ACCOUNTING AND FINANCIAL SYSTEM REFORM IN EASTERN EUROPE AND ASIA

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PREFACE

Much has been written about the economic and political problems of countries that are in the process of changing from centrally planned systems to market systems. Most studies have focused on the economic, legal, political and sociological problems these economies have had to face during the transition period. However, not much has been written about the dramatic changes that have to be made to the accounting and financial system of a transition economy. This book was written to help fill that gap.

This book is the second in a series to examine accounting and financial system reform in transition economies. The first book used Russia as a case study. The present volume in the series examines some additional aspects of the reform in Russia and also looks at the accounting and financial system reform efforts that are being made in Ukraine, Bosnia & Herzegovina, Armenia and five Central Asian republics.

The series focuses on accounting reform, including the adoption and implementation of International Financial Reporting Standards; accounting education in both the universities and the private sector; accounting certification; corporate governance; and taxation and public finance.

Chapter 1

INTRODUCTION

Much of the information included in this book is based on the authors' experience of living and working in Eastern Europe and the former Soviet Union. Some data was gathered during the course of interviews with a variety of accounting practitioners and educators. Much of our research findings tended to confirm what was discussed in the existing literature. Thus, part of this book updates and expands on existing literature. However, new information was also uncovered that has not yet been discussed or addressed in the literature.

Most of the chapters in this book were first presented as conference papers, which improved the quality of the final product in several ways. When the various manuscripts were in the early draft stage a series of anonymous reviewers provided suggestions that led to improvements in subsequent drafts. Comments from participants at the conferences resulted in further changes. A few of the chapters won the conference *best paper* award.

This book examines not only accounting reforms but also other aspects of financial system reform, in the broad sense of that term. Issues relating to corporate governance, foreign direct investment, taxation and public finance, accounting education and accounting and finance certification are also discussed.

Reformers of accounting and financial systems in transition economies encounter several common problems regardless of the country. We have found that translation is a common problem. Sometimes terms simply do not exist in the target language for certain accounting and finance concepts. Translators have to somehow overcome these problems. Another problem relating to translation is finding translators who know both English and the target language as well as accounting. In some countries, such people are difficult or impossible to find. What one must do in such cases is find good translators, then train them in accounting terminology.

Another common problem we have encountered, regardless of the country being examined, is the quality of materials that have already been translated into the target language. First editions are especially prone to mediocre translation. One particularly interesting example comes to mind. When the first edition of the Russian translation of the International Accounting Standards (IAS) was issued during the late 1990s, the translators left out the word "not" in one place. It was in a section that gave a list of things not to do. But because that word was missing, readers of that page were led to believe that everything on the list were things that *should* be done, when in fact they were things that should *not* be done. Thus, readers of the

Russian edition were prone to do exactly the wrong thing for a half decade or so, until the second Russian edition was published. It is not clear whether the second edition corrected this mistake, either, so perhaps current Russian readers continue to be misled by this omission.

Although translation is a common problem that must be faced and dealt with in any transition economy, it was not the only problem we found. There is also a problem of what might best be called inertia. Many accountants in the transition economies we studied simply do not want to change what they are doing. In some cases it is because they do not see the need for change. In other cases it is because they are afraid, or even terrified of change. Whenever there is change, there are winners and losers. Those who perceive themselves as being losers tend to resist change. The older generation of accountants, especially those who are approaching retirement age, also tend to resist change. There is a certain logic to this position. Why go through the considerable effort of learning the new rules if you are only a few years away from retirement? But problems result when the people who think this way also try to prevent changes from taking place. It is one thing to decide not to upgrade your own skills. It is quite a different thing to work toward maintaining the status quo, which is what some older accountants who are also in positions of power have done in some transition economies.

Another common problem of implementing accounting reforms that we have found to be common to the transition economies we have studied is education. Accountants who are already in practice need to learn the new rules. The new generation of accounting students need to be taught the new rules. But there is a shortage of professors who are capable of teaching the new rules, especially in the early years of reform. Professors have to be trained before students can become exposed to the new rules that their country has adopted.

Another problem that is common to all of the countries we have studied is the credibility of accounting certification. In some transition economies it is possible to buy an accounting certification. In other cases accounting certification is not credible because the examinations are too easy to pass and do not test on international accounting and auditing standards.

International investors do not place much credibility in the financial statements of companies that are audited by local audit firms. Sometimes this lack of credibility is because of the widespread perception that audit opinions can be bought. Another reason is because many individuals who work for local audit firms have little or no knowledge of international accounting and audit standards. However, this lack of knowledge has not always proven to be a problem for the local accountants and auditors because there is a general lack of demand for the preparation of financial statements that are based on international financial reporting standards.

Most companies that have such statements have them because they want to attract foreign capital. They prepare U.S. GAAP statements if they intend to list their shares on an American stock exchange or if they intend to borrow from a bank in the United States. They prepare IFRS statements if they want to raise capital in London or another European city. Enterprises that do not intend to raise foreign capital have little or no incentive to go through the time, trouble, effort and expense of issuing IFRS statements because there is little or no demand for such statements. In many countries, the statements are prepared for the tax authorities, since financial accounting tends to be tax driven.

This book discusses the process of accounting and financial system reform in several East European and former Soviet countries. Chapter two examines the problems Russia faces in adopting and implementing International Financial Reporting Standards (IFRS), which many Russian companies are now required to follow. Chapter three discusses accounting reform in Ukraine. Chapter four discusses Armenia, a former Soviet republic.

Part two looks at accounting education and certification. Although the emphasis is on accounting education in universities, some time is also spent discussing accounting education for practitioners. One chapter is devoted to private sector accounting education in Russia.

Accounting certification is the subject of another chapter. One of the main problems of accounting certification throughout the former Soviet Union and the former centrally planned economies of Eastern Europe is the lack of credibility. There is a new regional accounting certification program aimed at overcoming this pervasive lack of credibility. It started in Central Asia a few years ago and is now spreading to some of the other former Soviet republics. Certification is at two levels and all exams are given in the Russian language, which makes the exams accessible to a wide audience. Prior to this program, any accountant in the former Soviet Union or centrally planned East European country had to take a certification exam in English in order to have a credible accounting certification.

Part three examines recent changes in corporate governance in various East European countries. Companies need good corporate governance practices not only to run efficiently but also to attract foreign investment. Yet present corporate governance practices leave much to be desired. Transparency and shareholder rights are relatively new concepts in Eastern Europe and the former Soviet Union. Traditionally, there has been a tendency to hide relevant facts rather than disclose them. This view must change if companies in transition economies are to have good corporate governance practices.

Part four presents a comparative study of Russia and some other transition economies in the area of taxation and public finance. Prior to the collapse of the former Soviet Union, tax systems were much different. There were no private corporations to tax and the government owned all assets. As enterprises began to become privatized and as new enterprises were formed in the private sector, tax systems had to be developed to raise the funds needed by government. This section compares some transition economies to some more developed economies in the area of public finance.

The final chapter addresses the issue of tax evasion and presents the results of a survey taken of Romanian students and professors. This volume is the second volume in a series that addresses problems of accounting and financial system reform in transition economies. The first volume focused on Russia. Other volumes will look at other transition economies, or specific areas, such as public finance.

PART ONE

ACCOUNTING REFORM

Chapter 2

ACCOUNTING REFORM IN RUSSIA

Abstract

This chapter examines factors that affect the accounting system in Russia as it moves toward the adoption and implementation of International Financial Reporting Standards (IFRS). Current rules are examined and selected Russian Accounting Standards (RAS) are compared to IFRS, followed by a discussion of how closely Russian accountants actually follow the rules and the factors that affect accounting practice. The reliability of Russian financial statements is also discussed, followed by a discussion of Russia's options for the future, which groups support the various options, and the likely outcomes. Conclusions are presented in the final section.

INTRODUCTION

Since the early 1990s, Russia has been transformed from a rigid centralized economy into an emerging market economy. Of course, the transition has been and continues to be painful. Practically all spheres were affected – the economy, politics, culture, the social sphere, education, the army, and so on. Accounting is not an exception. It is directly connected to the transformation taking place in the realms of finance, taxation and entrepreneurship.

The direction of the change in accounting and the transformation of accounting rules toward the adoption and implementation of International Financial Reporting Standards (IFRS) were set by legislation. The process was started with the passage of the "Programme for the Reformation of Accounting in accordance with International Accounting Standards," approved by the government in 1998 (Programme 1998).

In this chapter we examine the current stage of the reform process, how far Russian regulations have moved the country's accounting system toward the path to IFRS, how the new regulations are implemented in practice, why practices are evolving in the present direction, which portions of the reform still need to be implemented, which problems exist now and which problems might emerge in the future.

This chapter is structured as follows. In the first section, factors affecting the introduction of IFRS into accounting practice are examined. The second section looks at the recent past and the current state of accounting regulation. A comparison is then made of IFRS and the Russian Accounting Standards (RAS) from a conceptual perspective. Some asset and liability accounts are examined in the light of IFRS. We then look at the extent to which Russian accountants follow the rules and the factors affecting the process. Conclusions about the reliability of Russian financial statements end the second section. In the third section we examine the various options for moving forward, which groups represent the various viewpoints and the arguments offered to support the various viewpoints (Nikolaeva 2003). There is also a discussion of the problems likely to be encountered on the path of transition to IFRS. We present our conclusions in the final section. We did not include sample Russian financial statements. However, such statements may be found in Alexander and Archer (2003).

Factors Governing the Implementation of IFRS by Russian Companies

It is possible to identify two groups of factors that are driving the transformation process toward the implementation of standards that comply with IFRS. The first group might be characterized as external or exogenous factors that affect a company. This group consists of potentially interested parties such as investors and creditors, who are interested in a company's transparency. The degree of satisfaction this group has with the quality of a company's financial statements, while not the only factor involved in the investment decision, directly affects whether they will form a relationship with a particular company. A high degree of transparency increases confidence and decreases perceived risk. That, in turn, reduces the cost of attracting capital. The existence of financial statements prepared using IFRS or US-GAAP is one of the mandatory terms for Russian companies that want to borrow from Western banks. Additionally, Russian securities (shares) are just coming to the stock exchanges, so the real prices for Russian company shares, and the real value of Russian companies, is still in the process of formation. Information about Russian companies that is presented using the usual language of business – accounting – with statements prepared using either IFRS or US-GAAP will help the stock market to reflect the real value of the listed Russian companies.

The second group of factors that are acting as a force for change are internal or endogenous factors. Company management needs reliable, high quality information to make efficient decisions. Historically, as shall be discussed below, financial information that managers receive has been prepared according to Russian accounting rules. This information was in most cases little more than a compilation of categorized accounting entries. Such bookkeeping information was of little help in providing managers with the information they needed for decision making purposes. It did little to help them plan or exercise control. The bookkeeping system was set up to tell managers what happened yesterday, not to help them to predict what will happen in the future. Adopting IFRS or US-GAAP assists Russian managers in the decision making process more than do RAS. Thus, there is an internal demand to adopt IFRS or US-GAAP. While some Russian companies decide to adopt US-GAAP rather than IFRS, the remainder of this article will refer only to IFRS in the interests of simplicity.

The presence of financial statements prepared in IFRS format has other positive effects as well. In addition to enhancing a company's transparency such statements also help to strengthen corporate governance and increase confidence and trust between managers and shareholders.

The Russian Accounting System: A Short History

The accounting system in any society is directly related to the level of political, economic and legal development of that country. It is always a result of, and a *servant* of the environment in which it exists. It develops with, or is degraded by its surroundings. In order to understand what the accounting system is at the beginning of 21st century Russia, it is necessary to take a short look into the recent past of Russian accounting.

For more than 70 years, until the end of the 1980s, there were almost no private enterprises in Russia. Everything belonged to the state. Under conditions of a planned, centralized economy, accounting was aimed at discovering and monitoring deviations from set models of enterprise behavior. One of the major functions of accounting was to collect statistical information, starting from the bottom and moving vertically to the higher levels of the Soviet hierarchy – enterprise – association – ministry – republic – country. The data was not consolidated, merely summarized. Accounting data formed the basis for control and execution of the plan and as an indicator for the development of future plans. Indexes like profit, profitability, solvency and so forth played no role, especially if the price setting process was centralized throughout the whole country (Gorelik 1974; Lebow & Tondkar 1986). A secondary function of accounting was the safety and controlling of assets that belonged to the state. Actually, a main function of an accountant was to make entries and fill in registers, which are more of a bookkeeping nature. Every step of this process was prescribed by numerous and detailed instructions. All companies employed the Uniform Chart of Accounts, issued from Moscow, perhaps adjusted for some industries. Unification was one of the basic principles of accounting under the centralized Soviet system. As for the double-entry principle, communists were not able to create a "socialist" alternative to it, so they employed it, with Lenin's approval (Shama & McMahan 1990).

The coming of "glasnost" to politics at the beginning of the 1990s brought with it the appearance of private property. Privatization, starting in 1992, converted most Russians into nominal owners of former state enterprises. Many completely new private companies appeared. The first companies with foreign capital were founded. The last decade of the 20th century might be called a revolution that Russia went through. The revolution encompassed economics, legislation and culture. As a consequence, and accompanying this change was the necessity of making crucial and substantial changes to the accounting system. Many changes have occurred and they continue to occur as the new accounting spreads throughout Russia. Some of these changes are the subject of this chapter.

THE LEGAL BASE

The Russian legal system is based on civil law, much like Germany, France, Japan and numerous other countries. The main users of financial information are not (or were not, at least) shareholders, like in the common law countries (US, UK), but rather state agencies and creditors (especially banks). Also, unlike common law countries, where standards are developed in the non-state sector by professional representatives, in civil law countries accounting regulations are made by state organizations. Thus, in Russia, Government Decision 6 March 1998 #273 states that one of the Finance Ministry's functions is to provide "methodological regulation of accounting and financial reporting" (except for banks). The system of normative regulation of accounting in Russia consists of four levels, depending on the status of a regulated standard act. Status is determined by the level of the legislative act (Federal Law, Provision on accounting, etc.) and by the extent of the act's consequences.

Table 1*
The Scheme of Accounting Regulation in the Russian Federation (RF) (with examples of standard acts, related to one or more levels)

Level	Example	Status	
		Kind of document / Body, responsible for accepting	Obligation to follow (+)
1 level	FL "On Accounting" (Fed. Law #129)	Federal Law (FL)	+

	"On Joint-Stock companies" (Fed. Law #208) "On Limited Liability Companies" (Fed. Law #86) FL "On the Central Bank (Bank of Russia)" (Fed. Law #86)	FL FL FL	+ + +
	Programme for the Reformation of Accounting in accordance with International Accounting Standards	Government of RF	+
2 level (nor-mative-legis- lative acts)	Accounting Standards (PBU); Statement on accounting rules for banks	Ministry of Finance (MF) Central Bank (CB)	+ +
	Methodological Instruction (Instruction on Accounting 1999)	MF, CB	+
3 level	Chart of Accounts and Instruction of its implementation	MF	Recommended
	Accounting Standards, Methodological Instructions (Instruction on Accounting 1999)	MF, Other ministries	Recommended
4 level	Local normative acts, adopted on the company level	Company	-

*Source: The Table was developed by the authors

The *First Level* consists of standard acts that actually constitute accounting legislation. These laws include the Law "On Accounting," other Federal Laws, President's Orders and Governmental Decrees (Fed. Law #129, prov. 3). The place of these laws in the total scheme is illustrated in Table 1. It is necessary to mention that the Law "On Accounting" is the main legislative act, which determines the main methodological base, the content and procedures for financial statement presentation.

