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Article

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Journal of Accounting and Management Information Systems (JAMIS)

Provided in Cooperation with:

The Bucharest University of Economic Studies

Suggested Citation: Ghedrovici, Olesea; Mihaila, Svetlana; Erhan, Lica; Birca, Aliona (2014) : Transition to IFRS in the Republic of Moldova: general and practical aspects, Journal of Accounting and Management Information Systems (JAMIS), ISSN 2559-6004, Bucharest University of Economic Studies, Bucharest, Vol. 13, Iss. 2, pp. 259-280

This Version is available at:

<https://hdl.handle.net/10419/310555>

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Transition to IFRS in the Republic of Moldova: general and practical aspects

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Abstract: Implementation of IFRS was a controversial process in many countries. The case of the Republic of Moldova is not an exception from this rule. The initially established time framework (year 2009) for IFRS implementation could not be respected due to some objective reasons and it was postponed for 2011. However, even this 2-years postponement did not create all necessary conditions and bases for uncomplicated first-time application of IFRS. Insufficient number of chartered accountants who know the IFRS' rules and principles and how to apply them in practice, fiscal instability caused by frequent legislative changes, limits imposed by existing outdated IT systems and other factors in line with accounting traditions and perceptions give birth to many questions and difficulties in IFRS implementation in the Republic of Moldova. Authors describe the major obstacles and particularities of this process in the article, basing on analysis of regulatory framework, personal experiences and case study of the entity which applies IFRS since 2011.

Keywords: IFRS, transition, Republic of Moldova

JEL codes: M41

1. Introduction

During the last years accounting system of the Republic of Moldova is passing through serious and very much discussed reforms. A new Law of Accounting established a necessity to implement IFRS for some categories of entities; other companies will use new National Accounting Standards. The process, however, is

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² The authors would like to thank Nadia Albu and Catalin Albu for their suggestions on paper improvement.

complicated and multifaceted. The purpose of the paper is to figure out the existing problems and difficulties in the process of transition to IFRS on general level and describe some practical aspects of accounting procedures.

The methodology is based on national practices review with inclusion of legal framework analysis. It also incorporates personal experiences of authors, taking into consideration the fact that extended research works about Moldovan accounting system do not exist, despite some recent papers (Alexander & Ghedrovici, 2013; Ghedrovici & Mihaila, 2013). From the other side, in regard to the IFRS implementation in Moldova, research methods are very limited in time period (IFRS started to be applied in 2011) and number of entities, which use IFRS for their reporting. In this paper, the reminder is structured as follows: the second paragraph is dedicated to investigation of the main stages of development of accounting in Moldova in order to demonstrate the general framework which led to certain transformations. The third and fourth paragraphs propose analysis of difficulties and specific implications of the process of transition in the Republic of Moldova. Particularly, the features of new statements, based on IFRS are analyzed on example of financial statements of one of the biggest commercial banks of Moldova CB "Moldova Agroindbank" JSC.

As it has been mentioned above, there are not so many research works about Moldova, available in international journals and databases. The paper comes to fill this gap with comprehensive description of national regulatory base and consequent implications for the process of IFRS implementation in the country.

2. Development of accounting in Moldova and current state of the profession

Under the conditions of market economy and tough competition, accounting, by carrying out its role, may contribute significantly to the efficient management of an entity and optimize efforts when it is organized properly, considering the stage of economic development.

Economic development of the Republic of Moldova, the influence of internal and external factors, orientation of businesses towards consumer and the need of anticipating business risks have changed the role and tasks of accounting.

In Moldova, accounting evolution includes some basic phases marked by economic changes occurred internally and externally. As an independent state Moldova appeared in 1991, however, previous historical experiences provided major influences on the development of Moldovan modern accounting system (Alexander & Ghedrovici, 2013). The evolution of accounting in a newly created state the

Republic of Moldova can be described as a way of attempts and mistakes, but also a valuable experience for all stakeholders. We propose to divide this process into four phrases.

Phase I, starting with the declaration of independence in 1991 till 1997. During the first stage accounting was not divided into financial and management accounting. In spite of some restructurings implemented, it continued to be influenced by the Soviet administrative system and was characterized by imposing centralized plans and decisions, so the role of accounting in the management of a company was minimized. The accounting system was basically intended to meet the needs of economic information of fiscal and other state authorities. This situation did not fully envisage the necessities of other participants. The system did not foresee the separation of financial and management accounting. The absence of the latter did not ensure keeping the commercial secrets of entities as well as limited their opportunities to develop and apply autonomously the methods of management accounting, designed to meet enterprises' needs to store internal information. Methodological and organizational bases of accounting were over-regulated, which limited the ability of entities to form their own accounting policies, and also affected development and creative possibilities of professional accountants whose activity was oriented mainly towards the execution of simple operations. The elaboration of reforms in the areas of accounting, financial reporting and auditing in Moldova started in 1996. Several financial information disclosure requirements were drawn up in the Law on Joint Stock Companies in 1997 (with further amendments), and in the Law on Securities Market in 1998.

