



Széchenyi István Egyetem
Multidiszciplináris Társadalomtudományi Doktori Iskola

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Lengthy transition?

Doctoral theses

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1. The task and the hypotheses of the dissertation

Fifteen years have passed since a dramatic change started in the social and economic structure of the countries in East Central Europe. Was that really a dramatic change? Have the distinctive features of planned economy and the traces of the socialist order vanished or are they still felt in the social and economic processes? Have they remained in the legal background and in the attitude of the different professions? Have the emerging economies closed the process of transition or is a new region with special features developing?

The length of the transition period behind us gives me the opportunity to look into the accounting regulation of the region and examine whether it is in harmony with that of the business environment and is able to meet the changed requirements.

Accounting can be defined as the registration of business activity, which is able to produce information and prepare decision making processes. In the light of the above, regulation of accounting is very important, especially in those countries, in which the accounting information was deformed earlier but the regime change made it possible to build up a new regulation.

With the accounting harmonisation process adopting the changes of world economy in the 1970s the national features, consequently the problems in the economic and decision making processes were put in the limelight. The writers who deal with the development, regulation and classification of accountancy all agree that the most significant factors that influence national accounting regulations are more or less the same in each country.

Roberts, Weetman and Gordon (1998) class among these the social and legal system, the economic basis, some elements of the institutional system, such as financing corporations, the taxation system, accounting regulation and the cultural features. All these usually decide to how accounting problems are solved.

Since the eighties were published experts have shown great interest in the obvious similarities and differences between the regulation systems. Different theories and classification were established from methodological and contextual points of view (Roberts, Weetman, Gordon, 1998).

At the time the first classifications were born writers ignored planned economies. However, after the change of regimes it was obvious to fit transition economies into the group of the continental type with strong macroeconomic features (see table 1). The reason for this is the fact that the former planned economies did not establish their accounting system alone but they adapted it from somewhere else.

In the first half of the nineties the interest of the accounting profession interest turned to the former eastern block. Many examined the accounting regulation of region. My doctoral thesis describes the main characteristics of the continental accounting system and those common features that are true for the three countries. Later the examination can be extended to the other countries of the region. My hypotheses concern the features and their impacts on the true and fair view of the financial report.

Table 1: The most important factors of the two typical accounting regulations

Features in the group I. (Continental, hands-on)	Socio-economic factors		Features in the group II. (Anglo-Saxon, hands-off)
prescription based regulation (laws)	legislation		principle based regulation (standards)
	codified law (closed system, priority of the legislation and executive authority)	common law (opened system, priority of the jurisdiction)	
rigidity, priority of the state	Control		flexibility, priority of the decision makers
	executive authority (macroeconomic)	professional organisations (microeconomic)	
creditor- and state-oriented, aim: safety of the creditors, the principle of the conservatism is emphasized	the corporation financing system, the orientation of information		investor-oriented, aim: presentation of the realized results, accrual basis accounting
	bank	stock exchange	
pressure to minimize the results, 'hidden reserve' (conservatism)	connection with the corporation tax		pressure to present the realized results (accrual basis accounting)
	closed	no	

The table shows that the regulating systems of Hungary, Romania and Slovakia bear macroeconomic characteristics, continental type and for the time being they are de jure euro-

compatible and adapted systems. My statements concerning the group's particular features are as follows:

1. The accounting regulating systems of the examined countries had to perform conditions of harmonisation in an extremely short period of time consequently they accelerated the process strongly. The strong acceleration has impacts on the regulating systems of the region because it crosses the organic development.
2. Due to the characteristics of legislation and controlling the division of labour among branches of power plays a significant role in the operation of the accounting regulating system. The combination of legislation and executive power has the primary role. The essential question in examination of the countries is what level of division of labour exists in the regulation of accounting.
3. Fifteen years have passed after the change of regime and the experts' professional attitude can be described as obedience to rules. Obedience to rule is welcome in the codified legal system, though the tendency of international harmonisation of accountancy requires different attitude from the profession.
4. The three accounts above, which I will prove in my dissertation, significantly influence the structure and content of accounting information which is provided by the financial report. I support this last statement with a case study.