The *Second Level* consists of Accounting Standards, other standard Acts and methodological instructions that have passed through the Justice Ministry (JM) of the Russian Federation's registration process. According to prov. 10 President's decree 23 May 1996 #763 "On the Procedure for Publishing and Enacting Presidential Decrees, Governmental Decrees and Normative Legislation Acts of Federal Executive Bodies" (On the Procedure 1996), legislative acts that have not passed the state registration process cannot have legal consequences, as they have not come into force. It is therefore not possible to refer to such decrees as having legal force in a court of law.

The *Third Level* includes the Chart of Accounts and Instructions for its Implementation; some Accounting Standards, Instructions, etc. The difference between the second and the third level is that the third level is not mandatory but rather a set of recommendations because these items have not passed through the appropriate registration procedure. The "Chart of Accounts and Instruction on its Implementation," approved by MF Order 31 October 2000 #94, which has been in force since 2001, is not referred to as a normative-legislation Act (Chart of Accounts 2000). In contrast to previous Chart of Accounts status, the new law determines only the general rules for accounting entries. Its status, which is to provide recommendations only, was confirmed by the Justice Ministry. This reduction in legal status seems to be a logical step on the path to the transformation of the accounting system, by changing the emphasis from bookkeeping (making entries) to end results (financial statements).

It is necessary to point out that sometimes acts (such as Accounting Standards or Methodological Instructions), depending on the state registration of a certain act, can be categorized on the second or third level. For example, "Methodological Instructions on Fixed Assets Accounting," approved by MF Order #33 dated 20 July 1998 has not passed the state registration procedure by the Justice Ministry because the Justice Ministry stated that the Instruction does not have to be registered. It is a Methodological Act of the third level. On the other hand, "Methodological Instruction on Inventory," approved by MF Order #119 dated 28 December 2001, has been registered by the Justice Ministry, which makes it a second level act, in spite of the fact that it is also of a methodological nature.

The *Fourth Level* consists of acts that are developed by a company and that are obligatory for employment in the organization's framework. It is a chart of accounts that a company processes itself on the basis of MF "Chart of Accounts." Accounting Policies. Financial Statement forms are also developed by the company on the basis of recommendations provided by the Ministry of Finance (MF) (On Financial Statements Forms 2003).

The above scheme of accounting regulation is built into the classification of regulated acts, depending on their legal status.

All organizations are divided into a few separate categories. Different groups employ different rules for accounting and financial reporting.

Banks and other credit organizations. Unlike the other groups, the accounting and financial reporting rules for banks and other credit organizations are set by the Central Bank (CB) of the Russian Federation. It is one of the functions of the Central Bank as set forth in prov. 4 (p. 14) of FL#86 "On Central Bank", dated 10 July 2002. Based on this law, the Central Bank developed "Statement on Accounting for Credit Organizations Located within the Territory of the Russian Federation." It is interesting to note that this is the only second-level act in the Russian normative regulations (although it applies to a restricted subset of companies – banks) that mentions and defines some accounting concepts and rules, including the going concern assumption, consistency, prudence (conservatism in American English), timeliness, and substance over form.

Normative acts, which will be examined here, always contain a proviso that they do not apply to banks and other credit organizations. As for IFRS, it is necessary to point out that Russian banks started converting to IFRS before other Russian enterprises. Starting in 2004 all Russian banks are required to issue financial statements that comply with IFRS (in addition to statements based on Russian Accounting Standards, which will remain in effect until 1 January 2006) (On transition of Banks 2003).

1. *Sub-national governmental units (different levels of governments -- state, municipal, public schools, hospitals – that take money from budgets)*. At present the Ministry of Finance of the Russian Federation is the body that carries out the accounting regulation of sub-national governmental units. The present chapter will not examine such accounting rules, since they do not apply to the private sector and examining them would take us too far afield of the main topic. Normative acts, which will be examined, in most cases have a proviso that they do not apply to sub-national governmental units.

2. *Other companies that might be subdivided into the following groups*:

2.1. *Companies that apply a pared-down (simplified) tax system*. According to tax legislation, a certain group of companies (mostly small businesses that have annual sales not exceeding $500,000) can apply a pared-down tax system. At this time they do not have to follow accounting rules except for the rules that pertain to fixed assets and intangibles. These companies account for sales using the tax rules (p. 3 prov. 4 of FL "On Accounting"). It might also be mentioned that this is the only category of companies that *should* or *can* apply the cash method, because the cash method is stipulated for the pared-down system by the tax rules. As for financial statement preparation, relieving such companies from the requirement of preparing financial statements is not provided directly by law.

2.2. *Companies that do not fall into any of the above categories*. This category includes all companies, regardless of line of business or ownership, that are covered by the legislation mentioned in

Table 1. They are obliged to comply with the accounting rules and to produce financial statements according to Russian Federation rules.

In addition, "Statement on Accounting and Financial Reporting in the Russian Federation," prov. 91 (approved by the Ministry of Finance of the Russian Federation Order #34H, dated 29 July 1998, which is a second-level Act according to our classification) stipulates that companies having subsidiaries or affiliates must produce consolidated financial statements. There is a Methodological Instruction on the preparation and presentation of consolidated reporting. However, there are no rules requiring companies to provide consolidated statements to the government authorities.

Legal Changes in the Last Decade

Changes in the legal system began to take place in the early 1990s when a new Chart of Accounts was approved and the format of financial statements was changed to more closely correspond to those used in developed market economies. The interest in accounting rose remarkably during this period, partly because the revolution in taxation placed increasing emphasis in financial accounting data. The principal changes concerning accounting regulation, in the authors' view, had to do with the way the government viewed accounting and its place in the scheme of things. Examples of this change in viewpoint include assertions that:

- the main function of accounting and financial reporting is to provide interested users with complete and reliable information on enterprise activity and its financial condition to help them make informed decisions;
- the users of financial statements consist of internal users – managers, founders, property owners – and external – investors, creditors and other.

The first major Act to declare the new direction that accounting and financial reporting should take at the state level was the "Programme for the Reformation of Accounting in Accordance with International Accounting Standards," approved by Government Decree #283 dated 6 March 1998 (a Level One Act). The Programme stipulated that the purpose of accounting regulation "will consist of providing access to all interested users to information that reflects an unbiased picture of financial position and financial results of enterprise business activity. In order to achieve this result the following issues are to be resolved:

- shifting emphasis in accounting regulation from the process of accounting procedures to the financial statements;
- financial accounting regulation;
- the effective combination of legislative injunctions with professional organizations' recommendations;

- careful implementation of International Accounting Standards for national regulation."

The Programme included Plans of Action for the period 1998-2000. It was planned that by 2000 the whole regulatory system would be reformed. The results of the move toward accounting reform included:

1. A set of Accounting Standards (Poloshenia po Buhgalterskomy Uchetu, PBU) was developed and put into force. They more or less correspond with IFRS (the list of PBU is in Table 3). As part of this adoption process, new terms and concepts were introduced that were never before known to the majority of Russian accountants, such as "materiality," "events after the balance sheet date," "segment information," "discontinued operations," "contingencies," "deferred taxes," and so forth.
2. The emphasis in accounting regulation shifted from accounting procedures to the financial reporting process. Accounting Standards emphasize not how to *make entries* but rather how to *report* and *disclose* information. The content and format of financial statements have been adjusted to correspond more closely to those of developed market economies. The new formats cannot be compared to what existed under the old system in terms of disclosure requirements.
3. Tax accounting and financial accounting have been legally separated. Taxes are not calculated based on financial reporting data as of 1 January 2004.
4. The first professional accounting organization was founded in 1997 – Institute of Professional Accountants of Russia. It laid the foundation for the possibility of transferring regulatory functions from the state to the accounting profession.
5. Some changes also took place in the sphere of professional education. The educational system for accountants changed, as did professional accounting certification. A course on IFRS was introduced into the university curriculum.
6. The institution of auditing was introduced and has been in operation since 1993. The law "On Auditing" came into force. The adoption of new auditing standards based on International Standards on Auditing (ISA) is in process.

FINANCIAL STATEMENTS AND REPORTING – RAS AND IFRS

Below is a comparison of some IFRS and Russian rules. It's necessary to mention, that since accounting rules (and not just Russian rules) change, it does not make sense to examine "rules in general." Thus, a large portion of IFRS was revised. The revised Standards took effect in 2005. In this chapter provisions that are in force at 1 January 2004 are considered. One of the authors' aims was to study the current situation and the trends in Russian accounting system reformation.

Conceptual Provisions

1. General Provisions: The objective of financial reporting and users; responsibility for producing statements

The clear formulation of financial reporting objectives is absent in legislation and in other acts. The provision that comes closest to making such a formulation states that it is "a forming of complete reliable information about enterprise activity and its financial status, that is necessary for internal users of financial statements – managers, founders, owners and property owners, and for external users – investors, creditors and others." (Fed. Law #129)

2. Basic Principles

Accrual principle. This principle is not formulated directly anywhere in the law. However, Provision 10 of "Statement on Accounting and Financial Reporting," dated 29 July 1998, requires that a company's accounting policy should assume distinctness of economic events, which means that events should be recorded in the period to which they relate, not the period when the cash flow takes place. Also, the conditions for recognizing income (prov. 12 PBU 9/98) and expenses (prov. 18 PBU 10/99) comply with the accrual principle, which requires income and expense to be recognized and included in the financial statements in the period when the transaction occurs, not when cash is received or paid.

Going Concern assumption. This concept is not formulated anywhere as such in the accounting law. However, it is included in substance. Prov. 10 of "Statement on Accounting and Financial Reporting," dated 29 July 1998, includes a requirement that company accounting policy should assume continuity of operations. The mechanism of financial reporting in the event of liquidation is not addressed.

Other Principles. The accounting law does mention most of the other accounting principles that are included in IFRS and US-GAAP, such as the accounting entity assumption, accounting policy consistency, prudence, substance over form and rationality.

3. Qualitative Characteristics

Understandability. Russia so far does not have any legislative act or accounting regulation that mentions this term.

Relevance. In Russia, quality is not discussed, at least not in any official pronouncements.

Materiality as a component of relevance. According to prov. 1 of "On Financial Statements Forms (approved by MF RF Order 67H dated 22 July 2003), an item is considered to be material if failure to disclose it might affect economic decisions of interested users, based on reported information.

Timeliness. In the Russian regulation timeliness is mentioned as a quality that is necessary to consider when developing accounting policy. (prov. 7 PBU 1/98)

Reliability. According to prov. 6 PBU 4/99, "Reported accounting information must provide reliable and complete presentation of the financial position of an enterprise and its performance in its financial statements." Reliability of financial statements relates to compliance with accounting rules.

Neutrality has been listed as one of the requirements of sound financial statements. (prov. 7 PBU 4/99). This Standard states that "information is not neutral if by means of selection or presentation it influences users' decisions with an intent to predetermine results or consequences."

Prudence is also mentioned as one of the requirements of accounting policy (Statement on Accounting, Order 34H).

Comparability. Russian regulations (prov. 9, PBU 4/99) stipulate that an entity must follow the same content and format for its financial statements from one period to another. Changes regarding the content or form of financial statements must be disclosed if they are material.

4.The Elements of Financial Statements

The elements, related to financial position of an enterprise, definitions.

Assets. The term "asset" is used widely in the Russian regulations. But *assets* are nowhere defined. The only attempts at a definition of *asset* are found in prov. 2 PBU 9/99 and prov. 2 PBU 10/99, which specify that an asset is cash and other property, which is a far cry from the definition presented in the *Framework* (IASC 1994). Actually, the term *asset* in Russian accounting terminology is associated with items located on the left side of the balance sheet. The concepts of control or economic benefits are not employed.

Liability. Like assets, despite the widespread use of the term *liability*, its definition is not given in the Russian regulations. In fact, the term *liability* in Russian accounting terminology is associated with the term *accounts payable* or with items located on the right side of the balance sheet. This portion of the balance sheet is called *Passive* and includes both liabilities and equity. The items on the left side of the balance sheet (assets) are referred to as *Active.*

Equity. This is a comparatively new term in Russian accounting terminology. Its appearance in the Chart of Accounts in 1992 was the result of global changes in the economic structure – with the appearance of private ownership and, consequently, owners. At present it is a widely used term and, like assets and liabilities, it is not clearly defined in any Acts. In fact, it means exactly the same thing as the definition given in the *Framework* (IASC 1994).

Definitions of elements relating to performance

Income. According to prov. 2, PBU 9/99, "income of an enterprise is recognized as an increase of economic benefits as a result of an inflow of assets (cash, other property), or (and) a decrease in liabilities resulting in an increase in an enterprise's equity, except contributions of owners." Thus, the definition of income is the same under the Framework (IASC 1994) and under the Russian rules.

Expenses. According to prov. 2 PBU 10/99, "Expenses of an enterprise are a decrease in economic benefits as a result of outflows of assets (cash, other property) and (or) incurrences of liabilities, resulting in decreases in equity of an enterprise, except those relating to the distribution to equity owners." Thus, the Russian definition is the same as the definition given in the *Framework* (IASC 1994).

Criteria for the recognition of elements in financial statements.

In the Russian system the recognition procedure is prescribed for *income* (prov. 12-16, PBU 9/99). The conditions for the recognition of income include the existence of a right to receive income; the amount of which might be measured; the absence of vagueness concerning the receipt of an asset as payment that will result in an increase in economic benefits; the ownership rights have passed to a buyer (or service has been performed); expenses relating to the transaction can be measured.

Expenses are recognized (prov. 16, PBU 10/99) if an expense has been incurred according to the terms of a contract in accordance with legislative requirements and business customs; if its sum can be measured; if there is no vagueness concerning the transferring of an asset that will result in the decrease of economic benefits.

Criteria for the recognition of assets, liabilities and equity are not prescribed in the Russian regulations.

Content, format and procedure of financial statement presentation

- General provisions

The law "On Accounting" (p. 2, prov. 13) stipulates that all organizations are required to produce financial statements. The reporting period is the calendar year – 1 January to 31 December. The deadline for issuing statements is 90 days after the end of the year. Statements are sent to owners, the statistical authorities, other state bodies and other entities prescribed by law. The Tax Service is also entitled to receive the financial statements according to the Tax Code (prov. 23). The format of the financial statements is proscribed by the Ministry of Finance of the Russian Federation.

Companies that have subsidiaries and associates must produce consolidated statements, the preparation of which is regulated by "Methodological recommendations on Consolidated Financial Statement Preparation" (approved by MF RF Order #112 dated 30 December 1996) (Level 3 document). In general, the consolidated statements are to follow Russian accounting rules. However, the Russian rules do not have to be followed if all of the following requirements are met:

- Consolidated statements are prepared on the basis of IFRS;
- The group ensures the reliability of the financial statements prepared according to IFRS;
- The disclosure includes accounting rules and procedures that are different from MF RF rules.

In all the Russian accounting regulations, this is the only Act that allows for the possibility of IFRS statements instead of statements prepared according to Russian Accounting Standards (RAS). However, the last proviso makes this possibility unrealistic.