Phase II (1998 - 2006), was characterized by approving the Accounting Reform on 1 January 1998; management accounting was separated from financial accounting, which resulted in a complete restructuring of accounting system's organization and methodology. This stage also included the development of National Accounting Standards (NAS), comments on the implementation of the new system of financial reporting and the new Plan of accounts. The main part of NAS entered into force on 1 January 1998 in accordance to Accounting Reform Concept, approved by Government Decree no. 1187 of 24 December 1997 "About the Accounting Reform". NAS were based on International Accounting Standards (IAS) and, in fact, coincided with the IAS core requirements of 1990-1995 edition. This was confirmed by the World Bank consultants and by the comparative research conducted in 1999 under the TACIS Program "European Union – The Republic of Moldova". Legislative and institutional development was characterized by the decision of the Ministry of Finance to establish the Methodological Advisory Council to assist managing accounting in national economy and public institutions, which was approved by Government Decree no. 849 of 28 July 2006, with corresponding amendments.

Development and improvement of managerial accounting in Moldova derives from its need to correspond with EU Directives and IFRS. However, the legal framework of accounting did not meet in full measure the requirements of the market economy; it also did not allow users to get the necessary volume of information for decision making and did not provide transparency.

Thus, the Plan of Actions for European Neighbourhood Policy signed by the EU and Moldova was adopted on 22 February 2005 for an initial period of three years. The progress made on implementing the Plan was reviewed in European Commission reports in 2004, 2006, 2008 and 2009. Reports evaluating progress of RM were also published by the Ministry of Foreign Affairs and European Integration of Moldova in November 2007 and January 2009. As for the legal framework, there are 39 references in the Plan of Actions for the European Neighbourhood Policy EU-Moldova, including some specific requirements for the development and implementation of accounting and auditing laws and policies based on European and international standards.

Phase III (2007-2013). The System of Financial Reporting, except for certain types of entities, such as financial institutions, did not allow users to obtain the necessary financial information for making economic decisions and did not provide transparency. Also, the information in the financial statements was not available to external users, which have a negative impact on economic decisions made by them. In this context, it was crucial that the current accounting regulations correspond to the relevant IFRS and EU directives. The result was characterized by significant changes in the legislation marked by the development and approval of the Law of accounting no. 113-XVI of 27 April 2007 and the Law. No 61-XVI of 16 March 2007 on auditing activity. The National Coordination Council for strategic development of country and elaboration of auditing reform was set up and approved by Order no. 61 on 8 June 2007 by the Ministry of Finance. During this stage the International Financial Reporting Standards began to be applied in the Republic of Moldova according to the Government Decree no. 238 of 29 February 2008. An important step was the establishment of the Council of Audit Oversight in order to regulate and supervise the process of audit, which was approved by Government Decree no. 1450 of December 24, 2007. There was also created Financial Statements Information Service (now the Supplemental Financial Statements) which is a new institution that along with the National Bureau of Statistics performs the functions of collecting, processing and centralizing the financial statements, of the regular publication of financial reports' summaries, presenting them to users and monitoring compliance of deadlines for presenting financial reports by companies.

The initiatives to enhance accounting system in December 2008 led to the approval of the Plan of development of accounting and auditing in the private sector for 2009-2011, which confirms the commitment of the Government to the country's

economic integration into the European economy and also meets the economic and institutional conditions set out in the Plan of Actions for the European Neighbourhood Policy of EU and Moldova.

Phase IV (2014 - present). The major reforms in accounting and auditing were made in Moldova in 2006, and the concepts that should have been aligned with EU directives related to financial disclosure had already existed or were being introduced. At the same time, ongoing efforts were needed to match, to align the RM system and legislation to EU standards completely, as both 2007 Law of Accounting and Auditing Act of 2007 were only partially compatible with the EU directives and therefore required further changes. In this period in accordance with the Law of Accounting No. 113-XVI of April 27, 2007, as amended and supplemented; the Government Decree nr.1507 of 31 December 2008 "On approval of the Plan of development of accounting and auditing in the private sector 2009-2014 ", as amended and supplemented, the Ministry of Finance approved the orders no. 118 and 119 of August 6, 2013 where were approved the new National Accounting Standards , the new methodology in production cost accounting and calculation of production and services' cost, methodical accounting indications for individuals who run businesses and the new general Chart of accounts, which is recommended to be applied from January 1, 2014 and is mandatory from 1 January 2015. During this period the professional education for accountants and auditors is organized by developing training programs with special emphasis on the practical application of IFRS, ISA and Code of Ethics, providing the training materials related to the practical implementation of SIA and Code of Ethics , continuous coordination of vocational training with the Ministry of Finance and the Ministry of Education and Youth, offering assistance of international organizations for exchange of experience and participation in courses organized by professional associations. In 2011-2015, the Ministry of Finance plans to introduce IFRS for SMEs as optional standards of secondary level, at the same time tending to maintain the existing structure of the NAS, updating them in compliance with the recent developments in IFRS. Other activities planned are as follows:

- To establish a working group to prepare proposals for further amendments to the Law on auditing activity (first meeting was scheduled on September 8, 2010);
- To request permission from IFAC to use the official translation of SIA and the Code of Ethics for Professional Accountants and approve them in Moldova.