In the flow of the dissertation I study whether the mentioned features really exist, how they are presented in the three regulating systems and what consequences they have on the systems and the environment. My method for doing that is country and case study. While examining the whole economy I emphasize that the structure and content of the annual report based on national regulation is most strongly affected by the information hunger of the state though solutions matching the harmonisation process also appear.

2. The methodology of research

I adopted the primary and secondary methods during my research. These are the analysis of the accounting rules, some orders of the examined countries. The main considerations of research are whether the fundamental features of continental accountancy are really traceable, whether the regulation is euro-conform, how quick is the harmonisation process, how the applied accounting and estimating principles can satisfy the interest of the state and how dominant is regularity in the provisions.

The case study is also part of the primary research. It is provided by a trial balance of 2004 and report of a company which operates in one of the countries in the examined region. I search the

answer to the question, how much reliable and true information the investor, wishing to move into the region, is given on the basis of different national regulations and which information will be the most useful and most reliable for him. The case study examines from the point of view of the direction and quality of information. Consequently, the examination viewpoints are the basic principles the accounting information lies on, i.e. the principle of the relevance and the comparison of cost-benefit.

The interviews with the experts of the concerned countries, often focusing on one issue, helped to examine the components and circumstances of the fifteen-year process.

Processing the available literature in Hungarian or other languages is a very important method of the secondary research.

More methodological problems arose during the research and summary, whose suppression would damage the authenticity of my examination. The accepted common language of accountancy is English, which, at places facilitates the work but at some places makes the situation more difficult. It is an advantage since speaking the language the researcher can obtain a lot of information. It is a disadvantage since English-speaking accountants and experts use a different logic when outlining the problems. Consequently the solutions that they offer are also different. It follows from the above that to be able to understand the professional literature and digest the topic one needs to be able to possess the technical termini in the English language. In the dissertation I often used those concepts that are preferred by the professional literature in Hungarian and other languages, but whose forms or interpretation differ from the common language or interpretation of a related scientific field. In my dissertation there are accounting technical expressions which are not subject to the examination, but whose definition is absolutely necessary. I explained the mentioned concepts and expressions in the footnotes.

For technical language national regulation systems can choose the accepted language of bureaucracy of their country, the official language or a foreign language (Parker, 2001). We can experience several times that it is not only a theoretical problem. Evans and Nobes (1996) examined the differences in the German and English translation of EEC 4. directive. During their further examinations they explore the differences of adaptation in the accounting systems of two countries while they keep in mind the "philosophy" of fundamentally different accounting systems.

Similarly, Sucher, Seal and Zelenka point to this problem. They examined the translation of the first accounting law of Czechoslovakia by three authors and institutions.

My topic raises the question how we can overcome the polyglot in a way that is acceptable from the point of view of methodology of research. I did not accept the translated English or

Hungarian version of the Romanian and the Slovakian accounting rules as an authentic source at the document analysis. Some native Hungarian experts resident in Romania and Slovakia who took their degree in the official language of these countries and practice in the official language helped me. With their help I was able to specify the imprecise, unclear passages with and uncover the executive, legislative and professional behaviour behind the text. I adopted the expressions of Hungarian accounting profession in the text of my dissertation. Where there is a significant difference in the usage I gave the expression of the official translation in a footnote. And they provided lots of help during the preparation of my case study since the translation of the financial report is not a mechanic activity even when we know the structure and content of the financial report.

The bibliography extends more than a decade and a half, which is a result of the length of the examined period. The reference includes articles and studies related to the examination. Definitions and indirect references related to background knowledge are indicated in the footnotes.

3. Results of research, verification of hypothesis

The starting-point of the examination is that the information presented in the financial report meets the requirements of the true and fair view and the demand of market players. As I stated, citing several authors, the requirements are dependent on the socio-economic and cultural environment and are in constant change. It can be concluded that the contradictions of the examined societies are also reflected in how certain criteria were met or distorted. Similarly, the relations of the market players have an impact on the quality of report information, as I stated in the first chapter.

True and fair view cannot be measured as a quality requirement in an exact way. Nevertheless, it can be detected which players are wished to be or obliged to be preferred by the report writers. This question is answered in the country studies.

During my research work I examined the socio-economic factors that affect accounting information. Naturally, I do not think it important to list all the factors since I analyzed them at the classification of the systems (see table 1).