The accounting statements include the Balance Sheet; Income and Loss Statement; supplements, including a Cash Flow Statement; Statement of Changes in Equity; Supplement to the Balance Sheet; Statement on the use of Special Purpose Funds (recommended); Auditor's Report; and Footnotes. Companies develop their financial statements using the basic forms that are recommended by "On Financial Statements Forms" (2003).

- *Balance Sheet.* The format of the Balance Sheet is similar to the account form IFRS Balance Sheet. An example is provided in Table 2.

Table 2
Balance Sheet
Company XXX at 31 December 200X

Asset	Passive
1. Non current Assets	3. Equity and Reserves
2. Current Assets	4. Long-Term liabilities
	5. Short-term liabilities
Balance	Balance

According to Russian regulations, all assets are subdivided into non-current (long-term) and current (short-term), depending on the time it takes for them to be used up or converted into cash. Assets and liabilities are presented as current if the term of their existence is not more than 12 months (prov. 19 PBU 4/99). This definition differs from that provided by IFRS, in that according to IAS1, to be recognized as a current asset, cash and cash equivalents cannot have any limitations on their use. There is no such condition in the Russian definition.

The following kinds of assets might be classified as current: cash; short-term investments; accounts receivable (expected to be received within 12 months after the balance sheet date); value added tax (receivable); inventories, including raw materials, work in process, finished goods, goods, goods given on consignment; and prepaid expenses. Interestingly, receivables expected to be paid after 12 months from the balance sheet date are also included as current assets.

The following kinds of assets are classified as non-current: deferred tax assets; long-term investments; investment property; construction in progress; fixed assets; and intangibles.

Liabilities must be recognized as current if they are expected to be liquidated within 12 months from the balance sheet date. Current liabilities includes loans and borrowings; accounts payable; salaries payable; dividends payable; off-budget fund liabilities; tax liabilities; deferred revenue; and reserves of future expenses. Long-term liabilities include loans from banks and others; deferred tax liabilities; others.

Equity in the balance sheet consists of: contributed capital; treasury stock; capital surplus; reserve capital (that previously was distributed for certain uses); and retained earnings. All of these items also appear in the equity section of a balance sheet prepared according to IFRS. Thus, it is possible to say that Russian balance sheets are similar to IFRS balance sheet.

- *Profit and Loss Statement.*

The Russian form of a Profit and Loss statement corresponds to the functional classification scheme, including the purpose of expenditures (manufacturing, distribution, administrative). Unlike IAS 8, financing costs are not included in non-operating items in Russian income statements. They are included with operating expenses. The corporation's share of profits and losses of associates and joint ventures are accounted for by the equity method. Starting in 2003, deferred tax assets and deferred tax liabilities are included in the Profit and Loss statement that shows permanent interest of the body, responsible for accounting regulation (Ministry of Finance) in taxation matters.

Revenue. The criteria for revenue recognition are identical to the criteria for income recognition examined above. The main difference between the Russian rule and IFRS is that the Russian rule requires ownership to have passed from a seller to a buyer, unlike IFRS. The measurement concept requires that revenue be measured at fair value, determined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction."

According to the Russian rules, if a transaction price is not set by the parties, the price used will be the price usually charged in similar circumstances for similar goods. In the Profit and Loss Statement, the following items should be stated separately: revenue, operating income, non-operating income, and extraordinary items. Expenses are measured by the amount of the payment or the amount payable.

- The *Changes in Equity Statement* is one of the required financial statements. The format of the Russian Statement in all general respects complies with IAS 1 requirements, and includes the requirement to disclose all changes in equity for the period, with different categories for contributed capital, capital surplus, reserve capital and retained earnings. There are also disclosures for changes in accounting policies, revaluation of fixed assets, foreign currency translation and so forth.
- The *Cash Flow Statement (CFS)* is one of the required statements. The Russian rules stipulate that the Cash Flow Statement disclose transactions involving cash on hand and in banks. IFRS requires the CFS to also disclose cash equivalent transactions.

As is the case with IAS 7, the Russian Cash Flow Statement is divided into the following categories: operating, investing and financing activities. Russian rules allow only the direct method. There are also some differences in the classification of some transactions. For example, IAS 7 classifies interest income and dividend income as operating items, whereas the Russian rules classify them as investing activities. IFRS classifies the payment of dividends as financing activities. Russian rules classify these payments as operating items (Epstein & Mirza 2002).

In order to have accounting rules that approximate IFRS a number of Russian accounting standards (PBU) have been adopted that address matters never before addressed in Russian accounting. Table 3 shows which areas are now covered by PBU and makes a comparison between the two sets of standards (IFRS and PBU).

Table 3
Comparison of IFRS and PBU

IFRS	**PBU**	
	Title	**Status (JM)/# Order's Registr.**
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	-	-

IAS1. *Presentation of Financial Statements*	PBU 1/98 "*Accounting Policy*", approved by MF RF Order #60 dated 9 Dec1998, came into effect on 1 January 1999;	31 Dec 1998 #1673
	PBU 4/99 *"Financial Statements"*, approved by MF RF Order #43н dated 6 July1999, came into effect on 1 January2000.	-
IAS 2 *Inventories*	PBU 5/01 *"Inventories"*, approved by MF RF Order #44н dated 9 June 2001, came into effect on 1 January 2002.	19 July 2001 #2806
IAS 7 *Cash Flow Statements*	-	-
IAS 8 *Net Profit or Loss for the Period, fundamental Errors and Changes in Accounting Policies*	-	-
IAS 10 *Events After the Balance Sheet Date*	PBU 7/98 *"Events After the Balance Sheet Date"*, approved by MF RF Order #56н dated 25 Nov 1998, came into effect on 1 January1999.	31 Dec 1998 #1674
IAS 11 *Construction Contracts*	PBU 2/94 *"Construction Contracts"*, approved by MF RF Order #167 dated 20 Dec 1994, came into effect on 1 January1995.	-
IAS 12 *Accounting for Taxes on Income*	PBU 18/02 *"Accounting for Taxes on Income"*, approved by MF RF Order #114н dated 19 Nov 2002, came into effect on 1 January 2003.	31 Dec 2002 #4090
IAS 14 *Reporting Financial Information by Segment*	PBU 12/2000 *"Reporting Financial Information by Segment"*, approved by MF RF Order #11н dated 27 Jan 2000, came into effect for the year 2000.	-

IAS 15 *Information Reflecting Effect of Changing Prices*	-	-
IAS 16 *Property, Plant and Equipment*	PBU 6/01 *"Fixed Assets"*, approved by MF RF Order #26н dated 30 March 2001, came into effect for the year 2001.	28 Apr 2001 #2689
IAS 17 *Accounting for Leases*	-	-
IAS 18 *Revenue*	-	-
IAS 19 *Retirement Benefit Costs*	-	-
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	PBU 13/2000 *"Accounting for Government Assistance"*, approved by MF RF Order #92н dated 16 Oct 2000, came into effect for the year 2001.	-
IAS 21 *The Effects of Changes in Foreign Exchange Rates*	PBU 3/2000 *"Foreign Currency Denominated Assets and Liabilities"*, approved by MF RF Order #2н dated 10 Jan 2000, came into effect for the year 2000.	-
IAS 22 *Business Combinations*	-	-
IAS 23 *Borrowing Costs*	PBU 15/01 *"Accounting for Borrowings and Related Expenses"*, approved by MF RF Order #60н dated 2 Aug 2001, came into effect for the year 2001.	-
IAS 24 *Related Parties Disclosures*	PBU 11/2000 *"Affiliated parties Disclosure"*, approved by MF RF Order #5н dated 13 Jan 2000, came into effect for the year 2000.	10 May 2000 #2215
IAS 26 *Accounting and Reporting by Retirement Benefit Plans*	-	-
IAS 27 *Consolidated Financial Statements and*	-	-

Accounting for Investments in Subsidiaries		
IAS 28 *Accounting for Investments in Associates*	-	-
IAS 29 *Financial Reporting in Hyperinflationary Economies*	-	-
IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions*	It's regulated by the Central Bank, not studied in the paper	-
IAS 31 *Financial Reporting in Joint Ventures*	-	-
IAS 32 *Financial Instruments: Disclosure and Presentation*	-	-
IAS 33 *Earning per Share*	Methodological Guidance on *Earning per Share Disclosure*, approved by MF RF Order #29н dated 21 March 2000	-
IAS 34 *Interim Financial reporting*	-	-
IAS 35 *Discontinuing operations*	PBU 16/02 *"Discontinued operations Disclosure"*, approved by MF RF Order #66н dated 2 Jul 2002, came into effect for the year 2002.	2Aug 2002 #3655
IAS 36 *Impairment of Assets*	-	-
IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets*	PBU 8/01 *"Contingencies"*, approved by MF RF Order #96н dated 28 Nov 2001, came into effect for the year 2002.	28 Dec 2001 #3138
IAS 38 *Intangible Assets*	PBU 14/2000 *"Accounting for Intangibles"*, approved by MF RF Order #91н dated 16 Oct 2000, came into effect for the year 2001.	-
IAS 39 *Financial instruments: Recognition*	-	-

and Measurement		
IAS 40 *Investment Property*	-	-
IAS 40 *Agriculture*	-	-
-	PBU 19/02 *"Accounting for Investments"*, approved by MF RF Order #126н dated 10 Dec 2002, came into effect for the year 2003.	27 Dec 2002 #4085
-	PBU 17/02 *"Research and Development Costs"*, approved by MF RF Order #115н dated 19 Nov 2002, came into effect for the year 2003.	11 Dec 2002 #4022
-	PBU 9/99 *"Incomes"*, approved by MF RF Order #32н dated 6 May 1999, came into effect for the year 2000.	31 May 1999 #1791
-	PBU 10/99 *"Expenses"*, approved by MF RF Order #33н dated 6 May 1999, came into effect for the year 2000 (Order #33)	31 May 1999 #1790

PBU 7/98, "Events after the Balance Sheet Date" became effective 1 January 1999. Basic PBU 7/98 regulations match IAS 10 requirements.

PBU 8/98 "Contingencies" took effect 1 January 1999 and required disclosures of contingencies. The requirements prescribed by the PBU are basically the same as those of IAS 37.

PBU 12/2000, "Reporting Financial Information by Segment," has been in force since 2000. The spectrum of Russian companies required to report segment information is different from the requirement in IAS 14, which stipulates that segment information is required only by those companies that have publicly traded debt or equity issues or are in the process of preparing a public offering (Epstein & Mirza 2002). The Russian rules require segment reporting for all companies except small businesses. The Russian rule is identical to the former IAS 14 before it was revised in mid-1998. This provides an example of an instance where the Russian rule makers developed a PBU to comply with IFRS but fell behind in the process. The Russian definitions of a business and geographical segments are identical to those of

IAS 14. As provided by IAS 14 and by the PBU, an entity chooses which categorization is primary and which is secondary. Requirements for primary reporting disclosure according to PBU, unlike IAS 14, do not include separate disclosure for interest and dividends, contingencies, liabilities, extraordinary items that are directly attributable to a segment, or significant non-cash expenses other than from depreciation and amortization. The requirements for secondary reporting are identical for PBU 12/2000 and IAS 14. Actually, it might be said that the Russian PBU matches the spirit of the corresponding IFRS.

Since 2000, Russian companies are required to disclose affiliated person information, according to PBU 11/2000, "Affiliated Parties Disclosure." The requirements set forth in this PBU are much the same as those set forth in IAS 24, "Related-Party Disclosures."

PBU "Discontinued Operations Disclosure" came into force effective for 2003 annual reporting. It in all principal provisions complies with IAS 35, "Discontinued Operations" as far as disclosure requirements are concerned.

Below we discuss the rules for accounting for some assets and liabilities. Space does not permit a full examination of all items in the balance sheet and income statement. The purpose of this research is to estimate the degree of differences between the two systems for some principal items, not to identify all differences. In this chapter we study the most material items from the standpoint of their weight in a company's balance sheet. Also we study the reasons why there might be material differences between IFRS and RAS. Some items, such as inflation accounting, are not examined in this chapter.

In the comparison of the two systems – Russian and IFRS – not all differences and potential differences are examined or highlighted. Only general rules are considered. For example, IFRS allows the inclusion of interest expense into the cost of inventory in very limited circumstances. But the usual rule is not to include such costs. In the comparison below, the option not to include interest costs in the cost of inventory – the general rule– is chosen just because it is the general rule.

Inventory constitutes a material portion of assets for companies engaged in trade, retail and production. In Table 4 we compare the general provisions of PBU 5/01 "Inventories," which has been in force for annual reporting since 2002, with IAS 2, "Inventory."

Table 4
Comparison of IAS2 and PBU 5/01 rules
On Inventory

Requirements	
IAS 2	**PBU 5/01**
Content	
Goods for sale, Raw materials,	Goods for sale, Raw materials,

Work-in-progress, Finished goods	Finished goods
Cost	
Costs of purchase (purchase price, transportation costs, insurance and handling costs), nonrefundable taxes, import duty, interests, other expenses, directly associated with acquisition). (Epstein & Mirza 2002) Conversion costs (expenses, directly associated with conversion, such as labor and overhead); Other costs. Administrative and selling expenses are not included.	Costs of purchase (purchase price, transportation costs, insurance and handling costs), nonrefundable taxes, *borrowing costs,* import duty, interest, other expenses, directly associated with acquisition). Conversion costs (expenses, directly associated with conversion, such as labor and overhead); Other costs. Administrative and selling expenses are not included.
Inventory valuation	
Specific identification method (in cases of necessity determination of every unit) –is used in exceptional cases; Weighted-average cost; FIFO;	Specific identification method Weighted-average cost; FIFO; LIFO. All methods are equal.
Inventory in balance sheet	
The lower of cost and net realizable value	The lower of cost and present market value
Disclosure	
Detailed	Not mentioned as disclosure requirements: Carrying amount of inventories carried at net realizable value; The circumstances or events that led to the reversal of write-down of inventories to net realizable value; Carrying amount of inventories pledged as security for liabilities

Thus, for the rules examined there are some definite differences between the Russian rule PBU 5/01 and IAS2. Notice that the Russian rule omits work in process inventory, for example. With regard to cost determination, the PBU rule includes borrowing costs if they accrued before acquisition. Regarding inventory valuation choices, the Russian rule treats all potential methods equally, whereas the IAS has benchmarks and other acceptable methods. On the balance sheet, the inventory valuation figure would differ because of the difference between net realizable value (IFRS), which is "selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale," and the present market value without taking expenses of sale into account. Depending on the business, the differences might cause material disparities in the financial statements.

Property, Plant and Equipment. Another element in the balance sheet that represents a material item is property, plant and equipment, which is addressed in PBU 6/01 "Fixed Assets" as well as the "Methodological Instructions for Fixed Asset Accounting." Table 5 compares the Russian rule to IAS 16.

