cola or the Internet are the indicators of presence of the globalisation.
other countries is the requirement to enter the integration processes, markets, etc. An important link in the regulations are the accounting regulations. Regulations in general, and accounting regulations in particular, rely on tradition, ownership and economic structure, accounting profession organisation, etc. Building an optimum model of accounting regulations is a process. That is a process outside of or part of a wider harmonisation of the accounting regulations. The globalisation is the strongest factor of harmonisation process reflected in the Croatian accounting. The status of the accounting regulations in Croatia may be defined by the following model:

### Current model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic</td>
</tr>
<tr>
<td>Not listed on fin. market</td>
<td>LOA + IAS</td>
</tr>
<tr>
<td>Listed on fin. market</td>
<td>LOA + IAS</td>
</tr>
</tbody>
</table>

*where: LOA-Low on Accounting  
  IAS-International Accounting Standards  
  not listed – mostly limited liability companies  
  listed – mostly joint stock companies*

The potential models of the accounting regulations, starting from the current model and taking into account the models in the developed countries, may be the following:

### Model 1: Potential model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic</td>
</tr>
<tr>
<td>Not listed on fin. market</td>
<td>LOA</td>
</tr>
<tr>
<td>Listed on fin. market</td>
<td>IAS</td>
</tr>
</tbody>
</table>

According to this model, the Law on Accounting would stipulate financial reporting of the entities not listed. Contents of the financial statements, assessment methods and valuation would be stipulated based on the Directives or IAS. The Law would take into account the needs of the statistics, register, and similar institutions. The listed entities would prepare and publish the financial statements according to IAS. The obligation to report according to IAS should be prescribed by the Securities Commission.44

### Model 2: Potential model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
</table>

44 Most frequently in the Law on Issue and Sale of Securities.
## Basic and Consolidated Financial Statements

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>Consolidated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not listed on fin. market</th>
<th>CL or GTL (EU Dir. IV)</th>
<th>CL or GTL (EU Dir. IV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed on fin. market</td>
<td>IAS</td>
<td>IAS</td>
</tr>
</tbody>
</table>

where:  
- CL – Companies Law  
- GTL – General Taxation Law

In this model, the Directives would be used directly as the supranational regulation for preparation and publishing of the financial statements of small entities not listed on the financial markets. The application of the Directives would be made lawful by the CL or the GTL. For the listed subjects, the rule as in the Model 2 would apply.

### Model 3: Potential model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>Consolidated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not listed on fin. market</th>
<th>CL or GTL (EU Dir. IV)</th>
<th>CL or GTL (EU Dir. IV/IAS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed on fin. market</td>
<td>IAS</td>
<td>IAS</td>
</tr>
</tbody>
</table>

Entities not listed would prepare their consolidated statements according to the Directive VII and IAS. Where the accounting policies differ, the Directive is applied.

### Model 4: Potential model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>Consolidated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not listed on fin. market</th>
<th>CL or GTL (EU Dir. IV)</th>
<th>CL or GTL (IAS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed on fin. market</td>
<td>IAS</td>
<td>IAS</td>
</tr>
</tbody>
</table>

According to this model, CL or GTL would prescribe only IAS for consolidation of the entities not listed.
Model 5: Potential model of accounting regulations in Croatia

<table>
<thead>
<tr>
<th>Entities</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic</td>
</tr>
<tr>
<td>Not listed on fin. market</td>
<td>CL or GTL (IAS)</td>
</tr>
<tr>
<td>Listed on fin. market</td>
<td>IAS</td>
</tr>
</tbody>
</table>

According to this model, the CL or GTL would prescribe IAS (without relying on the Directives) as the basis for preparation, evaluation, and publishing of financial statements of the entities not listed.

Which model should be selected as the basis of the further building of the accounting regulations depends on the criteria applied. Certainly, if the long-term aim is to join the European integrations, the Model 2 would be best (as the current EU model) or possibly Model 3, with a higher level of harmonisation for consolidation than the Model 2. For entities seated in Croatia, listed on the global financial markets (joint stock companies), all models are acceptable as the major financial markets accept IAS.