The main task of the Ministry of Finance's strategy in 2011-2015 is to implement the existing reforms and to ensure that there are no gaps in compliance. Currently, the Ministry of Finance is regulating the domain of accounting and audit of firms, but many aspects of accounting and auditing reform are covered by the National Bank, the National Commission of Financial Market and the Stock Exchange, the Financial Statement Information Service that is attached to the National Bureau of

Statistics, the Board of Audit Oversight as well as by all higher education institutions in the field of accounting and auditing of the Ministry of Education. The most important associations in the area are the Association of Professional Accountants and Auditors of Moldova (ACAP RM), Association of Auditors and audit firms in Moldova (AFAM) and the Association of Auditors and Management Consultants (AACM).

Moldova is one of the countries participating in a regional program REPARIS (Path to Europe Program of Accounting Reform and Institutional Strengthening), the purpose of which is to create a transparent and effective environment to establish policies and institutional framework for financial reporting in the corporate sector in Central, Eastern and South-eastern Europe.

Accounting profession comprises all economic activities that require technical knowledge of accounting, and as well sets the following objectives: pursuing the business activity in accordance with the standards of professionalism, a high level of performance of the services provided and a strict compliance with the public interests. As the accounting system should respond to changes that have happened due to the rapid evolution of economy in recent years, it can be enhanced by highlighting challenging issues of the accounting profession so as to help businesses adjust to the future. The accounting profession is influenced by certain factors such as: human factor, the connection between tax and accounting system, requirements for implementation and enforcement of NAS, quality of services and of course, as in other countries (Albu *et al.*, 2011), harmonization process and IFRS implementation.

The most important factor in attaining the accounting profession is the human factor, which is characterized by vocational education and professional ethics. Education in sphere of accounting is part of the globalization process, starting from university degree to continuous training of professional accountants. Activities supported by IFAC in improving International Education Standards sets (IES) for the accounting profession are important for the Republic of Moldova as national traditions of education and training of accountants will persist for a long time. IFAC experts propose to include the contents of IES, the educational requirements for professional accountants and professional specialists, in eight International Education Standards: IES 1 "Entry requirements "; IES 2 "Content of vocational education"; IES 3 "Professional skills"; IES 4 "Values, ethics and attitudes"; IES 5 "Practical experience"; IES 6 "Assessment of professional competence "; IES 7 "Continuous professional development"; IES 8 "Competency requirements for auditors".

In the Republic of Moldova the following organizations are responsible for implementing IES: higher education institutions, Association of Professional Accountants and Auditors (APAA) as a member of the IFAC and the Ministry of

Finance. Accounting and auditing education is assured by higher education institutions, professional organizations and the Ministry of Finance. The main role in accounting education lies on higher education institutions.

Professional ethics of accountants in Moldova is determined by the Code of Ethics of auditors and accountants of Moldova (Official Monitor of the Republic of Moldova no. 29-30 of 15.03.2001), that determine characteristics of accounting profession. The Code on professional conduct of auditors and accountants of Republic of Moldova sets rules of unique professional conduct, with the objective of ensuring the highest performance and maintain public confidence in the accounting profession. The Code on professional conduct of auditors and accountants of Republic of Moldova was developed taking into account the public interest regarding the rules of professional conduct of auditors and accountants. A professional accountant should be honest and fair while providing professional services. To become a professional accountant you should have the following qualities: fairness; professional competence and benevolence; confidentiality; professionalism, compliance with technical and professional rules.

It is important to mention the role of the “Big Four” is development of accounting practices and profession. The companies are actively involved in discussions of normative and legal documents provide critical recommendations and letters for the Ministry of Finance or Fiscal Service, doing this directly or by means of other associations, in which they are members – European Business Association, American Chamber of Commerce and others. In this sense, the voice of private sectors, companies is promoted and considered by the state authorities.

3. Implementation of IFRS in the Republic of Moldova: difficulties, problems, advantages

The necessity to meet the requirements of the global economy dictates the passage of entities from Republic of Moldova to accounting in accordance with the International Financial Reporting Standards (IFRS).

The implementation of the IFRS in Republic of Moldova was a difficult process, but at the same time an important one, having as primary objective the increase of transparency and reliability of financial statements inside the country, to shareholders, state authorities, as well as among investors and international financial organizations. General aspects regarding financial reporting according to IFRS in the Republic of Moldova are presented in table 1.