Table 5
A Comparison of the Rules for Property, Plant and Equipment

Requirements	
IAS 16	**PBU 6/01**
Definition	
Tangible assets with expected useful life of more than one year, that are held for use in the process of production of goods or services for sale, that are held for rental to others, or that are held for administrative purposes. They provide future economic benefits that are readily measurable.	
Investment property is not included here.	Reselling is not planned. Investment property is not classified separately; it is not excluded from fixed assets.
Initial measurement	
Purchase or self-constructed: At historical cost – amount of cash or cash equivalents, directly connected with acquisition and bringing an asset up to working condition.	
Alternative- including borrowing cost.	*including borrowing costs*
Exchange: New asset is valued at the *fair value* of assets given up, unless assets are similar. plus (less) cash received (paid). (Epstein & Mirza 2002)	Exchange: New asset is valued at the price of assets given up. The price that is being used to evaluate similar assets in similar circumstances. Or, the price of acquired assets, in case of impossibility of determining the first price.
Cost incurred consequent to purchase or self-construction	
Capitalized if it's probable that	Capitalized in cases of additions to

future economic benefits beyond those originally anticipated for an asset will be received by the entity. The other cases- expensed.	building, equipment, reconstruction. Other cases – expensed.
Depreciation	
Determining period of useful life – approaches are similar	
Selection of methods –is up to management (accountant) Methods: 1.Straight-line method; 2. Declining balance method;	
3. Methods of writing-off the cost of an asset pro rata some criteria (for example, sum-of-the-years' digits (SYD) depreciation; or unit of production approach.	3.sum-of-the-years' digits(SYD); 4. units of production approach.
Revaluation	
Use of an alternative method (historical cost is benchmark); Assets are revalued based on fair value	Both methods are equal. Assets are revalued based on replacement cost.
Regularity (in a case of choosing this method)	
Impairment	
A write-down is required, if the carrying amount exceeds the net recoverable amount (the greater of net selling price or value in use).	Not provided
Disclosure requirements	
Unlike PBU 6/01 - any restrictions on titles and any assets pledged as security for debt; - The amount of outstanding commitments for property, plant and equipment acquisitions.	

Thus, there are some differences between the Russian rule and IFRS. For example, investment property is included under the category of property, plant and equipment under the Russian rules but not under IFRS. As for initial investment, borrowing costs are included under the Russian rule. This method is not a conditional or an alternative rule as it is with IFRS. In exchange transactions the cost of the asset acquired is valued based on the price of the asset given up. In the case of costs incurred subsequent to purchase or self-construction, the criteria for capitalization are formulated differently.

Capitalization under IFRS is made conditional based on the possibility of receiving future economic benefits. The Russian rule merely specifies situations where capitalization in called for without discussing economic consequences.

As for depreciation, Russian practice does not apply the concept of residual value. Revaluation is an alternative method to historical cost under IFRS and assets are revalued at fair value. In the Russian system revaluation does not have a proviso but assets are revalued at replacement cost. The main difference between the two systems is that the concept of impairment is not applied under the Russian system, including the impairment of fixed assets. Another difference is that IAS 16 requires more disclosure.

Financial Instruments. Unlike the IFRS rule, the Russian rule for financial instruments relates only to investments. Because of the major differences in terminology, we will view the basic provisions of the Russian rules as laid out in PBU 19/02 without comparing them to the IFRS. Investments under the Russian rules consist of securities, debt securities, investments in equity (including investments in subsidiaries and affiliates), loans, bank deposits, receivables, acquisition by cession and investments in joint ventures.

The criteria for recognition include the existence of documents that confirm the right of ownership; risks relating to the investment have been transferred; and the possibility of future economic benefit. The initial investment includes the cost, including all expenses, that are directly related to the asset acquisition. Valuation in the financial statements is determined as follows:

- for investments where it is possible to determine present market value, they are recorded at present market value;
- for investments where present market value is impossible to determine, they are reflected at cost. If their carrying value drops below the amount of future economic benefits expected to be derived in the normal course of business, the carrying value is reduced to reflect that expected decline;
- debt securities might be presented at capitalized value (discounted cost). The Russian rules provide no guidance on how this amount may be calculated.

Disclosure Requirements: The methods of valuation at retirement must be disclosed, as must the present market value of applicable investments. Collateral for investments must be disclosed as well as the cost and kind of investments being retired. In the case of debt securities and loans, their capitalized value must be disclosed.

Of course, we have not examined every Russian standard. At present, there are some IFRS that have no Russian counterpart. That can create considerable differences between a set of financial statements prepared using IFRS and one using RAS. For example, there is no Russian rule for accounting in a hyperinflationary economy. Russia, being a transition economy, sometimes experiences serious inflationary splashes. For example, in the period 1998-2001, the price index rose by 136.7 percent. According to IFRS, such an increase would warrant adjustments to the financial statements.

The Russian rules exclude other topics that are addressed in IFRS. Asset impairment is one such topic. Pensions is another. There are no present plans to address these issues, which means that the Russian accounting rules will diverge from IFRS for the foreseeable future.

In any event, the analysis presented above allows us to conclude that, in spite of continuing material differences between the Russian rules and IFRS, significant progress has been made on the path to converting Russian accounting regulations to IFRS. When one considers that the developed market economies have accounting systems that have evolved over hundreds of years, whereas the present Russian system was not born until the early 1990s, it is possible to say that progress has been substantial.

Thus, we have studied the main provisions of normative *regulation* of the accounting system in Russia. We attempted to determine at what stage the conversion process to IFRS now is. However, it is a well known fact that the law that is in force and the way accountants interpret and apply the law are not always the same thing. An examination of the way Russian accountants apply the law and how the law works in practice is the next topic for discussion.

THE PRACTICAL FUNCTIONING OF THE ACCOUNTING SYSTEM IN RUSSIA

The level of development of accounting regulation is heavily influenced by the society in which it operates. But societal influences are by no means the only influences. If one were to discuss the degree of Russian financial statement compliance with IFRS, it is necessary to consider at least two factors – the correspondence of the rules and the observance of those rules. The observance of the rules that are on the books is not perfect in Russia. This conclusion is based on one of the author's many years of experience as an auditor in Russia.

As A. Bakaev, the chief of the accounting department of the Ministry of Finance of the Russian Federation said in May, 2003, "Russian companies apply PBU and IFRS selectively." A paper presented at a conference on auditing in Russia summarized the results of a survey of members of the Institute of Professional Accountants in Russia, which revealed that just 10 percent of the respondents stated that they knew and applied PBU (Bakaev 2004).

One reason for the low compliance rate is attributable to the fact that the majority of users of financial information does not care about and are not concerned with IFRS. Accountants are aware of their *audience* (users of financial statements) and prepare financial statements based on what their audience wants and expects. To understand the mentality involved we need to take a brief look at recent Russian history, the beginning of the 1990s.

It was mentioned above that this period was a time of rapid and crucial changes in most spheres of Russian life. One major change took place in 1992 in the area of tax legislation. The base for calculating most tax liabilities was accounting data. Companies were under a heavy tax burden then. The amount of tax liability a company had in those days approached 90 percent of net sales. Furthermore, during the initial period of the transition to a market economy, the tax rules changed constantly. Despite the constant changes, which were aimed at improving and reforming the tax system, many provisions could be interpreted in a number of ways. As a logical consequence of such a heavy tax burden, companies looked for ways to minimize taxes. Part of the economy went into the shade (black market). The part of the economy that tried to operate legally (white market) was helped by a tax amnesty in 1993 (On Taxation Amnesty 1993). The main result of this amnesty was to triple the existing penalty provisions. A company that failed to pay 1000 rubles had to pay 10,000 rubles as a penalty. Companies did not use the court system to defend themselves against such penalties in those days. In such situations, the accountant became the person responsible not only for minimizing the tax liability but also for decreasing penalty risks. Often a company's survival depended on an accountant's complying with the accounting rules. Their ability to avoid problems with the Russian Internal Revenue Service rose considerably. Since that period of history, most members of society understand the role of accounting to be one of communicating tax information to the state.

Later, changes in legislation, including tax legislation, led to the situation where the tax rules and the accounting rules are completely separate. This change did not occur until 2004. Only one tax – the real estate company tax – is now calculated based on financial accounting data. Accounting statements can no longer be used to calculate any tax. For computing the income tax liability, companies have to keep their books according to the tax rules.

The tax law doesn't allow companies to ignore or break accounting rules. Thus, the majority of people involved in accounting and reporting consider the tax service to be the main user of the information they prepare. Additionally, it has been the authors' experience, which was confirmed by research performed by O. Rozhnova (2000), that 93 percent of accountants from 1,040 Russian companies identified the tax service as the main user of accounting information.

What is interesting is that the other party (the state) also regards accounting information as a tool of the tax authority. Vice Minister of Finance M. Motorin, during a discussion on the terms of converting the accounting system to IFRS, said "in the absence of Russian standards the base for tax will be calculated according to the London IFRS Board's rules." (Anon. 2003a).[1]

The attitude toward the accounting function as a tool for communication with the state is thus the same as it was before, the only difference being that the role of the state is increasingly played by the tax authorities rather than the state governing bureaucracy. In accounting practice this attitude becomes apparent when accountants ignore accounting rules aimed at providing useful information that could be used for decision making purposes when the rules do not affect the tax calculation. M. Makarevich, Senior Expert at ZAO "UNICON/NS Consulting Group," based on his experience working for a Russian audit firm, concluded that some PBUs "are not implemented because of their uselessness for tax service purposes." (Makarevich 2001) In cases where there are alternatives and one of them complies with the tax rules, that option will be chosen. Users other than the tax authority are far lower on the priority scale. That is the reason why some accounting rules do not get implemented.

The second reason why accounting rules are not always implemented is the difficulty of implementing them. Of course, Russian rules do not fully comply with IFRS approaches, being the rules of a transition economy. But, a lot of concepts, tools that had never been used in Soviet practice have been introduced into accounting. New rules are adopted mechanically by approving a new PBU but understanding the reasons for the changes and the meaning and practical application of the new rules that were previously unheard of is another story. Implementing a new rule is made more difficult if the individuals who are supposed to implement them do not understand the new rule or why they should apply it. Methodological support is needed and it is absent in Russia.

The survey found that 98 percent of Russian accountants surveyed have difficulty understanding and applying PBU. The difficulties are caused by contradictory rules, conflicts with other regulatory acts (91%) and lack of explanations about how to practically implement the rules (89%) (Rozhnova 2000).

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[1] This is an interesting statement but what it means is even more interesting. If this statement were to become reality, Russia's best move would be not to issue any more accounting standards and to repeal the ones it has already issued, since doing so would result in the de facto adoption of the whole of IFRS. As it now stands, the Russian rules differ from IFRS in significant ways. These differences would be immediately eliminated if Russia merely repealed all of its present standards. It would also mean that Russian practices would automatically remain current, since any changes in IFRS would automatically become part of Russian practice. There would be no need to go through the Finance Ministry or the Duma (Russian legislature).

One of the authors' audit experience working in Russia also shows that Russian accountants tend to ignore provisions and items such as "market value," "price used in similar circumstances," and so on. The requirements of consolidated statements are often ignored.

Related to this is another problem, which is the absence of any concept of professional judgment. Russian accountants were taught to follow rules, not to exercise professional judgment. As a civil law country, Russian accountants were accustomed to finding answers by looking to the rules to find a paragraph that applied to their particular problem. Not only was the exercise of professional judgment frowned upon. It was actively discouraged. But IFRS and, as a consequence, most PBU require accountants to exercise professional judgment at times.

Exercising professional judgment requires knowledge of accounting and how to make estimates. It presumes a readiness to take responsibility for the decisions that are made on the basis of that judgment. As was mentioned before, for a period of about 70 years, the accounting system was based on strict hierarchy, with orders coming from the top and going to the lower levels. The system was unified and centralized. There were some years where accountants paid for violations with their lives. A good accountant was one who understood instructions and followed them completely.

The need to exercise professional judgment first appeared in 1992 when accountants had to choose an amortization method for certain assets. Presently, every PBU requires accountants to exercise their professional judgment and make estimates, taking into account the effect that their decision will have on the financial statements. Implementing IFRS requires the use of principles, whereas Russian accountants are more accustomed to following rules. Western accountants correlate their decisions to the consequences they will have on the financial statements. Russian accountants, in most cases, are not ready to make such decisions. The survey found that 58 percent of Russian accountants would prefer to have comprehensive instructions, not multiple choices. Fifteen percent of those surveyed had difficulty with this question (Rozhnova 2000).

This rules versus judgment problem is one of the main problems in the reformation of the Russian accounting system. It is difficult to change laws, but to change the mentality of an entire profession is even more difficult and requires more time. Bryan Carsberg, the former chairman of the International Accounting Standards Committee (IASC), in the interview given by him to M. Gorsky, the manager of "Consulting.ru" Project, states: "I think that the biggest difficulty for Russia during the adoption of new, market economy oriented accounting standards, is to provide a sufficient number of people who possess the necessary professional and technical preparation in accounting. Russia really needs to create this type of accounting profession. And that, as soon as possible." (Carsberg 2002).

In addition to the above-mentioned tendencies to violate the rules set by PBU, it is necessary to mention one more thing based on the personal experience of the authors. Quite frequently actual financial reporting does not meet the disclosure requirements provided by PBU. Footnotes might include information that is not supposed to be disclosed. Often the information that is disclosed is useless information. As the same time, the IFRS disclosure requirements might be disregarded.

Thus, another side of the problem of implementing a functioning accounting system in Russia is the absence of supplementary information, of educational support, and the mentality of the individuals who must implement the changes. But perhaps the *main* reason for not implementing the rules, which would help with providing information that is oriented to financial statement users in the broad sense, is the absence of demand for such information. The users of financial statements have not realized the value and possible benefits it might bring to them. Otherwise, accountants would gain an understanding of the nuances of the new rules. They would learn which advantages the new rules might provide for them. The shift in the mentality of Russian accountants would accelerate if demand for the new way of thinking had any perceived value.

Estimates of financial statement quality, prepared by Russian rules

The quality of financial statements, considering all factors – their reliability, transparency, value for users in the sense of making useful and efficient economic decisions – looks questionable in the light of research. This conclusion is admitted even by those who produce the financial statements. Seventy-one percent (71%) of accountants agree that a company's financial statements are not reliable, in the sense of complying with Russian accounting regulations (Rozhnova 2000). The financial statements prepared according to the Russian rules, taking into account all the factors mentioned above, are not considered to be reliable or useful for making decisions by financial information users such as investors, owners or creditors. This view is confirmed by the fact that the majority of the largest companies prepare financial statements using either IFRS or US-GAAP in addition to the statements they are required to prepare using Russian accounting rules. Of the 34 Russian companies that are leaders in the Russian market and that have effective ADR programs, 8 produce US GAAP statements and 9 use IFRS format. Thus, 50 percent of the top companies produce two sets of financial statements.

APPROACHES TO ACCOUNTING REFORM

The process of reforming the accounting system has been going on for a long time. Different aspects of approaching the conversion to, or harmonization with IFRS are at the center of attention for state authorities at different levels, representatives of the accounting profession and educators. Of course, each group looks at the question from a different perspective and each group's position reflects its own interests. This section examines the main point of view of each of the major groups and the approach they have taken to accounting reform. Since professional organizations actually are not deeply involved in the reform process, we will examine the position of some officials of the various departments and organizations.

The first approach to reform is represented by the Ministry of Finance of the Russian Federation (MF RF), the body that is responsible for accounting in Russia. It receives its authority from legislation. It should not be forgotten that this body is also responsible for financial flows to the state, a responsibility that affects its view of accounting reform to some extent.