The chosen countries are liberal-democracies, but before the regime change they belonged to the egalitarian-authoritarian orders. Although the social and economic institution system for the market economy was established in the past fifteen years, the remains of the old institutions and the old attitude are still traceable. Roberts, Weetman and Gordon (1998) are true when they say that the most important characteristic of the egalitarian-authoritarian order, strong

governmental control is still felt in the transition economies after fifteen years. While doing the country studies I felt the same; strong control with the emphasis on the content and form of the legislation, not the legislation itself. It was obvious that providing information for the government is a must and there is strong obedience in this topic.

The authors of the study (see above) mention historical facts that influenced the development of the accounting regulation. It is not within the scope of the dissertation to examine historical background, but obviously, the decades of planned economy have a strong impact on the accounting regulation of the three countries. A further consequence is that when adopting well-operating systems, these countries often reach back to their historical or cultural connections before the years of socialist order. Especially in the case of Romania it is easy to discover the incoherence of the adopted system and that required by the forming market economy.

Examining cultural factors, following Gray, it can be stated that governmental control and uniformity are very strong in these countries. The representatives of the profession are rather conservative than optimistic and the accounting information is public.

The summary of accounting harmonisation follows the description of literature. The novelty is that the aspects of examination highlight the connections and symbiosis of the regulation systems and their impact on each country (see chart 1, 2).

The accounting systems of Hungary, Romania and Slovakia are unambiguously the continental 'hands-on' type with its all features (see table 1).

I examined three suppositions during the country case studies; special features that characterize these regulatory systems beside the continental marks. I stated that their development is accelerated, law on accountancy shows asymmetry and the profession shows a strong obedience to rules. I also stated that these factors influence the true and fair view of the report.

What is new about the above is the complexity of research. It has not been common in the literature to examine features that are equally true for all the researched countries. This fact offers a further perspective to my research since in case the hypotheses prove to be justified, research can be extended to all transition economies.

Literature does not deal with the problem of the effects of acceleration, which was one of my hypotheses. In Hungary no summary publication has come out about the features of accounting regulation after the regime change.

The asymmetric nature of legislation, let it be very obvious, is not mentioned in the available literature. The findings of my research work raise attention to a fact which is an enormous obstacle to the realisation of true and fair view.

Professional attitude in Bailey's work (1988) is considered as a symptom of planned economy. However, it deserves interest taken the fact that the problem remained after the regime change.

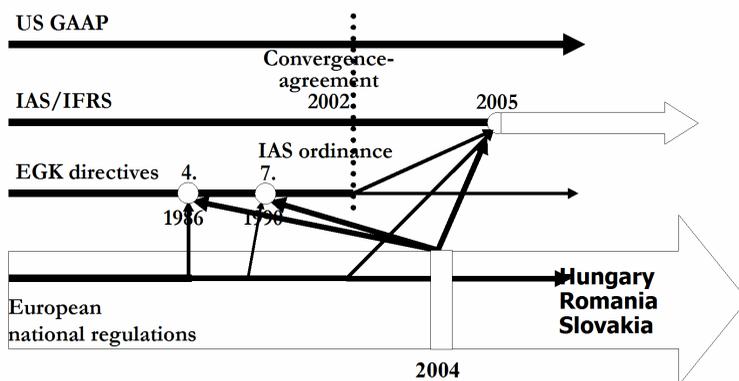
Let me examine acceleration first. In all the three countries the basis of market economy was laid down after the regime change, the demand and possibility of joining the EU appeared and last but not least their international activity increased. It was true for accounting harmonisation, too. The problem was extremely complex: many tasks to be solved in a constantly changing socio-economic environment. The situation is far from ideal for their present bore the traces of the old society and economy.

Chart 1 wants to show that these countries have to adjust to two sets of rules, old and new, and they also have to concentrate on the development of their market economy.

The latter is mentioned as complexity of enterprises in a study mentioned earlier (Roberts, Weetman, Gordon, 1998) and is true for all the three countries. The majority of Central and Eastern European enterprises are micro-, small and medium enterprises, for which the harmonisation prescriptions cannot be applied. They concentrate on consolidating reports. Book-keeping and report making are very complicated and detailed, in most cases prefers the prescriptions of the law. Paying professionals is very expensive to this group.