Table 1. General aspects regarding financial reporting according to IFRS

Mandatory character of adopting IFRS in Republic of Moldova	
Who applies IFRS at the actual stage in the Republic of Moldova?	Public interest entities.
Is IFRS application an obligation or a permission?	It is an obligation for all public interest entities, starting from 01.01.2012. IFRS, also may be adopted by other entities, including small and medium sized enterprises (SMEs) from the Republic of Moldova.
Are IFRS required or permitted for companies whose securities do not trade in a public market?	IFRS are required for all public interest entities even if their securities do not trade in a public market. Public interest entities are financial entities, investment funds, insurance companies, private pension funds, and entities whose shares are traded on the stock exchange. IFRS are permitted for other entities whose securities do not trade in a public market. Alternatively, the other entities whose securities do not trade in a public market may use Moldovan National Accounting Standards.
Translation of IFRS	
In which language are IFRSs used in the Republic of Moldova?	In the Republic of Moldova IFRS are translated in Romanian.
What is the translation process? Does this process ensure an ongoing translation of the latest updates to IFRS?	The Romanian translation is prepared under the direction of the IFRS Foundation. The standards with the newest modifications are published on the official page of the Ministry of Finance from the Republic of Moldova. The standards may be downloaded here: http://www.mf.gov.md
Application of IFRS for SMEs	
Are there any IFRS especially adopted for SMEs?	No
If not, is there any intention to elaborate IFRS for SMEs in the nearest future?	No, because at the actual stage there were elaborated new National Accounting Standards (NAS), according to which all SMEs should report their statements.

The main difficulties our country is facing in the context of adjusting national accounting system to international standards are the following:

- insufficient number of chartered accountants who know the IFRS' activity and how to apply them in practice, as there is theoretical knowledge but there is a lack of practical experience;
- lack of transparency in the local business environment;
- fiscal instability caused by frequent legislative changes;

- the difficulty to perceive the essence of IFRS at early stages of reform implementation in practice;
- limits imposed by existing outdated IT systems.

The main problems that arise in the implementation of IFRS in the Republic of Moldova are:

- most of the entities in the country are SMEs and IFRS implementation is expensive for them;
- insufficient financial resources, which derive from high costs posed by transition to IFRS and accounting reform;
- the prevalence of taxation on accounting, which occupy most of the accountant's time;
- educational materials do not meet the IFRS activity and study plans do not provide an adequate training for future specialists;
- inconsistencies between Romanian and Russian translation version of IFRS.

Nevertheless, the connection to IFRS provides a number of advantages for the Republic of Moldova including:

- the increase of transparency of the local business environment and foreign investment;
- ensuring comparability of accounting information worldwide;
- the reduction of corruption and undetected accounting and tax frauds;
- development of internal and external control;
- the finalization of main organs in the regulation of accounting and auditing;
- the increase of specialists in the field;
- developing international relationships with other countries;
- the increase of competitiveness and investment attractiveness of companies from Moldova;
- the increase of confidence in financial reporting in the Republic of Moldova;
- the modernization of educational system and its adaptation to international standards;
- development of Capital Market in Moldova;
- easier identification of the financial problems at the level of entities and addressing measures in order to combat them.

The harmonization of the legal framework of the accounting system in accordance with the requirements of IFRS will lead to the formation of an accepted international practice. As a result, it will be possible to strengthen the international financial statements for multinational companies and the potential foreign investors will have a greater confidence. IFRS also, ensure greater transparency in financial reporting, but also a better understanding of the financial performance of reporting entities increasing access to international financial markets (Nederita, 2012).

With the adoption of a global language that will allow reports to be perceived correctly the capital markets will be promoted and actively developed. The implementation of IFRS will also, reduce costs of financial reporting and external audit entities, eliminating the need for multiple sets of preparation of financial statements. And last but not the least, the implementation of IFRS facilitates economic integration of our country in European Union.

However, this transition to IFRS has positive effects on the local business environment. Thus, in comparison with advantages of implementing international financial reporting standards, the implementation costs are insignificant - about 20 to 30 thousand euro for large enterprises (500 employees), the main costs are related to staff training and provision of informational systems. In Table 2, we will find transit costs of Republic of Moldova to international standards and the country's ability to bear these costs.

Table 2. Transition costs to IFRS for the Republic of Moldova

National Priorities	Costs/ EURO					Inclusive	
	Consultation, elaboration, implementation	Training	IT Equipment	Managerial Expenses	Total	internal funds	state budget funds
Improving national reporting system	2 059 877	0	0		2 059 877	1 990 462	69 415
Identifying the main institution responsible for financial reporting	406 173	80 247	1 604 938		2 091 358	2 044 772	46 586
Supporting auditor profession	111 111	0	15 432		126 543	126 543	-
Modernization of education system	217 284	444 444	0		661 728	661 728	-
The project implementation management	0	0	13 580	332 185	345 765	345 765	-
Total cost	2 794 445	524 691	1 633 950	332 185	5 285 271	5 169 270	116 001

Source: Government Decision Nr. 1507 from 31.12.2008

Having analyzed the information contained in Table 3, we can mention that the budgetary resources were insufficient to form the legal framework for financial reporting; they covered only a small part of the expenses related to improving the regulatory framework for financial reporting, as well as the strengthening key institutions that are responsible for financial reporting. Other costs were covered by external financing and from other grants awarded to the Republic of Moldova in order to encourage the country in adoption and implementation of new standards.