The Ministry of Finance advocates the further development of PBU on the basis of IFRS, "because the use of national standards, but not international, is the base of the legal system, for example, courts, tax, and bank statements require providing Russian statements." (Anon. 2003) According to the Ministry of Finance, *all* companies will have to follow Russian rules (based on PBU) for, which, in turn, will get closer to IFRS. The Finance Ministry wants the following companies to prepare *consolidated financial statements,* based on IFRS:

companies that have listed stock on the basis of IFRS (2004-2005);

non-listed joint stock companies will have 4 or 5 years to prepare their consolidated statements using IFRS;

other companies will be given 7 years to do it.

"Other *taxpayers* will prepare financial statement by Russian rules," according to M. Motorin, vice-minister of Finance (Anon. 2003a).

In February 2004, reviewing results of accounting reformation for 2003, A. Bakaev, the chief of the accounting department of the Ministry of Finance of the Russian Federation once more confirmed his Ministry's position "on rational IFRS use", according to that IFRS are *only for consolidated* financial statements of a group of companies. For all legal persons the implementation of Russian rules on financial statements is obligatory (Bakaev 2004).

If this is the case, all organizations that have holdings will have to keep their books in four formats:

- tax accounting, since it is compulsory and is also separate and distinct from financial accounting;
- financial accounting, using Russian rules (based on PBU), because this format is also compulsory;
- IFRS reporting, because it is difficult to produce consolidated IFRS statements using Russian rules; and
- management accounting, which focuses on accounting information for decision making purposes.

From the *authors*' point of view, such an approach to resource allocation does not seem efficient. Moreover, the statements prepared using

Russian rules will not have many readers, not for any legal reason but because such statements have little or no value from a market perspective. Such numbers cannot be relied on by any group of financial statement readers. That being the case, it becomes a legitimate question to ask "Why prepare such statements?" The answer, of course, is that doing so is legally required. But that leads to another question, "Why should a company be required to prepare financial statements that no one can use?" We will defer answering this question for another day.

A related question is why should separate Russian standards be developed if they are based on IFRS? Each new standard developed by the Finance Ministry not only does not clear up existing ambiguities but actually adds new ones.

Another aspect of the move to adopt Russian standards that are "like" IFRS is that IFRS are not static. New standards are issued from time to time and existing standards are amended or repealed. The Russian law does not have a provision that automatically adopts any changes to IFRS. At the very least, there is a time delay between the time a new IFRS is issued, amended or repealed and the time the Russian Duma or Finance Ministry changes the Russian rule. It is quite possible that the basis of an enacted PBU is quite different than the current IFRS, which means that all the time, effort and resources that went into the development and issuance of the PBU are wasted. Then there is the fact that the present process ensures that Russian PBUs will not be based on cutting-edge accounting theories or practices.

Another view of accounting reform, which is advocated by the *Ministry of Economic Development and Trade (MEDT)*, proposes another scenario for approaching IFRS.

The central idea of this approach is that IFRS should be implemented only by the "major public companies...those that might potentially cause harm to an unlimited number of people." Other companies will be relieved of the obligation to prepare financial statements, but will not be relieved of taxation and statistical reporting (Anon. 2004).

MEDT proposes to accomplish the transition to IFRS in three phases. The first stage will include companies that have listed their shares on the Russian stock exchange, banks and professional stock market participants. The second stage will make IFRS financial statements obligatory for state unitary enterprises and insurance companies. The third stage will require a switch to IFRS for all companies that are in the zone of public interest, including those that have their shares listed on international stock exchanges and those that now use international accounting reporting systems.

The MEDT approach also provides for the gradual shift of regulatory functions from government agencies to non-state institutions (Anon. 2004a). Small business has no plans to convert to IFRS, according to A. Sharonov, Vice Minister of MEDT (Anon. 2004b). In March 2004 the MEDT introduced its official proposal to switch to IFRS to the Finance Ministry. The revised version agreed to by the ministries was to go to the government by 1 April 2004 (Anon. 2004). The Finance Ministry is concerned that converting to IFRS might result in a Russian Enron (Anon. 2003b).

The situation in 2003 was thus repeated even to the exact date – 1 April – the date in 2003 that was the deadline for sending the version agreed to by the two ministries to the government. For all of 2003 the two ministries were unable to come to one view in the matter of moving to IFRS. "We now have to agree on it. We have lost one year and must not lose another one," announced C. Cerenov, chief of a department of MEDT (Anon. 2004).

If the second approach became policy, we assume that state fiscal bodies would receive information based on tax accounting data (tax returns) much as it does now. This approach would require no extra resources, either from the government or the public. The fact that so many companies have already started to prepare their financial statements using either IFRS or US GAAP indicates that they are ready, willing and able to do it. Any change to require an international format will not be a shock to the financial system. One benefit of such an approach would be that Russian firms would be able to operate more efficiently, since they would not have to expend resources preparing statements using Russian standards that no one would read.

Companies that start preparing IFRS statements for the first time would not experience any shock to their system, since many of the new terms have already been introduced to Russian accountants through PBU. Some accountants even employ them now. Terms and concepts that have not yet appeared in PBU can be learned, and the fact that they would be learned by studying IFRS rather than PBU might even enhance the learning process, since the PBUs often introduce ambiguities that do not exist with IFRS. These ambiguities could be prevented by using IFRS directly rather than try to issue new PBUs that would, based on past experience, contain vague language and downright errors. IFRS have evolved over a period of decades and most of the bugs have by now been worked out of the system, whereas every new PBU has to be debugged as errors and ambiguities are discovered.

The majority of companies are small businesses, where the owners and managers are the same people. For them, management accounting is all they need to make decisions. For such small firms it does not make sense to waste money on things that will never be used. If their business reaches the point where they need to deal with the external public, they can adopt the accounting rules they will need to deal with that public (Shatalov 2003).

Based on research conducted by the authors, *the second approach seems to be the best* one. There is no need to expend resources to develop new PBUs based on IFRS. Producing a new document or standard requires much more financial resources and time that would be required to merely adopt the new IFRS. Time could better be spent to pay for a good translation of the new IFRS than to attempt to come up with a Russian rule that says the same thing as the new IFRS. In its present form, many things still need to be developed in the PBU regulations, starting with instructions and definitions. As a practical matter, it might be necessary to revise all PBUs. Even if the financial statements comply with the PBUs, they will not comply with IFRS because to comply they would have to adopt *all* IFRS requirements. It does not make sense to waste money developing Russian rules that do not provide any additional advantages and that have the same difficulties as IFRS if following them merely creates extra expense for the companies. Pressure from the state to use PBUs makes no sense, since there are no advantages but only costs.

PROBLEMS OF TRANSITION TO IFRS

Lack of Demand. One of the most basic laws of economics is the law of supply and demand. If something is demanded, someone will supply it. One problem with making the transition from PBU to IFRS is that many accountants and businesses do not see the need for IFRS. Financial information produced using IFRS is a product but the usefulness of the product is not always readily apparent. A great deal of time and effort has to be expended to convince unwilling consumers of financial information that the product has some value.

The most numerous potential users of financial information are company management. The number of companies that need financial information for decision making purposes far exceeds the number of companies that need financial information to attract external capital. But the utility of the information has yet to be realized and that is one reason why the demand for it has not increased.

One solution is to promote or advertise the benefits of having good financial information. It is necessary to provide comprehensible arguments on the advantages of having IFRS financial information to business owners and their accountants. As more companies adopt IFRS and start to see the benefits, word will spread and an increasing number of companies will eventually adopt IFRS.

Necessity of Legislative Changes Another problem that must be overcome in the change from Russian accounting standards to IFRS has to do with legislative changes. Substantial changes will have to be made to existing legislation to effect the change. Not only accounting but also tax and civil laws will have to be changed. At present, the definitions, terms and concepts used have slight differences in meaning, depending on which legislative act is being examined. Sometimes a term or concept is not defined at all. For example, the term "market value" is used in accounting legislation [PBU 19/02, 5/01, 16/02, 6/01, 12/2000, 9/99]. The term "market price" is used in Civil Law [Civil Code, part 1, 2]. Tax legislation [Tax Code] uses terms like "market value" and "market price." But the definition for market price is given only in the Tax Code.

The IFRS system will function properly only if it is coupled with sections from other branches of law. But for this to happen it will be necessary to adopt sections that Russian law makers *can* change. To further complicate matters, the definitions for IFRS terms that are issued out of London are often different than the definitions that exist in Russian legislation. Understandably, the people who draft the language of the IFRS definitions and terms in London do not first consult with the Russian Civil Code before issuing their pronouncements. But this causes a problem because the definitions for certain terms are different and the Duma is too busy working on more important matters to do anything about it.

Administrative Aspects. The process of introducing IFRS into Russian practice is not helped by the fact that several different departments and ministries are involved in the process. Also, there is little coordination in their actions. The Finance Ministry, the MEDT and the Central Bank are all involved, as are the people who regulate the securities markets. Representatives from the accounting profession, however, are not involved in the process, which results in skewing the results, perhaps in the wrong direction.

The Level of Economic Development. One argument quite often used by opponents of the introduction of IFRS into Russia is the argument that the economic structure does not allow the introduction of many instruments or concepts, such as fair value or discounted value. M. Makarevich is one important commentator who expresses such an opinion (Makarevich 2001). The fact that the Russian economy has not reached the point where it is possible to call it developed is another problem. But to abandon attempts to move forward just because not all the stones have been cleared away would be a mistake. The fact that companies that produce IFRS and US GAAP statements find solutions to the various problems they encounter shows that solutions exist.

Lack of Accounting Professionals. There is a serious lack of accountants who know the rules and apply them. As was mentioned, there are reasons why Russian accountants do not follow the rules. Part of it has to do with not knowing what the new rules are. Part of the problem is that they are unaccustomed to exercising professional judgment. The mentality of the whole Russian accounting profession has to change before major changes can be made to the system. A whole new generation of accountants has to be grown and educated before the remnants of the old Russian mentality disappear and get replaced with a new way of looking at accounting problems and their solution.

Lack of Consultants. The lack of consultants is a direct result of the lack of existing demand for IFRS. At present only the Big-Four accounting firms and a handful of Russian firms are able to provide high quality consulting on IFRS. The capability of Russian consultants is restricted by their access to English language information. The Big-Four firms do not have this problem because they only hire accountants who have a good grasp of the

English language. Thus, they are able to read the IFRS in the original English and do not have to depend on translations which, historically, have been less than perfect at best. Because of this structural advantage, the demand for services from the Big-Four is so high that they sometimes have to participate in the preparation of IFRS financial statements, then audit those same statements (Sucher & Alexander 2004).

CONCLUDING COMMENTS

Accounting is one of the spheres that have been transformed since the beginning of the 1990s. Its reformation and supervision have been executed by various governmental bodies, although considerable resources from international organizations have also been attracted to the process. The adoption of national standards based on IFRS was chosen as the vehicle for change. But change occurs slowly and the country is huge.

There is a lag between the time standards are adopted and the time they are implemented. Some of the reasons are the lack of demand for quality information, mostly from inside users of financial information, and the mentality and education level of the majority of accountants and educators in accounting. This situation may be understandable for a country that is in transition and that existed in the absence of freedom and market relationships for many decades.

From the authors' point of view, from the options under consideration, the preferred option toward the transition to IFRS is to make it compulsory to provide IFRS statements for companies that are in the zone of public interest. It is not necessary to have Russian Financial Statements for such companies. For other companies it can be left up to them which rules, if any, to use for their financial statements.

There are several problems with forcing IFRS down the throats of any segment of the accounting and financial community. One structural problem is the difficulty of harmonizing the legislative branch so that the various players are on the same field. There is a lack of coordination between or among the various parties. There is a serious lack of high quality consultants on IFRS implementation. All these factors do not help in the transition to IFRS. If Russia is to succeed in transforming its economy into something where markets dominate, it will have to overcome these barriers. But force is not required.

Markets are the absence of force. Markets are just voluntary exchange. Nothing more. Markets develop naturally when no one prevents anyone else from trading what he has for what he wants. It seems illogical to use force to implement markets.

There is some evidence that the market for financial information is at work in Russia. The fact that the Russian government has done a less than excellent job of helping in the transformation process to some form of internationally recognized accounting standards has not prevented market forces from solving the problem. Practically every major Russian company now prepares financial statements based either on IFRS or US GAAP. No one forced them to do it. They did it voluntarily so that they could attract foreign capital.

Although there is a serious lack of expertise in this area, the Big-Four accounting firms rushed in to fill the market need. The market solved the problem. Much remains to be done, but what is being done is being done by the market. If the government has any role to play, perhaps it is to get out of the way and let the market operate. Companies that do not need foreign capital should not be forced to prepare financial statements that have no value for them, especially if it costs them resources to do so. If IFRS statements have value other than to attract foreign capital, the more intelligent Russian entrepreneurs and managers will start using IFRS. The less perceptive entrepreneurs and managers will pay a price if they fail to use cutting-edge accounting techniques and tools, just like the less perceptive business people have to pay a price, in terms of lost profits and lost opportunities, in every other area of business when they fail to use the best tools. IFRS is really just a tool. Companies should be free to use it if they think they can benefit from using it, and they should be free not to use it if they see no benefit in using it.

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Chapter 3

ACCOUNTING REFORM IN UKRAINE

Abstract

This chapter summarizes the results of interviews conducted at accounting firms and educational institutions in Kiev and Odessa during the summer of 2004, supplemented by later correspondence via the internet. Topics discussed include the adoption and implementation of International Financial Reporting Standards (IFRS), education for accounting practitioners, recent changes in accounting education in Ukrainian universities, accounting certification and taxation.

Expertise in IFRS is in short supply in Ukraine. However, demand for knowledge of IFRS is also lacking, which provides little incentive for local Ukrainian accounting firms to develop expertise in this area. As a result, the top international accounting firms, mostly the Big-4, have captured most of the market for this expertise. Nearly all of the largest companies in Ukraine retain the services of one of the Big-4 and it is primarily the large companies that can see any use for IFRS, since it is mostly the largest enterprises that are going to the international capital market in search of capital. International investors demand to see financial statements that are prepared using either IFRS or U.S. GAAP as a condition of providing investment capital and the Big-4 accounting firms are best prepared to provide guidance and expertise in this area.

Much of the IFRS training of practicing accountants is done by the Big-4 accounting firms. They have developed extensive course materials over the years and have a competitive advantage in this area. However, the training they provide is mostly limited to their employees and their clients, which means that accountants who do not work for either a Big-4 firm or one of their clients do not have ready access to IFRS training.

Ukrainian universities have started to incorporate IFRS into their accounting curriculums. The problem is that they cannot always find good learning materials. Some of the most prestigious

universities in Ukraine still do not have a course devoted just to IFRS. IFRS is inserted into their course on foreign accounting.

Ukrainian financial statements that are certified by accountants who possess only a Ukrainian certification do not have much credibility in international capital markets. One reason for this lack of credibility is the perception that the average Ukrainian accountant does not meet international standards when it comes to knowledge of IFRS and International Standards on Auditing (ISA). Another reason is because the accounting certification system is viewed as corrupt. There are rumors that Ukrainian accounting certification can be bought.

This problem is being overcome in two different ways. Several internationally recognized accounting certification exams are now being offered in Ukraine. Any Ukrainian accountant who can pass these exams earns instant credibility. The problem is that these exams are given only in English, which greatly limits the number of Ukrainian accountants who can take and pass the exams. This language barrier is being overcome by a group of accounting associations in several former Soviet republics, which began offering a high quality certification program in the Russian language. This certification started with a pilot program in Central Asia and has recently spread to Ukraine, Russia and Moldova. As this program spreads, the credibility of Ukrainian accountants who can pass these certification exams will be greatly enhanced.