Not only the convergence of accounting regulation, but the unforeseeable changes of market economy can also be blamed for acceleration. Regulation had to be adjusted to the constant changes. This can be examined in the changes of Hungarian law on accounting between 1993 and 1998.

Chart 1: Acceleration in accounting regulation



Due to the listed factors the development of the above systems is not organic, the negative consequence of which is that regulation does not fit the economies, most importantly the market role and business circumstance of micro-, small- and medium enterprises.

It is also a negative impact that because the accelerated process regulation became confused in certain periods and topics. Such was, for instance, the period in Slovakian regulation when the accrual based and cash-flow based attitude coincided in the case of enterprises with double-entry book-keeping.

The reasons for the second feature, asymmetry, can be found partly in the character of the continental system, partly in the character of young democracies.

I expanded on the differences in the approach of codified law and precedent law before the classification section. Detailed legal prescriptions seemed to be obvious to preserve after the regime change considering the fact that these countries previously belonged to the continental type.

As it can be seen in table 1 and the country studies there is a strong connection between accounting result and corporation tax in the three countries. Fiscal interests have a direct impact on regulation and through this accounting result is influenced. The principle of conservatism dissolves the contradiction, but, at the same time it distorts the true and fair view. Producing hidden reserves does not go against the creditor's intentions, the most important market player in the accounting environment, but does not show the realised result.

The preferences of the regulation systems of Hungary, Romania and Slovakia in the examined period, taken the direction of business information, prioritized the governmental preferences instead of those of the investors.

The idea of separating taxation and accounting emerges at times, but there is a fear that beside the positive impacts (true and fair view) it would have negative consequences. These would be that micro-, small- and medium enterprises would prefer taxation considerations to accounting information.

However, we cannot ignore the idea how the principle of comparison of cost-benefit could be enforced at this entrepreneurial group. I deal with this problem in connection with the Hungarian regulation.

The difference in taxation between the continental and Anglo-Saxon systems appears on the level of annual reports since they are obliged to pay the corporation tax. The information given by consolidated reports seems more reliable for they are not taxable reports. In the group of entrepreneurs obliged to file consolidated report, enlisted ventures have had to prepare a report based on international standards since 2005. It is a great step ahead both in the Hungarian and Slovakian regulation that the reports based on IAS/IFRS are valued as national consolidated

reports. That suggests that businesses are allowed to prepare reports based on harmonised definitions and methods if they wish to. Romania may have the same decision after accession. We should bear in mind that governmental control and information hunger are not only strong but enjoy priority.

There have been and will be periods in all the three examined countries with very strong fiscal interest. These periods have their impact on accounting regulation through result minimisation and tax positioning. Until taxation and accounting of corporations is not separated accounting information can be harmed. It is not part of my study, but I think it important to mention that tax avoidance is present in the examined countries, which is a way to distort business information.

The problem of fiscal interests having a strong impact on accounting is very serious taken that in the young democracies legislation is in its infancy.

I examined this process in the Romanian economy, but the same process is seen in Slovakia. In both countries legislation is in the scope of execution, which distorts the true and fair view.

Hungarian accounting regulation is free from the above mentioned problem, but was unable to produce a flexible system adjusting to the needs of Hungarian economy. The planned two-tier regulation with a frame-law and accounting standards would be a good solution. The present plan of keeping the existing law on accountancy and publicizing the accounting standards as regulations of the Ministry of Finance mean approaching the regulation of the neighbouring countries. This cannot be seen a step ahead.

Due to the existing asymmetry the Romanian and Slovakian systems are perplexing while the Hungarian is a rigid system. What is common in the three is the professional attitude which means compliance with the regulations.

It is still a phenomenon in the former planned economies that accounting profession is unable to form an independent opinion.

There have been huge changes in the profession in all the three examined countries. Professional institutions, associations and chambers emerged. National book-keeping and report making regulations became euro-conform and there is a tendency to turn back to the traditions before the war. Professional institutions retrained people to teach the national standards. Knowing the international regulation and standards is not an exception.

The results reached in the past fifteen years are unquestionable and deserve respect in all the examined countries. I do not want to question the great performance neither do I want to minimize it.

The reason why there is room for development is that it is a common practice to ask the tax authority or the Ministry of Finance for statements in issues that can be debated. Excellent

professionals and conscientious experts turn to authorities in cases when it is required by these authorities or even when it is punishable not to do so.