Therefore, this expensive and difficult process of reforming the financial reporting regulatory framework has created an important step in the harmonization of Moldovan economic relations with other countries in attracting foreign investment, in capital market development, as well as in enhancing the competitiveness of domestic enterprises in the international market.

In Fig.1, we have represented the SWOT matrix analysis of the evolutionary process, in order to identify exactly the strengths, weaknesses, opportunities and risks that characterized the economic and financial situation of the Republic of Moldova in the implementation of international standards (Plan of Accounting and Audit Development, 2009-2014).

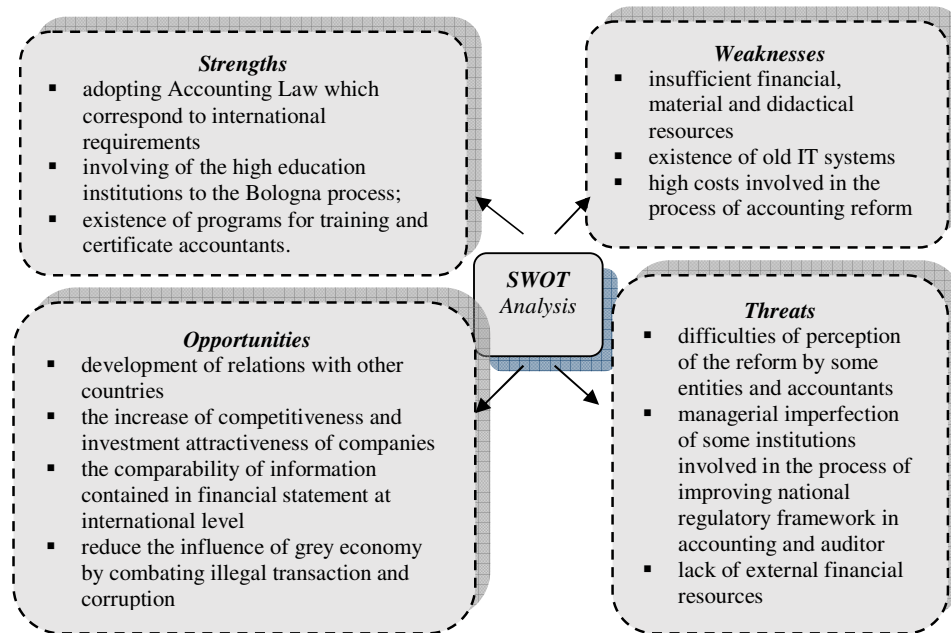


Figure 1. SWOT matrix analysis of the evolutionary process of IFRS

4. Transition to IFRS: some practical aspects

The transition from NAS to IFRS has included the following main stages:

1. Setting the date of transition to IFRS and the reporting database;
2. Identification of gaps between the existing accounting policies and IFRS from theselection of accounting policies and the elaboration of the chart of accounts in accordance with IFRS;
3. Preparation of the opening IFRS balance sheet, including:
 - identification of differences related to the recognition of assets and liabilities;

- identify the differences related to the evaluation of assets and debts;
 - adjustment of differences between NAS and related recognition IFRS and evaluation of assets and debts;
4. Reconciling items in the first IFRS financial statements;
 5. Presentation of the information in the first IFRS financial statements.

The accounting policies have been developed on the basis of the valid IFRS in Moldova and were different from one period to another, namely:

- accounting policies for calculating indicators in the opening balance sheet;
- proper comparative information accounting policies related to the periods presented in the first IFRS financial statements.

Accounting policies related to financial statements for the first IFRS were applied in such a way that it always has been considered that the financial statements were prepared in accordance with international accounting standards.

The two entities have used comparative accounting policies and two charts of accounts, accounts that are based on the provisions of NAS and IFRS. In the first stage entities prepared an opening balance, and at the time of the transition to IFRS entities have only applied IFRS 1 for:

- the first set of annual financial statements prepared in accordance with IFRS requirements and
- interim financial statements prepared in accordance with IAS 34 requirements, which are part of the period covered by the first set of IFRS annual financial statements.

Opening balance sheet was prepared in accordance with IFRS 1, with the application of retrospective information, but was not included in the first complete set of IFRS financial statements. In order to identify differences related to assets and liabilities recognition the entities have examined all their assets and liabilities at the date of transition to IFRS, regardless of whether or not they should be reflected in the balance sheet according to the CNS, namely:

- have recognized all the assets and liabilities which meet the criteria for recognition under IFRS requirements;
- have removed items of assets and liabilities whose recognition is not permitted by IFRS.

Assets and liabilities have been recorded in the last balance sheet drawn up on the basis of requirements of the CNS before the transition to IFRS, but which did not correspond to the requirements of IFRS recognition-were not included in the opening IFRS balance sheet. For example, assets and liabilities which are not recognized in accordance with IFRS requirements are:

- formation (registration) expenses;
- provision for costs of repair;

- investments in companies-daughters;
- small and low value objects (depending on the duration of the operation and of the significance of individual value).