4.2. Status and trends of development in public sector accounting

In the conditions of open market and increasing international cooperation, and recently clearly expressed need of the transition countries to enter the European and global associations, an autochthonous accounting system is not sustainable. Particularities of accounting systems may be an impediment to communication between the reporting units of various countries, so in the conditions of internalisation of economic activities, the harmonisation of accounting systems is required as a condition for easier connecting of countries. Today, countries and their units follow a widely diversified (differing) financial reporting practice and in many countries the public sector standards are not developed. If they are, they are at a low level or their application is limited by particularities of the public sector units. The transition countries are faced with the imperative of structuring a modern accounting system to take into account the global achievements in the accounting science field. A solution my be the possibility to accept the international accounting standards as the national standards or to incorporate them in the national standards of the transition countries. That would bridge the gap in development of accounting systems between the developed countries and transition countries and eliminate the differences and particularities.
It is well known that in development of the accounting theory and practice, Croatia accepted the application of the International Accounting Standards issued by IASC – permanent committee of IFAC (International Federation of Accountants) and thereby made possible their application in the accounting of profit entities. Following the same choice, for development of audit profession and carrying out professional audit, the International Standards on Auditing published by IAPC (International Auditing Practices Committee), another permanent committee of IFAC, were also accepted. For development of the Governmental Audit, INTOSAI audit standards developed by the International Organization of Supreme Audit Institutions were accepted. The development of governmental accounting and non-for-profit organisations accounting remained in the field of regulations, provisions, and instructions as legal solutions issued by the competent bodies and institutions. Although the regulations encompass the achievements of the accounting theory and international practice published in IFAC documents of the Public Sector Committee (PSC), the professional accounting circles are not sufficiently informed on their contents as they have not been translated and published in the official gazettes.

- As a permanent IFAC committee, there is the Public Sector Committee - PSC. The Public Sector Committee was established to develop and establish standards for financial reporting, accounting and audit for the so-called public sector.

  The way in which PSC informs the public on its results are the publications in various forms (Standards, Guidelines, Studies, Occasional Papers, Exposure Drafts).

  In the last 11 years, since 1991, among other publications, there were 11 studies, 2 guidelines, and 18 International Accounting Standards for the public sector.

A great number of countries in the world is not in the position yet to apply the international accounting standards for the public sector, more so because they are based on the accrual basis.

  As an assistance to such governments, a draft study was made (Exposure draft) 9 - Financial Reporting under the Cash Basis Accounting, presenting the minimum of requirements and proposing the structure of the financial reporting by application of the cash basis.
The aim of preparation and publication of standards is to equalise, as much as possible, the different accounting standards and procedures in various countries, in such a way as to stimulate the acceptance of the international accounting standards by the national bodies and the accounting authorities.

Many international institutions with inherently developed activities with a number of countries are interested in unifying the accounting practice on the global level. Therefore, many international institutions are interested in IFAC activities, such as the World Bank, the International Chamber of Commerce, the International Federation of Securities Commissions, International Monetary Fund, which in their field stimulate or contribute to the development of international standards.

In the Republic of Croatia, aiming to achieve the full transparency and clearness of expressing the public income and expenditures, the international classifications of the governmental finance – public sector are accepted. The governmental finance statistics (GFS) is a statistical system developed by the IMF aimed to connect with the other international statistical systems: System of National Accounts – SNA, 1993, COFOG (classification of state functions published by the UN), the European System of Accounts – ESA, 1995.

The major changes in the statistical systems of the governmental finance are the acceptance of the accrual basis and transition in the financial reporting from the cash flow to the accrual of event. These significant changes follow the turn in the governmental accounting where the same tendency is present – transition from the cash basis to the accrual. The final aim and recommendation is to harmonise the governmental accounting model and the statistical monitoring to establish, for the needs of the internal and external reporting, a quality information system to monitor the success of the government operations. The classification system is based on the organisational, economic, and functional classification, which - when interwoven - provide options of simultaneous monitoring of consumption per organisational unit, type of expenditure, and function. Advanced models of budgetary planning (performance program budgeting) are familiar with the classification per programs, which makes possible to monitor the liability and successfulness per programs.
The modernisation of the budget accounting system started in 1994, when with the economic classification in accordance with the System of Governmental Finance Statistics (GFS), the system of cash accounting basis was adopted and implemented.

Stimulated by real needs and requirements for quality changes in the presentation of the governmental finance and monitoring public expenditures since 2002, Croatia decided to abandon the cash basis and to apply the modified accrual basis.

At the same time, a shift was made in the statistical monitoring of governmental finance, where the solutions of the revised GFS system were implemented to the greatest possible extent. The intensive operationalisation and running in of the normatively placed solutions are in progress.

The final aim of the accounting reform is to develop an adequate accounting system on full accrual basis as one of the key factors of the overall reform of the Croatian public sector. In that way, Croatia would fully harmonise its national system with the international framework through the complete application of international accounting standards for the public sector.