INTRODUCTION

Much of the information gathered for this chapter was obtained by conducting interviews with accounting practitioners and educators in Kiev and Odessa during the summer of 2004. This study replicates an earlier study by McGee and Preobragenskaya (2005) of accounting reform in Russia. Similar questions were asked to similar segments of the accounting community. The main difference between this study and the earlier McGee and Preobragenskaya study is that the questions for the present study were asked of accounting practitioners and educators in Ukraine rather than Russia.

The following firms and institutions were interviewed:

All About Accounting (newspaper, Kiev) www.vobu.com.ua
Ukraine Accounting Reform Project (Kiev) www.capcipa.biz/
Deloitte & Touche (Kiev) www.deloitte.com.ua
Ernst & Young (Kiev) www.ey.com/ukraine
KPMG (Kiev) www.kpmg.com.ua

Auditorckoe Agentstvo Margo (Ukrainian accounting and audit firm, Odessa)
Odessa State Economic University (Odessa) www.oseu.odessa.ua
Odessa National I.I. Mechnikov University (Odessa) www.odnu.edu.ua
KIMI (Kyiv Investment Management Institute) (Kiev) www.kimi.edu

ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Ukraine started to adopt national accounting standards along the lines of International Accounting Standards (IAS) in 1999. IAS was translated into Ukrainian in that year but some explanations were deleted, which caused some problems. There is not much literature in the Ukrainian language that explains how to use the standards. This lack of Ukrainian language materials does not cause much of a problem in the Eastern part of Ukraine, since the main language there is Russian and there are some Russian language materials available, although the quality of those materials has been criticized. But lack of Ukrainian language materials is somewhat more of a problem in the western part of Ukraine, where the Ukrainian language is more prevalent. Although all Ukrainians can understand Russian, some of them prefer to use Ukrainian.

The conversion process has been somewhat successful although the degree of success could not be agreed upon by the interviewees. According to one account by a local practitioner who was knowledgeable about IFRS, the Ukrainian national standards are now about 80 percent like IFRS and the tax rules are in about 98 percent compliance with IFRS. But an accounting professor stated that the national standards and IFRS are far apart, citing inventory as just one example. Many Ukrainian enterprises load all overhead costs into the cost of inventory for financial reporting purposes, even selling and administrative costs. It could not be determined whether this practice is in keeping with national accounting standards but it is apparently common in practice. This treatment of inventory may be widespread among former centrally planned economies. At least one study has found the same technique to be prevalent in Bosnia (Pekmez and McGee 2004).

Ukrainian standards require companies to maintain a specific chart of accounts, a requirement that does not exist in the developed market economies. In a market economy, companies are free to construct their own chart of accounts, based on what makes the most sense for the particular company.

The IFRS on hyperinflation accounting standards is not applied retroactively in Ukraine. It is not used in practice. Expenses are classified by function in Ukraine. Some transactions, such as foreign currency translation, are recorded gross in Ukraine. Ukraine does not have a standard on government grants. Ukraine's financial instrument standard is not as detailed as the IFRS standard. Ukraine's standard on financial statement disclosure is not as detailed as the IFRS standard. Ukraine's standard on deferred taxes is similar to the IFRS standard. However, it is difficult to calculate the amount of the deferred tax and many companies simply don't do it.

The lack of educated people is slowing down the accounting reform process. There is a lack of educated young people and many of the older generation are not sufficiently familiar with IFRS, or even with national standards. Five years after the start of accounting reform nothing has changed. Accounting graduates still do not know national standards, according to one journalist. Only a few hours of lectures are devoted to IFRS at the universities.

The need for capital drives the market. Internal sources of capital are exhausted. There is no public equity in Ukraine. Private equity exists. Ukrainian companies often do not go to the debt market for capital because it is too expensive. However, those companies that have IFRS financial statements are able to obtain capital at lower interest rates than companies that have only Ukrainian financial statements. There is a need to rationalize business and clean up the financial statements to obtain equity capital, which is the cheapest source of capital.

There are some regulatory and political impediments to rationalizing businesses. For example, a chain of 25 supermarkets might be set up as 23 different businesses for political reasons. The local governments want them to set up separate businesses so they can tax them and give them permits. Such a structure is inefficient and too complicated. No one wants to invest in such a business.

Having poor financial statements is not necessarily an insurmountable obstacle to raising capital. Banks prefer to know their clients well. If the client has repaid loans in the past there is a tendency to lend money again. Knowing a client well is more important than IFRS financial statements. Adequate collateral is also an important criterion that bankers consider.

The political process is intertwined with business in Ukraine. Members of Parliament often have business interests and those interests are usually placed ahead of those of the country.

The conversion to IFRS is an ongoing process. National Ukrainian standards include some topics that are not addressed in IFRS and IFRS addresses some topics that Ukrainian national standards do not address. However, most Ukrainian accountants do not follow the national financial reporting rules. They follow the tax rules instead. Many Ukrainian accountants do not see a need for financial statements.

However, in some cases Ukrainian financial reporting standards are not much different from IFRS. Some clients that use Ukrainian standards do not require any adjustments at all to comply with IFRS, according to one interviewee.

Most Ukrainian clients choose Ukrainian standards that are as close to the tax rules as possible. Ukrainian standards are broad. It is possible to choose from several choices. Ukrainian financial reporting standards are rules-based, like U.S. GAAP, whereas IFRS are principles based. Thus, whenever a Ukrainian accountant seeks an answer to an accounting question, he or she looks for a rule that covers the situation rather than thinking about which accounting principle might apply.

About 700 Ukrainian enterprises have converted their books from national standards to IFRS, with the assistance of USAID. Professor Goloff developed a methodology for converting Ukrainian statements into international statements. He also wrote several books on the subject. He became famous and respected by the practitioner community as a result.

All of the top 25 banks prepare financial statements using IFRS. Commercial businesses have less likelihood of having IFRS financial statements. Companies owning about 40 percent of the total assets in Ukraine have IFRS statements.

All listed companies must present their financial statements in IFRS format to the National Security Commission. By the end of 2005 it is expected that all companies will be required to use only IFRS, although no one knows for sure whether they will have to prepare two sets of statements or just one. Companies that want to raise capital in the U.S. market will also prepare financial statements using U.S. GAAP. Many companies that have to prepare financial statements for statistical purposes feel that they do not serve any other purpose. Some companies use accounting information for management decision making purposes but the practice is not as widespread as it is in the developed market economies. Companies are not penalized much for making mistakes on their financial statements. Penalties are more severe for making mistakes on their tax statements.

Minority shareholders do not have access to financial information. Most people don't know how to read financial statements. Majority shareholders have access to insider information. There is a very low level of corporate governance in Ukraine. There is no one or no organized group to push for minority shareholder rights.

Ukraine is lagging behind Russia in the area of corporate governance. Ukrainian companies are just starting to have their internal auditors report to management. Audit committees are practically nonexistent. The stock market is practically nonexistent. As of June 2004, not a single Ukrainian company had had an initial public offering (IPO). The majority of funding comes from private sources. Conversations are one-to-one. When such financing is readily available, there is not much need for corporate governance.

Ukraine has adopted International Standards on Auditing (ISA) as of 2004. It decided not to have separate national auditing standards, so ISA have become the national standards. There is thus no need to reform national standards or do comparison studies to determine how closely the national standards correspond to ISA. Another interesting feature of adopting ISA is that whenever the ISA are amended or new standards are issued, Ukraine adopts them automatically. There is no need to introduce them as new legislation. That is not the case with IFRS, which must be introduced in the legislature, debated, etc. before passage and implementation.

There is a shortage of accountants in Ukraine who are experts on International Financial Reporting Standards (IFRS). However, the shortage is not noticed by a large segment of the Ukrainian accounting community because there is also a lack of demand for knowledge of IFRS. Demand for IFRS expertise comes mostly from the large enterprises, which need financial statements prepared in accordance with IFRS or U.S. GAAP in order to attract foreign investment capital. Small and medium size enterprises usually do not obtain their investment capital in the international capital market, so there is not as much demand for IFRS prepared financial statements among the small and medium size enterprises. As a result of this lack of demand except at the top level, the Big-4 accounting firms have captured a major market share of the audit and accounting work for the largest corporations in Ukraine. The Big-4 firms are practically the only firms that have the needed expertise, and they are practically the only firms that international investors will trust for audit opinions. Thus, the Big-4 has a monopoly among large Ukrainian enterprises.

This near monopoly has had a positive effect on Big-4 firms' growth rates. Ukraine's economy grew by 10 percent in 2003. One of the Big-4 accounting firms reported that its growth in Ukraine in 2003 was 20 percent. Another Big-4 firm stated that it grew by more than 30 percent and that growth would have been even higher if the firm had not been more selective in determining which clients to accept and which to reject. The Big-4 rejects potential clients based on their reputation and integrity. The third Big-4 firm said that it almost doubled clients and staff during the previous year.

Practice development consists mostly of just picking up the telephone when it rings, although the Big-4 firms also hold seminars and breakfast meetings to attract potential clients. One firm reported that it is very difficult to find good employees. This lack of good employees is the main obstacle to growth. The number of people the firms can train is also limited. And many of their employees leave the Big-4 to work for large enterprises after they are trained. The large enterprises offer experienced Big-4 accountants two or three times the salary that the Big-4 is willing to pay.

Some practitioners expressed the view that it is difficult to find experienced accountants and that it is difficult for recent accounting graduates to find jobs. However, some of the university administrators interviewed said that it is not as difficult for accounting graduates to find jobs as it is for graduates in other fields. Faculty and administrators at the two universities interviewed as part of this study were uniformly of the opinion that their graduates did not have a hard time finding accounting jobs. However, the two universities chosen for interviews were both above average in terms of perceived quality, so perhaps the success of their graduates in finding accounting positions is not representative of the country as a whole.

All of the Big-4 firms have offices in Kiev, the capital, and none of them have offices in other Ukrainian cities, although they do have clients in other cities. Odessa, another large Ukrainian city, has only one international firm, and it is not one of the Big-4. Thus, there still is a place for local Ukrainian firms, although the Big-4 seems to have a controlling market share of the largest enterprises, many of which are headquartered in Kiev.

The accounting practitioner community also does not see much need to be familiar with IFRS. When subscribers to *All About Accounting*, a large accounting newspaper in Ukraine, call the newspaper to ask accounting questions, they almost never ask financial reporting questions. Practically the only questions they have revolve around tax accounting. Even the tax officials do not require IFRS financial statements as part of their audits.

Where there is no demand, there will be no supply. Thus, the shortage of IFRS trained experts does not appear to be a problem for a major segment of the Ukrainian accounting community. However, that perception may change soon, since many Ukrainian enterprises will be required to prepare financial statements that comply with IFRS as of the end of 2005.

Accounting is not held in high regard by business owners because they do not see the value of accounting information, according to some interviewees. This perception will likely change as an increasing number of companies are required to issue financial statements and as an increasing number of Ukrainian accountants pass the various certification exams that are discussed below. Some interviewees indicated that accounting is considered a prestigious job. So there seems to be a divergence of opinion about the need for accounting information and the status of the profession within Ukraine.

One might say the same about Russia. Enthoven et al (1998) report that a survey of secondary school students ranked accounting 91st out of 92 occupations on the list of potential occupations in terms of prestige. However, that survey was taken early in the transition process. Accounting has since risen in terms of prestige as demand for accounting services has increased rapidly, due to the shift from a centrally planned economy to a market economy.

Public companies, insurance companies and banks are required to have an annual audit. Other companies are not required to have any audit and many enterprise owners and managers do not see the need for an audit in the absence of a legal requirement. This perception will change only slowly.

The concept of transparency is new in Ukraine, as it was in Russia (Preobragenskaya and McGee 2004). Not all Ukrainian accountants and enterprise managers have become accustomed to the idea that their main audience is shareholders, bankers and other providers of capital. Many of them retain the old Soviet mindset that their main audience is the tax authorities (government).

The accounting culture in Ukraine is deeply imbedded, especially among the older practitioners. This old Soviet mentality continues to cause problems. Accountants are accustomed to working with documents. Accruals are difficult for them to understand. Accruals do not require documents, which presents a problem because making entries where there are no documents goes against their mindset. Failure to make accruals is a common mistake for many companies. These mistakes are usually uncovered during the course of an audit. However, things have improved in recent years. The situation is getting better.

Revenue recognition is another problem for Ukrainian accountants. They prefer to get documents and to record revenue only when they have the documents. They prefer to use the cash method to recognize revenue rather than the accrual method.

There is also a problem with substance versus form. If a lease agreement says that it is an operating lease, the company will treat it as an operating lease even though it might be a financing lease in substance. The question about the substantive nature of the lease is never asked. Enterprise accountants go with whatever the lease language says.

Most contracts Ukrainian enterprises have with the Big-4 accounting firms are for just one year. Having contracts of such short duration limits the accounting firm's ability to do pre-audit work during the summer.

Companies also change auditors more frequently in Ukraine than in developed market economies. However, that is not a cause for concern because companies raise most of their capital through debt markets rather than equity markets.

ACCOUNTING CERTIFICATION

Financial statements that are certified by accountants possessing only a Ukrainian certification do not have any credibility in international capital markets and do not have much credibility even within Ukraine. That is because of the widespread impression that audit opinions can be sold. The interviews seemed to confirm this perception. In fact, the interviews revealed that even accounting certification can be sold in Ukraine, which is similar to the situation in Russia (McGee and Preobragenskaya, 2005) and perhaps other former Soviet republics.

Ukrainian certification is not highly regarded for other reasons as well. The exam is thought to be much less rigorous than the various international exams like the ACCA (Association of Chartered Certified Accountants) and American CPA and the Ukrainian exams do not test on IFRS to the extent that the ACCA does. However, the national Ukrainian certification exams are somewhat ACCA based. The national exams contain some topics that are also tested in the ACCA exams.

The national certification system has three levels, introductory, intermediate and advanced. However, only the first two levels were ever developed. Students were supposed to receive a certificate after completion of the exams for each level. After all the exams at all three levels were passed, candidates were supposed to be able to exchange their certificates for one diploma. However, the third level exams were never developed and the process stopped because no books were translated and because Ukrainian accountants do not use the level three topics in their work. The topics tested in the first two exams are used in practice but the level three material is not yet used in practice because the Ukrainian economy is not yet sufficiently developed to use advanced accounting concepts.

The lack of a credible Ukrainian accounting certification is being overcome in several ways. For Ukrainians who have a strong knowledge of English, it is possible to take either the ACCA exams or the American CPA exam. The ACCA is an old and reputable provider of accounting certification. It has been in existence since 1904 and has certificate holders in 160 countries. It has well over 300,000 candidates and is truly international in terms of recognition. It offers three levels of certification consisting of a total of 14 exams. It tests on IFRS and International Standards on Auditing (ISA). It is possible to take the exam in many countries and on all continents. The main problem with the ACCA exams is that they are offered only in the English language, which precludes the vast majority of otherwise potential exam candidates from taking the exams.

The ACCA exams are very popular among the subset of Ukrainian accountants who have a good command of the English language. The majority of the ACCA exam candidates work for or want to work for international firms. Those who can pass the ACCA exams have good job prospects.