IFRS 1 provides for the application of the standards and interpretations retroactively. At the same time, IFRS 1 provides some optional exceptions caused by avoiding the high cost of retroactive application of the standards and interpretations, as well as the impossibility of obtaining information relating to previous periods of transition to IFRS. Optional exceptions may be applied in full or in part in accordance with the decision of the Board of the entity. One of these exceptions relate to the use of fair value or revalued cost.

IAS 16 requires that tangible asset headings to be recognized initially at cost. Exception of IFRS 1 allows entities to use a value that is not depreciated cost in accordance with IAS 16, as the presumed cost transition to IFRS. There are three possible values that can be used as the cost involved at the time of the transition to IFRS. Any of these values can be used for any asset taken individually and is not strictly necessary as exception to be applied to all tangible asset headings or for a class. The entity can be used as charge:

- fair value determined at the date of transition to IFRS, by evaluating fixed assets amounted at the time;
- the value of fixed assets amounted to reassessed according to the NAS,
- from the date of transition to IFRS or at a recent, which is comparable to their cost or fair value (depreciated cost) adjusted to reflect the changes in the indexation of prices. The law presumed cost gets revalued at the date of revaluation. If the revaluation was carried out before the date of transition to IFRS, then depreciation shall be applied from the date of the revaluation date of transition to IFRS;
- fair value used as the cost involved which has been established in connection with the listing on the stock exchange, privatization or other specific event, before the transition to IFRS. In the case of fixed assets purchased after 1997 (the year of the last reassessment in accordance with the Government decision) entity may use the amounts determined in accordance with the requirements of the NAS at the time of the transition to IFRS, provided that appropriate adjustments, as appropriate, when recognition and depreciation thereof does not comply with IAS 16. For example, these tangible assets have been preserved and no depreciation was calculated. Tangible asset headings purchased/built up to their revaluation since 1997 must be valued in accordance with the requirements of IAS 16 at the date of transition to IFRS. IAS 16 permits to evaluate assets after their initial recognition under the cost method or revaluation method. The entity must use the same accounting policies for all periods presented in the first IFRS financial statements. For tangible assets as it means that the date of transition to IFRS entity must choose their

subsequent evaluation method and apply it to all periods included in the first IFRS financial statements. Using fair value as the supposed cost does not require an entity to use the revaluation method.

Before transition to IFRS, entities performing economic assessment according to: NAS 13 "Tangible assets", NAS 16 "Accounting of long-term tangible assets", NAS 17 "Accounting for lease (rent)". However, from the date of transition to IFRS tangible asset are valued on the basis of requirements of IAS 16 and intangible under IAS 38, while current assets are being guided by IAS2.

Assessment of tangible asset headings, in accordance with the requirements of IAS 16, IAS 38 and IAS 36 is accomplished by selecting one of the methods presented in figure 2:

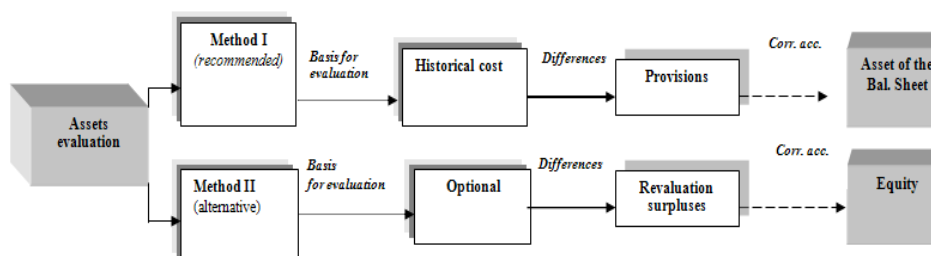


Figure 2. Asset measurement in accordance with IAS/IFRS

As noted, the provisions and reserves are results of reflecting the amounts from the measurement of the assets and, therefore, these methods will be examined. The choice of one of these two methods is carried out according to the basis of assessment used. The first method is based on historic cost-assessment, alternative method – on one of the following: market value, the fair value. Results of the evaluation are called differences of evaluation (revaluation). Accounting for differences in evaluation is carried out according to the basis of assessment used. Taking into consideration the specificity of the local accounting, assessment is carried out according to the first method, and the differences in evaluation scores are recorded through the provision for impairment. In situations when the financial report contains important unchecked values as a result of the requirements of the principle of prudence IAS 16 recommends that every 3-5 years assets to be revalued. The input value will be adjusted to the market value, and the revaluation differences will be recorded by changing the amount of the asset simultaneously with secondary capital via asset revaluation reserves.

In the situation when entity refuses to use the input value, then it can use one of the following databases: current value or the present value. Value differences results in this case are directed to expenses. Another problem of accounting consists of

determining factors for selecting a particular assessment databases. In the Republic of Moldova, the basis of assessment of financial statements serves the accounting value, but because of assets differences it cannot be measured in the same way. The input value can be combined with other assessment bases, namely:

- goods and materials stocks are valued on the basis of net realisable value;
- securities are recorded at current value.