5. CONCLUSIONS

The growing financial markets and modern information technologies are bringing globalisation of the world economy. The globalisation is accompanied with the harmonisation of the accounting regulations. The harmonisation goes in the direction of application of US GAAP standards or IAS. Differences among these standards are diminishing. The harmonisation processes date back to history, and the accounting harmonisations took place in three phases:
1. Napoleon's laws phase (from 1807),
2. Directives phase (EEC, EC, EU from 1978),
3. US GAAP phase (from the eighties) and IAS (from 1995).

The accounting regulations of the EU countries are predominantly encompassed by the commercial law (or companies law). These countries carry out the harmonisation through the EU Directives (basic financial statements) and IAS (consolidated financial statements). The other developed countries carry out the harmonisation by US GAAP standards or IAS.

The countries neighbouring Croatia govern their accounting traditionally by the accounting law (except for Slovenia and Italy). They harmonise the accounting by national standards, standards based on IAS or by direct application of IAS.
In Croatia, the accounting regulations are defined by the Accounting Law. In its basic parts (contents of financial statements and assessment principles) it is based on the EU Directives. However, at the same time it stipulates the direct application of IAS for all the entities ("enterprises") regardless whether or not listed on the financial markets. The obligation of direct application of IAS is the realisation of the accounting harmonisation process. However, thereby small companies (not listed) obtain a law of 2448 articles, which is unsustainable and requests a logical rationalisation in future. The potential models of accounting regulations in Croatia should be based on the criterion accepted in the developed countries. That means separate definition of regulations for the entities not listed from the regulations for the entities listed on the financial markets. The latter should primarily harmonise the accounting regulations through direct application of IAS.

The public sector accounting is in the phase of transition from the cash basis to the accrual basis. The normative regulation completely relies on the achievements of the international accounting theory and practice. The acceptance of the accrual basis accounting is considered of principal importance in the public sector reform, as it makes possible a more successful management of state activities and strengthening the responsibility of public management. In order to achieve the full transparency and clearness of expression of the public income and expenditures, the international classifications of governmental finance are accepted and applied. The changes that started in the early 2002 resolved the issues of application of the modified accrual basis variety, systematic arrangement of the plan of accounts in accordance with the relevant international classifications of public sector, construction of transparent financial reporting system, directed to the users' needs.

The general aim of further development and evaluation of the accounting system is to fit into the international trend of affirmation of accrual concept as soon as the suitable economic and political circumstances are created.

REFERENCES


Camfferman K, Netherlands, EAR 2/93, London, 1993

Caramanis C., The enigma of the Greek auditing profession: some preliminary results concerning the impact of liberalization on auditor behaviour, EAR 1/97, London, 1997

Christiansen M., Denmark, EAR 2/93, London, 1993


Executive Decree on Amendments to the Executive Decree on Budgetary Accounting (Official Journal Narodne novine No.119/2001.)

Feige P., How “uniform” is financial reporting in Germany?-The example of foreign currency translation, EAR 1/97, London, 1997

Flower J., The future shape of harmonization: the EU versus the IASC versus the SEC, EAR 2/97, London 1997


Inchausti G.B., Spain, EAR 2/93, London, 1993


Mikol A., France, EAR 2/93, London, 1993


Napier, C., UK, EAR 2/93, London, 1993

Nasi S, Finland, EAR 2/93, London 1993

Nasi S., Nasi J., Accounting and business economics traditions in Finland- from a practical discipline into a scientific subject and field of discipline, EAR 2/97, London, 1997

Naumann K.P., Financial reporting enforcement mechanisms as an element of corporate governance in Germany and reflection on their further development, EAR 4/00, London, 2000


Nobes C.W., Muller G.G., How “uniform” is financial reporting in Germany?: some replies, EAR 1/97, London 1997

Nowotny C., Gruber C., Austria, EAR 2/93, London, 1993
Olivier H., Challenges facing the accountancy profession, EAR 4/00, London, 2000


Regulation on Budgetary Accounting and Plan of Accounts (Official Journal Narodne novine No.119/2001, 74/2002.)

Ronge Y. Henrion E, Vael C., Belgium, EAR 2/93, London 1993


Schroer T, Germany, EAR 2/93, London, 1993

Van Hulle K., Harmonization of accounting standards in the EC: is it the beginning or is it the end? EAR 2/93, London, 1993

Van der Plaats E., Regulating auditor independence, EAR 4/00, London, 2000


Zambon S., Saccon C., Accounting change in Italy: fresh start or Gattopardo’s revolution?, EAR 2/93, London 1993