The Certified Management Accountant (CMA) exam is another possibility for Ukrainian accountants who want to earn an internationally recognized certification. However, this certification is not very popular in Ukraine, mostly because of a lack of understanding about what management accounting is. Another reason for the relative lack of demand is because the Institute of Management Accountants (IMA), the organization that organizes this exam, has not marketed the exam to any great extent in Ukraine (McGee, Preobragenskaya and Tyler, 2004).

Another way for Ukrainian accountants to gain an internationally recognized accounting certification is to take the American CPA exam. Passing the CPA exam gives instant credibility. However, there are several drawbacks to the American CPA exam. For one, it is offered only in English, which precludes the vast majority of potential candidates from taking the exam. Another problem with the American CPA is that exam candidates must travel to the USA to take the exam.

The travel requirement greatly increases the cost of taking the exam, but that is not the only difficulty. It is not always easy for Ukrainians to obtain a visa and some potential candidates cannot obtain permission to enter the United States. Also, only a few American jurisdictions will permit Ukrainians to take the exam in their state. Although the exam is theoretically open to individuals of any nationality, many states require 150 semester hours of university education, consisting of a certain minimum number of hours in accounting. Many graduates of Ukrainian universities cannot meet this requirement. Alaska is a popular state because it requires just one year experience with an audit firm. However, CPA exam candidates do not have to go to Alaska to take the exam. Since the exam is now on computer, they can take the exam in any state.

The American CPA exam is not completely relevant to the Ukrainian situation. Part of the CPA exam tests on US tax and business law, which Ukrainians must learn on their own, since no such courses are available in Ukraine. Thus, there are a number of obstacles to be overcome for Ukrainians who want to earn the American CPA designation. The ACCA exams also test on British tax and business law, but the ACCA allows candidates to take alternate exams in these subjects if the local testing authority can convince the ACCA that the local tax and business law exams are the equivalent of the comparable ACCA exams.

Until recently, there was no internationally recognized accounting certification exam that was offered in a language other than English that Ukrainian accountants could understand, thus limiting their opportunities to earn a credible certification credential. However, that situation is changing.

In 2001, a group of accounting associations in several former Soviet republics, with the assistance of the United States Agency for International Development (USAID), gave a regionally recognized accounting certification exam in the Russian language for the first time. The content of the exam is similar in many ways to the ACCA and American CPA exams.

In 2002 an examination network was formed to supervise, manage and spread the exam. This association now consists of 14 accounting associations from 8 countries. Certificates are issued by the ICCAA. Individuals must be a member of one of the 14 sponsoring associations to keep their certificates. The exams are processed mostly by Accels, the same organization that offers the TOEFL and CMA exams. The exams are graded in Tashkent, Uzbekistan, although this may change after the headquarters moves to Moscow. The Center for Business Skills Development (CBSD) processes the exams in Moscow. Surveys have found that people are satisfied with the quality of the exams. The exams have also proven to be very popular. About 2400 people were trained within 12 months of the start of the program in all countries. As of mid-2004 there were 6500 people in the database for all countries.

Certification is at two levels and consists of a total of seven exams. There is also an experience requirement. The lower level is called Certified Accounting Practitioner (CAP) and consists of three exams, Financial Accounting 1, Management Accounting 1 and Tax & Law. Level two, called Certified International Public Accountant (CIPA) consists of four additional exams, Financial Accounting 2, Management Accounting 2, Financial Management and Auditing.

The CAP and CIPA exams started as a pilot program in the five Central Asian republics – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, with plans to expand the program into other former Soviet republics after the exams had been offered a few times in Central Asia. The original headquarters was in Almaty, Kazakhstan. The certification programs have since spread to Ukraine, Russia and Moldova. The headquarters for the exam programs moved to Moscow in mid-2004. Thus, it is now possible for Ukrainian accountants who cannot speak English to earn an internationally recognized and highly regarded accounting certification. As this program spreads, the credibility of Ukrainian accountants who can pass these certification exams will be greatly enhanced.

Although the exams are well received, there have been some minor problems or complaints. The study materials provide examples using American companies. Some students would like those examples to be replaced with local company examples. Russians, Ukrainians and other former Soviets are not accustomed to standardized exams, so there is a bit of culture shock. Candidates in Russia want the exam to test on Russian audit standards rather than international auditing standards. Testing on International Standards on Auditing (ISA) is not a problem in Ukraine, however, because Ukraine adopted ISA. There are no separate Ukrainian auditing standards.

All exam preparation courses are offered through the private sector and are a good source of income for trainers and training providers. Trainers earn between $100 and $500 per course, which compares favorably to the $200 a month they earn as university professors. USAID is not involved in the training aspect of the certification program although it does provide other kinds of support. For example, it trains the trainers and gives free books to students. It has also given a small cash award to the training providers for each student who passes an exam.

The courses vary in length but the recommended length is a total of 60 hours, consisting of 15 sessions of 4 hours each. However, some exam preparation course providers cram the 60 hours into a few days of 10 hours each.

USAID also facilitates the training effort by providing lists of potential trainers to exam preparation course providers. But USAID does more than merely providing a list of possible trainers. It also publishes a list of pass rates for each class, which makes it possible for training providers to determine which trainers had the most success in past training courses. Presumably, this puts pressure on trainers to do a good job so that they can attain a high pass rate for their students and get hired to teach future training courses. USAID also gives each trainer a letter stating the pass rate achieved for each of the courses they teach. These letters serve as a marketing tool, which they present to the private exam preparation companies when they apply for teaching positions.

However, evaluating the pass rates of trainers as not as easy as might first appear. The main problem with straight pass rate comparisons is that different courses have different degrees of difficulty. The CAP exams are easier to pass because of the nature of the questions and the availability of good exam preparation materials. The CIPA exams are more difficult and the training materials are not of the same quality. Thus, one cannot automatically conclude that a trainer with a lower pass rate for CIPA exam prep courses is necessarily a worse instructor than someone who has attained higher pass rates for a CAP exam.

These certifications are already being recognized in the marketplace. Some employers will hire only those individuals who have either passed all or some of the certification exams. The Central Bank of Kazakhstan requires internal auditors to have the CAP. The Central Bank of Ukraine requires their internal auditors to pass Financial Accounting 1 and Management Accounting 1 or pass the ACCA or CPA. Azov Steel Company requires all their accountants to have the CAP designation. Some employers will reimburse their employees for the cost of taking the exams. Some employers will increase the pay of employees who pass the exams. The largest bearing company in Ukraine gives employees a 25 percent raise when they pass all parts of the CAP. Prior to the June 2004 exams there were 871 CAP holders and one CIPA in Ukraine.

Most of this employer recognition to date has occurred in Central Asia, since the reputation of these exams is better known there. However, as the exams spread to Ukraine and other former Soviet republics, it is expected that the marketplace will start to recognize the value of these certifications in other countries as well. It is expected that some certificate holders might do business in Poland and Romania, since these two countries provide access to the European Union. Thus, CAP and CIPA holders might start permeating the EU in the near future.

During the course of the interviews it was learned that the CAP and CIPA exams were not generally well known in Ukraine. The individuals interviewed at the Big-4 firms either were not aware that these exams existed or had only heard about their existence but were not aware of any details. This lack of familiarity is to be expected, given the fact that the exams are relatively new even for Central Asia, and are even newer in Ukraine. At the time the interviews were conducted, only a few Ukrainian accountants had taken the CAP and CIPA exams.

However, the CAP and CIPA exams are not totally unknown, especially among the local Ukrainian accounting and audit firms. Furthermore, the CAP and CIPA exams are known not only by the firms in Kiev, the capital, but also in other Ukrainian cities. The one local firm that was interviewed in Odessa proudly stated that all of its accountants had passed all of the CAP exams. The first individual to earn the CIPA in Ukraine was the director of that Odessa-based firm.

The CAP exams are given quarterly, or at least that was the case until recently. CAP exams will no longer be offered in September starting in 2005 because of low turnout for previous September exams. The reason for the low September turnout is because it is too soon after summer vacation (Kenney 2004). So starting with the 2005 exams, the CAP exams will be offered three times a year, in March, July and November.

The CIPA exams are offered twice a year, in July and November. The exams are given over a three-day period. The financial accounting exams are five hours in length. The other exams are four hours long.

From the tenor of the comments made by interviewees at the Big-4, the interviewers got the impression that it would be a long time before the CAP and CIPA exams would be viewed as the qualitative equivalents of the ACCA and American CPA exams. One reason for this discounting of the CAP and CIPA is undoubtedly because of their newness. Another reason for discounting their quality, or even their credibility, is the fact that they are not in English. The partners at the Big-4 accounting firms in Ukraine are mostly from English speaking countries such as the USA, England and Australia. They are involved in the hiring process. They are more familiar with the ACCA and American CPA exams and they naturally place more trust in the quality of exams they are familiar with than with new exams that they are unfamiliar with. The fact that the CAP and CIPA exams are not in English also casts a shadow on their quality because of the perception that exam candidates do not have access to the same quality of exam preparation materials as do their ACCA and CPA exam counterparts.

There may be some truth to this perception, although the difference in the quality of study materials can be expected to narrow with the passage of time. Many of the study materials used to prepare candidates for the CAP and CIPA exams are Russian translations of English language texts. The Kieso intermediate accounting text is used for the Financial Accounting 2 course, supplemented by additional materials on IFRS, since the Kieso book gives U.S. GAAP examples. The Drury and Horngren books are used for Management Accounting 2. A more complete list of study materials is provided in the appendix. With the passage of time, local authors will publish Russian language materials to prepare candidates for the exams, which will do away with the problem of mediocre translations.

Another source of study material is the exams themselves. Two sample exams for each course are posted on the www.cipa.org.ua/eng/downloads/ website, which makes it possible for exam candidates to see in advance what to expect on the exams. The ACCA also makes its prior exams available to candidates, but the AICPA, the organization that makes the CPA exam, no longer makes its exams available.

There may be some future reciprocity between the CAP and CIPA exams and the ACCA and CPA. The ACCA has indicated that it will grant some exemptions for the ACCA exams if the organization offering the CAP and CIPA can provide evidence that its exams are the equivalent of the corresponding ACCA exams. The State of Michigan may exempt CIPA holders from the experience requirement.

Perceptions on the part of the Big-4 partners may also change as the partners from English speaking countries admit local Ukrainians to their partnerships. At present there are very few Ukrainian partners at the Big-4 firms in Ukraine. The main reason for this lack of local partners is that it takes about 10 years to train someone for partnership and not many Ukrainians have that much experience working for one of the Big-4.

As more Ukrainians achieve partnership in the Big-4, the perception of the CAP and CIPA exams may become enhanced. However, it is unlikely that the CAP and CIPA will attain strict equivalence with the ACCA and CPA in the foreseeable future. The Big-4 will likely continue to require their employees to be fluent in English, and these employees will likely continue to favor taking the ACCA and, to a lesser extent the CPA, rather than the CAP and CIPA exams, although some Ukrainian accountants may take the CAP and CIPA in addition to one of the English language exams.

However, the lack of perceived equivalency of the CAP and CIPA to the ACCA and CPA exams does not mean that the CAP and CIPA will never attain credibility or value in the marketplace. Since the vast majority of Ukrainian accountants cannot speak English well enough to pass the English language certification exams, the only game in town, so to speak, will be the CAP and CIPA exams. Because these exams test on IFRS and ISA, knowledge of these subjects will be able to spread rapidly throughout Ukraine and the other former Soviet republics, which will greatly enhance financial reporting in Ukraine. As the number of Ukrainian CAP and CIPA holders reaches some critical mass, the credibility of these certifications will be greatly enhanced. It is not necessary for the CAP and CIPA to gain equivalency with the ACCA and CPA exams to have a major and positive impact on the quality of financial reporting in Ukraine.

Curiously, some of the major resistance to the CAP and CIPA exams is coming from within the Ukrainian accounting profession. The old guard is resisting change. The younger generation of accountants, on the other hand, is welcoming the change that the introduction of the CAP and CIPA will provide. The president of the national accounting association in Ukraine issued a letter to the regional accounting executives instructing them not to send anyone to the June 2004 CAP and CIPA exams. They ignored this command from on high. About 1,800 individuals took those exams. The regional accounting associations ignore the national association. The accounting association president, who never took an exam but who is well connected to the Finance Ministry, was so embarrassed that there was speculation he may have to resign.

Sustainability of the examination program is a concern. USAID has been subsidizing the program since its inception. However, it plans to end the subsidy and turn everything over to the ICCAA in 2005. There is a great deal of demand for these certification exams, so there is a fair probability that the program will be able to sustain itself without USAID involvement. However, financing the program is seen as a problem.

Because of the low level of income in the region, USAID hesitated to charge exam fees that were sufficient to cover all costs of the program. In fact, it did not charge any exam fees in the early stages of the program and even gave away books and other exam materials for free. These subsidies will end in 2005 and some way to meet costs will have to be found if the program is to be sustainable.

Each exam costs between $28 and $35 to prepare. It costs another $7 per exam to grade. There are also some fixed costs involved, such as the cost of providing a trainer to teach each course. Students are currently charged $7 to take each exam. The break even point is estimated to be $30, so some way will have to be found to either bring down the cost or increase the fees charged to students.

Tables 1 and 2 show the CAP and CIPA exam statistics for the June 2004 exams in Ukraine.

Table 1
June 2004 CAP Exam Statistics
Ukraine

	FA-1	**T&L**	**MA-1**	**Total CAP**
# participants	283	232	271	786
# passed	149	158	112	419
Pass Rate	52.7%	68.1%	41.3%	53.3%

Source: Kenney; Mino

Table 2
June 2004 CIPA Exam Statistics
Ukraine

	FA-2	**MA-2**	**Audit**	**Fin**	**Total CIPA**
# participants	183	150	137	143	613
# passed	9	31	24	19	83
Pass Rate	4.9%	20.7%	17.5%	13.3%	13.5%

Source: Kenney; Mino

As can be seen, the number of participants for the CAP exams is much higher than for the CIPA exams. That is because candidates must first pass the CAP exams before proceeding to the CIPA exams. The pass rates for the CAP exams are also much higher than the CIPA pass rates. There are two reasons for the lower CIPA pass rates. For one, the nature of the material is more difficult. The other reason is because the exam preparation courses for the CIPA exams were not as strong. In some cases, CIPA candidates had to study on their own without the benefit of preparation classes (Kenney 2004).

Table 3 shows the statistics for the September 2004 CAP exam in Ukraine. The level of participation for the September 2004 exams is much lower than for the June exams because the September exams were offered too close to the summer vacation. The CIPA exams are offered just twice per year, in June and November. Thus, CIPA exam statistics are not given for the September 2004 exam.

Table 3
September 2004 CAP Exam Statistics
Ukraine

	FA-1	T&L	MA-1	Total CAP
# participants	95	103	122	320
# passed	47	55	57	159
Pass Rate	60.3%	63.2%	58.8%	60.7%

Source: Kenney

The results for the November 2004 CAP and CIPA exams were not available by the deadline for submitting this chapter. However, statistics on the number of exam participants were available. The following tables summarize the turnout statistics for the November CAP and CIPA exams in Ukraine.