Differences from evaluation on account of provisions and reserves are the result of the assessment based on historical cost. Developed countries gradually exclude the input (initial) value and also the provisions for impairment due to the inefficiencies of this database at a certain stage of economic development. In the table 4 the main differences between NAS and IAS regarding the bases for evaluation are presented.

Table 3. Comparative analysis of measurement basis

Method for evaluation	Basis for measurement according to NAS	Basis for measurement according to IAS
➤ method I:		
- Intangibles, property, plant and equipment	- initial cost	- historical cost
- Inventory	- the lower of the cost and NRV	- the lower of the cost and NRV
➤ method II:		
- Intangibles, property, plant and equipment	- result of revaluation	- true or adjusted value
- Inventory	- current or realizable value	- true of realizable value

Analyzing the evaluation databases of the IAS and NAS is observed that the words is slightly different because of the translation, but the essence is the same. For example, the value revalued is the same as current value stated in the standards, the market value at the date of revaluation. Therefore, NAS do not prevent using of other assessment bases, rather but the level of development of economy and the politics of that country is the reason. Evaluation is one of the most actual problems of the accounting. Selecting one of the three bases of assessment involves, in fact, the timing for recording in the balance sheet of the asset:

- Past – at historical cost;
- Present at true value;
- Future - at adjusted value.

The difference in respect of depreciation determined according to NAS and depreciation determined according to IFRS is reflected as income or as expenses in the current period in the profit and loss account. Entities adopting IFRS for the

first time should provide information about the impact of the process of transition from the NAS to the IFRS on financial position (balance sheet), the financial results (profit and loss). This information enables users of the financial statements to understand the adjustments made by the entity in the process of transition to IFRS.

Another problem lies in the reflection of the differences arising between the NAS and IFRS requirements for recognition and assessment of assets and debts resulting in adjustments which are recorded in equity (balance sheet) or to the current revenue and expenditure (profit and loss). Such adjustments arise as a result of transactions and events that occurred before the date of transition to IFRS. The difference between the value of fixed assets determined according to the NAS and IFRS that occurs as a result of the respective decision is recorded through equity accounts and is reflected in the balance sheet.

Adjustments resulting from differences between NAS and IFRS that may arise during the period are recorded as incomes or expense and are reflected in the profit and loss account. For example, in case of amortization, the indicator "fixed assets" in the balance sheet drawn up according to the NAS, which included fixed assets submitted by operational lease, in the balance sheet drawn up in accordance with IFRS should be referred to a new account for real estate investment according to IFRS and should be accounted separately from fixed assets reflected separately in the financial statements.

5. IFRS application in the Republic of Moldova (case study)

According to the Report on the Observance of Standards and Codes in Accounting and Auditing in Moldova, which was realized by the World Bank and the International Monetary Fund, at this stage, in the Republic of Moldova there exists 49 public interest entities and about 50 000 active entities (World Bank, 2013).

CB „Moldova Agroindbank” JSC is an example of lending financial institution from the Republic of Moldova that prepares financial statements according to the IFRS, issued by The International Accounting Standards Board (IASB).

Commercial Bank „Moldova Agroindbank” JSC, prepares consolidated financial statements, which are presented annually. Consolidated financial statements include financial statements of CB „Moldova Agroindbank” JSC and its subsidiaries – MAIB Leasing JSC and Moldmediacard LLC- on December 31 of each year.

A financial reporting model of CB „Moldova Agroindbank” JSC, is presented in accordance with IFRS and with NAS requirements, illustrating a comparative analysis of the obtained results.

Table 4. Balance Sheet indicators of CB „Moldova Agroindbank” JSC

NAS		IFRS	
Indicator	Sum, thousands lei	Indicator	Sum, thousands lei
Total Assets	9 201 531	Total Assets	9 618 812
Total Liabilities	7 439 194	Total Liabilities	7 624 404
Total Owner's Equity	1 7623 337	Total Owner's Equity	1 993 309
Total Owner's Equity and Liabilities	9 201 531	Total Owner's Equity and Liabilities	9 617 713

After analyzing the results from the table 4, we can mention a tendency of increase in the total value of bank assets and the total bank liabilities (total liabilities and equity) when the statements are prepared according to IFRS.

Thus, the total value of the balance sheet in the case of preparing statements according to NAS is 9 201 531 thousand lei, while according to IFRS is 9 617 713 thousand lei, which is 416 182 thousand lei greater. In order to study more detailed the incidence of reporting according to IFRS, in the table 6 we present the share of owner's equity and liabilities, in the amount of total bank liabilities (owner's equity and liabilities).

Table 5. Share of owner's equity and liabilities in the amount of total bank liabilities

NAS		IFRS	
Indicator	Share, %	Indicator	Share, %
Total Liabilities	80,85	Total Liabilities	79,27
Total Owner's Equity	19,15	Total Owner's Equity	20,73
Total Owner's Equity and Liabilities	100	Total Owner's Equity and Liabilities	100

From the analysis of data in the table 5, it results that according to IFRS, equity share in the amount of total liabilities (about 21%) is greater than in the case of reporting according to NAS, when its share in total bank liabilities was about 19 %. We can also state that the share of bonds in accordance with IFRS tends to be lower (79%) than when using NAS (81%).