The other reason is that the majority of the professionals in accounting have been working in the trade since before the regime change. It is hard to expect them to acquire a new attitude from one day to another. Especially, when the environmental factors (development is accelerated, legislation is asymmetric and the reasons behind it) force them to act differently.

Let us examine what lesson can be learned from the country studies. I set several targets that deserve recalling. I examined the structure of accounting information and its content in relation with the report. That was a reason why I went against the grouping of prominent Hungarian experts and I grouped the accounting principles on the basis of which ones concern accounting information. This fact does not contradict the above mention grouping since the principle of conservatism has a priority in the country studies as a preferred contextual principle (versus the true and fair view and substance over the form). At the same time for justification of euro-conformity revealing the net asset value, but not with the help of national regulation, which makes the objectivity of statement unquestionable.

The report on country studies mirrors the benefits and drawbacks of the examined processes. The equality of net asset value proves that the reports of the three transition economies meet the international prescriptions.

The composition of reports (balance sheet, explanations, cash flow statement and own assets) also support my hypothesis.

However, behind the net asset value there are different asset measurement, property and result composition. It is most obvious in the case of Romanian and Slovakian reports where the central prescriptions define a property- or result factor on the level of account numbers. This fact means the extreme strength of governmental information hunger and lack of independent interpretations and decisions.

Looking through the examined material, emphasizing the modernity and euro-conformity, it can be stated that the suppositions exist and influence the realisation of the true and fair view.

Examining the hypotheses it is clearly seen that the ghosts of the past still haunt in the region, but the transition economies accounting profession has passed a long road to say that they have managed to influence the notion of accounting legislation.

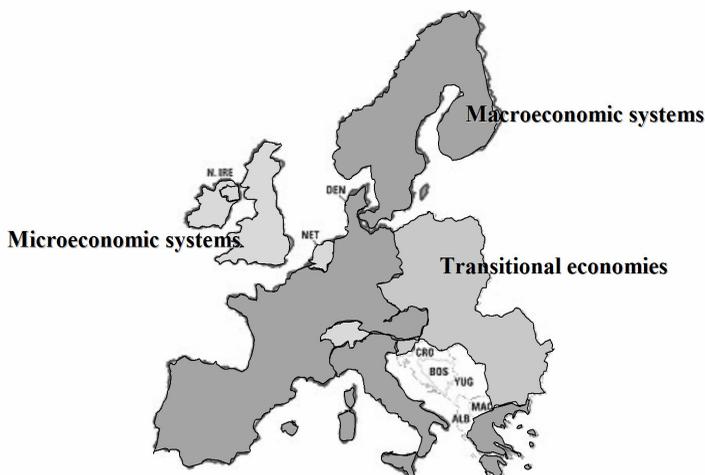
Was the transition period long? Historically it was not. Professionally, taking today's accounting the starting point, the answer is more ambiguous.

Working on the dissertation I attempted to look behind the features. By doing so I explored factors that are independent from the accounting profession but no doubt influence regulation.

Chart 2 shows that transition economies have a primary role in the group of countries with continental accounting system. If the chart was extended to the Baltic countries, their role would be even more prominent. If we add that these countries have joined the EU and their socio-economic and economic features are very much similar we can say that the examination of the above features may surpass national borders even when we talk about national regulation systems.

The present regulation system of the EU does not and cannot be made responsible for the differences in the national regulations and the differences may remain for a longer period of time. It deserves interest, however, how the old and new member states solve those problems which arise from the changed accounting regulation. It is a lesson that a precondition to the change of the features is a change of the socio-economic features. It, however, will take at least several decades.

Chart 2: Transition Economies in Europe



In the second chapter of my dissertation I put the question whether the examined region of Europe lags behind western European countries, or it should be considered as a separate region with distinctive features. Consequently, the direction of change should not necessarily be the same as that of those countries. The question arises whether there is and if there is what the

opportunity is to improve the information quality of national reports softening the distinctive features.

The energy for this can be taken from those huge changes of accountancy that the past fifteen years brought about. The mission of the profession is to establish independent institutions both professionally and financially, which can be a guarantee for solving those problems that the dissertation focused on.

Beside the provision of suitable circumstances it is equally important to prepare and educate young professionals with the right attitude.

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