Table 6. Bank net income

			NAS	IFRS
			Sum, thousand lei	Sum, thousand lei
Indicators				
Net income before taxation			282 417	290 857
Net profit			282 362	290 802

The result of data analysis from the table 6, shows that the net profit obtained by the CB „Moldova Agroindbank” JSC, from 31.12.11 is higher in the case where the draft of financial statements in accordance with IFRS requirements consists 290 802 thousand lei.

At the same time, the net profit obtained by the bank in the case of reporting to NAS, consists of 282 363 thousand lei, which is 8 440 thousand lei less. Likewise, reporting in accordance with IFRS requirements, the net income before taxation is higher than the income before taxation obtained in the case of reporting to the IFRS requirements. Therefore, following the adoption of international standards by the bank, the income before taxation increased. Nevertheless, with the increase in the taxable base, even if income tax increases, net profit increases too and contributes to increasing the company's market value.

Table 7. The cash flow analysis

Indicators	NAS Sum, thousand lei	IFRS Sum, thousand lei
Net cash flow from operating activities	(653211)	(622886)
Net cash flow from investing activities	(24914)	(37371)
Net cash flow from financial activities	191969	175293
Net flow before extraordinary posts	(486155)	-----
Net flow after extraordinary posts	(486155)	-----
Total net flow	(494353)	(494095)
Cash and equivalents at the end of period	1703631	1706618

In the result of data analysis from the table 8 it is noticed that, the value of each of indicators presented in the table is bigger when is reporting according to IFRS requirement than according to the NAS requirements.

Table 8. Relative impact of applying IFRS in the CB Moldova Agroindbank

No.	Indicators	NAS	IFRS	Relative impact (%)
1.	Total assets (thousand lei)	9 201 531	9 617 713	+ 4.52
2.	Owner's Equity (thousand lei)	176 233	1 993 309	+ 13.11
3.	Liabilities (thousand lei)	7 439 195	7 624 404	+ 2.49
4.	Total liabilities (thousand lei)	9 201 531	9 617 713	+ 4.52
5.	Net profit (thousand lei)	282 362	290 802	+ 2.99
6.	Return on equity (%)	16.02	14.59	- 8.93
7.	Solvency (coefficient)	1.23	1.26	+ 2.44
8.	Global autonomy ratio (coefficient)	0.19	0.21	+ 10.53
9.	Debts to capital ratio (%)	80.85	79.27	-1.95

Therefore, reporting in accordance to IFRS requirements generates an increase in total bank assets with 4.52%, an increase in total liabilities with 2.49%, and a significant increase of owner's equity with 13.11%. At the same time, higher financial results are recorded, net profit increases with 2.99 % in the case of reporting according to IFRS, comparing to NAS, and as a consequence a higher taxation at the payment of different assessments and taxes appears. In addition, the solvency coefficient and the global autonomy ratio increase too, which is positively appreciated because the confidence in economic and financial stability of the institution is rising.

Simultaneously, the return on equity is decreasing with 8.93% thanks to the considerable increase of owner's equity value, and with this the costs of holding capital increases too, which led to the decrease of the return on equity. Another fact that can be positively appreciated is the reduction of debts to capital with 1.95%.

In conclusion, beside that reporting in accordance with IFRS at the level of CB "Moldova Agroindbank" JSC leads to a growth of financial results, and at the same time increases the income tax, however, there are also, some advantages of IFRS requirements application, such as that it creates a strong image on the market, offers a financial stability at the level of bank sector as well as exposing a higher credibility to the clients and business partners.

6. Conclusions

Since its independence from the Soviet Union in 1991 the Republic of Moldova has passed through extensive reforms in different spheres, including in accounting. The new National Accounting Standards and Chart of Accounts, which came into force in 2014 are envisaged to bring the accounting system closer to recent economic realities. IFRS implementation is also a response to regional political and economic tendencies, Moldovan choice to follow the European course of development.

Examples and aspects raised in the paper demonstrate that the process of transition to IFRS is not easy from many points of view. Many factors are implicated, such as specific accounting procedures difficulty, level of economic development and acceptance of new rules, political will. However, taking into consideration the idea that accounting is a language of business and analogically to some estimation about the fact that more than 80% of people in the world more or less speaks English, more and more entities should speak the same accounting language. IFRS is a path towards this order. Analysis of financial statements prepared according to IFRS in comparison with those compiled basing on NAS (example of the “Moldova Agroindbank”) denotes differences in both quantitative and qualitative terms. The practice of IFRS application in Moldova is, however, not very large and well reasoned conclusions will be relevant after some years of reports preparing and presentations in accordance with IFRS principles.

For big companies with aspirations to attract foreign investments IFRS implementation presumes more comparability, accessibility of data, increase of confidence and reductions potential risks for investors. For SMEs, however, IFRS implementation in Moldova is irrelevant and costly. Therefore, all future regulation changes, promotion of certain reforms should be well balanced and taking into consideration interests of all parties, including small business.

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