Table 4
Turnout Statistics
CAP Exams in Ukraine
November 2004

City	Financial Accounting 1	Managerial Accounting 1	Tax & Law	Totals
Dnepropetrovsk	95 (21.7%)	34 (10.7%)	40 (13.6%)	169 (16.1%)
Donetsk	48 (11.0%)	42 (13.2%)	39 (13.2%)	129 (12.3%)
Ivano-Frankovsk	38 (8.7%)	18 (5.7%)	26 (8.8%)	82 (7.8%)
Kharkov	58 (13.2%)	58 (18.2%)	47 (16.0%)	163 (15.5%)
Khmelnitsky	16 (3.6%)	14 (4.4%)	14 (4.8%)	44 (4.2%)
Kiev	156 (35.6%)	117 (36.8%)	109 (37.1%)	382 (36.4%)
Odessa	27 (6.2%)	35 (11.0%)	19 (6.5%)	81 (7.7%)
Total	438 (100.0%)	318 (100.0%)	294 (100.0%)	1050 (100.0%)

Source: Kenney

Table 4 shows that a total of 438 individuals took the Financial Accounting 1 exam in Ukraine and that the largest number of exam takers (156) was in Kiev. More than 35 percent of the total exam takers for this exam were in Kiev, which is a significant number, and also a revealing number. While it could be expected that Kiev would be the largest exam center, what is also significant about this statistic is that nearly two-thirds of all exam takers took the exam in a city other than Kiev. This statistic reveals that the regions outside of Kiev are not accounting wastelands.

A different conclusion might be reached if one were to look at other information. For example, all of the Big-4 accounting firms have offices only in Kiev and the ACCA exams are offered only in Kiev. If one were to consider only this information, the conclusion might easily be drawn that Kiev is the only city in Ukraine where IFRS knowledge exists. But the CAP and CIPA exams are offered in 7 Ukrainian cities and most exam takers took the exam in a city other than Kiev. Thus, the accounting profession in Kiev does not have a monopoly on accounting expertise. Knowledge of IFRS and ISA are spreading to the regions outside of Kiev, a fact that would not be readily apparent if one were to confine the analysis to looking only at the locations of the Big-4 accounting firms and ACCA exam centers.

Table 5 shows the turnout statistics for the CIPA exams in Ukraine.

Table 5
Turnout Statistics
CIPA Exams in Ukraine
November 2004

City	Financial Accounting 2	Managerial Accounting 2	Audit	Finance	Totals
Dnepropetrovsk	52 (37.4%)	45 (36.6%)	21 (16.9%)	33 (31.1%)	151 (30.7%)
Donetsk	17 (12.2%)	9 (7.3%)	12 (9.7%)	12 (11.3%)	50 (10.2%)
Ivano-Frankovsk	0	6 (4.9%)	14 (11.3%)	3 (2.8%)	23 (4.7%)
Kharkov	0	25 (20.3%)	11 (8.9%)	11 (10.4%)	47 (9.6%)
Khmelnitsky	0	6 (4.9%)	3 (2.4%)	2 (1.9%)	11 (2.2%)
Kiev	70 (50.4%)	29 (23.6%)	40 (32.2%)	27 (25.5%)	166 (33.7%)
Odessa	0	3 (2.4%)	23 (18.6%)	18 (17.0%)	44 (8.9%)
Total	139 (100.0%)	123 (100.0%)	124 (100.0%)	106 (100.0%)	492 (100.0%)

Source: Kenney

Table 5 shows that Kiev again tended to dominate in terms of exam takers. However, Dnepropetrovsk actually had more exam takers for the Managerial Accounting 2 and Finance exams than did Kiev. Another fact that Table 5 reveals is that the number of CIPA exam takers was much lower than the number of CAP exam takers. The probable reason for this lower turnout is because candidates must first pass the CAP exams before they can sit for the CIPA exams. The CAP exams serve as a screening process.

FINANCE CERTIFICATION

The Kyiv Investment Management Institute (KIMI) is the official training center for the Ukrainian Society of Financial Analysts. It is the only exam site in Ukraine for the CFA exam. The CFA exam is given twice a year internationally but only once a year, in June, in Ukraine. KIMI proctors the exam but does not prepare students to pass it. The Association of Certified International Investment Analysts (CIIA) does the training. The CIIA is in about 70 countries. Exams are offered in 9 languages, including Russian. About 100 people took the CFA exam in Ukraine in June 2004. There is also a certification in Financial Risk Management (FRM) but there is not much demand for this certification at the moment.

KIMI is trying to establish national finance qualifications in addition to the international qualifications. There are four levels in finance and financial analysis, all offered in Russian. The exams are devised by KIMI specialists.

KIMI offers several programs to prepare students for the various accounting and finance certification programs and also offers the MBA as a branch of the Kiev Business School. There are two versions of the MBA program. The National Advantage MBA is taught in Russian. There is also an MBA taught in English under arrangement with Stanford University, some universities in Holland and some local experts, who provide the training.

KIMI also offers a five-year program that covers the topics that are on the CFA exam. CIIA modules are also integrated into the curriculum. Students who already have a five-year degree can earn a second degree in two years. KIMI is also developing educational modules for the CAP and CIPA exams. Three CAP modules were incorporated into their first degree program as of September 2004.

TAXATION

The accounting system in Ukraine is driven by the tax rules. Ukrainian tax officials are not concerned with financial accounting rules, whether Ukrainian or international. The same situation exists in Russia (McGee and Preobragenskaya, 2005).

Although accounting firms in Ukraine can develop a tax practice, and while there are tax clients to be had, many Ukrainian enterprises prefer to pay the tax authorities directly rather than some accounting firm to make sure they won't have any tax problems. From the interviews it was unclear whether these payments to tax officials were for consulting or bribes but the perception was that it was a little bit of both.

Ukrainian national financial reporting standards are very flexible, according to some interviewees. Where there are options, Ukrainian firms almost always choose the option that is close to, or identical to the tax rules. Of course, some firms do not follow the national standards at all. There is a tendency to use the tax rules for financial reporting. This tendency causes some problems at times. For example, the tax rule allows companies to deduct the cost of inventory when they pay for it, even if they have not yet received it. That is because the tax rules often follow a cash basis approach rather than the accrual basis.

The present tax system has been evolving since about 1993. The most rapid changes have taken place since 2001. The tax law is now 60-70 percent understandable, according to one interviewee.

The tax law is basic and subject to interpretation. The law as applied is different from the law as written. There is no precedent and tax court cases are not published. One must find out about them informally.

Corporate Tax

The present corporate tax rate is 25 percent. It was 30 percent in 2003. It was reduced to enhance incentives for foreign investors. The starting point for computing taxable income is financial statement income, followed by many adjustments. Large companies make these adjustments. Small companies prefer to keep two sets of books, one for tax and one for financial reporting.

There are some nondeductible expenses, such as advertising and publications. Although advertising costs are not deductible or amortizable, companies can deduct the cost of hiring an advertising agency. Thus, rather than incur the cost of advertising themselves, they hire an advertising agency to do it for them, which enables them to deduct the cost.

There are no advance rulings. If the tax authorities give a company a written statement that something is deductible this year, the company cannot use that document next year to justify the same deduction. Other companies also cannot use it. There is no precedent.

Losses can now be carried forward indefinitely. Under the former rule there was a five-year maximum. There was a feeling that the law needs to be more transparent and more sophisticated, especially in the areas of transfer pricing and thin capitalization. It was also thought that the law needs to be applied more consistently.

Personal Income Tax

The rate used to be progressive with a top rate of 40 percent. Ukraine now has a flat rate of 13 percent. There is an exception for individuals who are temporarily in Ukraine (26%). Interest is excluded from tax. Dividends and royalties are taxed at 13 percent. Capital gains are taxed as ordinary income (13%) with no adjustment for inflation. The tax rate is expected to increase to 15 percent in 2006. A person is a tax resident if in Ukraine for 183 days. If so, he is subject to worldwide taxation. It is not clear how income from other countries is taxed.

More people are now paying taxes. Tax officials are not looking into where unreported income came from in prior years, which amounts to a sort of unofficial tax amnesty.

VAT

The Value Added Tax (VAT) rate is now 20 percent but will be reduced to 18% and perhaps later to 15%. The rate is 0% for export services and medicines. There is no exemption for food.

The Ukrainian VAT is based on the EU 6th Directive. It has been referred to as the black sheep of taxes in Ukraine, the bad tax among the good taxes. The law is badly applied and poorly administered, according to one of the tax specialists interviewed.

Ukraine has a huge amount of VAT tax refunds due to taxpayers, about $10 billion collected between 2000 and 2004, but the government does not like to pay refunds, so the refunds have not been made. The IMF gave the government the funds needed to pay the refunds, yet the refunds have not been paid, which is causing the IMF to be very upset.

There is a scheme to convert VAT refunds into government bonds as a means of payment over five years. This has created a secondary market in VAT bonds, which sell at a 30% discount. The bonds are being sold to financial institutions.

The VAT rules place a tremendous burden on banks, which need to have separate VAT accounts set up. The banks are liable for those accounts.

The banks have, in effect, become tax collectors for the state. There is a big debate over this issue. Various proposals have been made and later taken off the table. Several laws have been introduced. It was the opinion of at least one tax specialist that these new laws, if enacted, will impose a huge burden without solving the problem. The VAT is expected to be a big problem for the next few years, at least. One problem that will not be solved in the near future is the place of supply rules. These rules are not clearly defined.

The VAT law appears to be stagnant. It is not getting worse but it is not getting better either.

Tax Evasion and Tax Planning

Some individuals and companies pay a bribe for the tax officials to lose their file, with the result that they don't have to pay taxes. Some people build a relationship with the tax authorities. They negotiate taxes, an approach that would be unheard of in most developed countries, but a practice that is fairly common in many developing countries.

As taxpayers become familiar with the tax law they can do tax planning, which is a new concept. There is a special rule for entrepreneurs. They can pay a flax tax of $200 a month regardless of income. Some individuals try to qualify as entrepreneurs rather than employees so that they can pay the $200 per month. This technique is being used less frequently now that there is a 13% flat tax.

Tax evasion in customs is still widespread. Tax evasion is common in other areas as well. Punishment for evasion depends on the region. There is a 100% maximum penalty. However, taxpayers can pay a 5% penalty if they resubmit their tax return and pay the tax due. The tax specialist who mentioned this point said he could not think of anyone who went to jail for tax evasion. Cases are generally settled out of court.

The fairness of the court depends on the judge, the size of the case and how hard the taxpayer is willing to push. Sometimes making a contribution to the judge helps. There is a general feeling that the judge will rule in favor of the government.

Sometimes bribes are paid in the form of advertising. A company pays a large advertising fee but receives little or nothing in return.

Social Security

Payments to private pension funds are not yet deductible, but payments to the state pension fund are deductible. The employer contribution to the state fund is 35-37% of the first 2600 grebnas per month [5.3 gribnas to the dollar]. The employee portion is 3%.

It is now possible to make contributions to a private pension fund. However, there are no regulations on how to register a private pension fund. Once regulations are written, it is thought that pension funds will emerge.

The age to qualify for a pension is 55 for women and 60 for men. People can continue to receive a pension if they work beyond pensionable age. The amount of their pension is not enough to live on, about 160 gb per month, or $30. People cannot hold investments in a foreign country without approval of the Ukrainian National Bank. They cannot invest in foreign pension funds.

Other Tax Topics

It is difficult to guess how the tax authorities will interpret the law because the law is unclear and the law, as applied, is often different from the law as written. Tax forms are easy to understand but there are too many of them.

The corporate income tax is collected quarterly. The VAT is collected either quarterly or monthly. Individuals submit their tax returns on April 1. Corporate tax audits are regular, every year or two. The government must give 10 days notice. Audits are of specific items.

The general director and the chief accountant can be personally liable for taxes. As a result, some companies don't take all legitimate deductions. Companies pay higher taxes so that corporate officials can avoid personal liability. Whether this practice constitutes a breach of fiduciary duty is an open question.

Losses in four consecutive quarters lead to an automatic audit. Companies that have no tax liability are encouraged to pay taxes anyway to get the auditor off the hook with his boss. Auditors are under pressure to collect taxes. Auditors exert extra pressure to squeeze taxes out of people before elections to pay for election campaigns.

The World Bank is helping to fund tax modernization. The level of tax education leaves something to be desired. Officials know the basics but not the more technical items. The World Bank is offering training to tax officials.

The transfer pricing rules are often applied incorrectly to transactions involving unrelated parties within Ukraine (transfer pricing rules should apply only to related parties). Foreign companies are not taking advantage of the transfer pricing rules and the Ukraine's relatively low tax rates.

The Big-4 accounting firms have given advice about pending tax legislation but their advice is usually ignored. They want to receive drafts of pending legislation so that they can provide comments and suggestions, a practice that is common in the developed market economies, but absent in

Ukraine. This situation is starting to change, but the practice of providing drafts is still far from a regular practice. Parliament does not ask for feedback. It is an alien concept for them. Members of Parliament do not have that mindset. Also, there is no comment period for pending legislation, since providing comment periods is also an alien concept in Ukraine.

The corporate tax system is moving toward an accrual basis but it is not there yet. Inventory is deducted as purchased, with adjustments for the beginning and ending balances. But some companies do not make these adjustments.

There are several book/tax differences that the tax authorities do not know how to deal with. In the case of inventory, for example, adjustments have to be made between weighted average and FIFO but the tax officials do not know what adjustment must be made. They accept whatever adjustments the companies make.

The currency exchange rules are different for book and tax purposes. The tax authorities accept whatever adjustments companies make because they do not understand the rules. Tax officials accept taxpayer calculations.

There is no estate tax in Ukraine. Inheritances are considered income and are taxed as such. An inheritance to the spouse is exempt from tax.

CONCLUDING COMMENTS

The accounting reform process in Ukraine is like the reform process in Russia in many ways. Both countries got off to a slow start and both experienced problems translating accounting materials into the local language. Both countries experienced some difficulty implementing the new accounting into their university curriculum. Neither country has an internationally recognized accounting certification. Many practitioners in both countries do not have much knowledge of IFRS and many do not think that such knowledge is required. In both countries, the demand for IFRS financial statements comes mostly from the international investment community, which often requires IFRS prepared financial statements as a condition of investment. Both countries have a low level of corporate governance (McGee and Preobragenskaya, 2004).

However, there are also some differences between the Russian approach and the Ukrainian approach. Whereas in Russia much of the accounting change started at the top, from the government, accounting change in Ukraine started at the grass roots, from the private sector accounting profession, at least to a certain extent. That is true of accounting certification, at least. The driver of professional accounting development in Ukraine was the private sector accounting profession. Russia, on the other hand, does not have an effective developed private sector accounting body at the national level. Russia's accounting profession consists of a plethora of poorly organized and largely ineffective local accounting organizations, the leaders of which often use their position to further their own interests rather than that of the accounting profession. That is not to say that some leaders of the various Ukrainian accounting organizations do not also use their position to further their personal interests. But the situation in Russia seems to be more obvious, since there is a near total absence of public interest present in the Russian accounting organizations.

Another difference is that Ukrainian tax authorities do not require the submission of financial statements, whereas Russian tax officials do. However, the Russian tax officials require financial statements mostly for statistical purposes. Financial statement numbers are not used in either country to determine tax liability.

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Ukraine Accounting Reform Project www.capcipa.biz/

APPENDIX
Exam Materials for the CAP and CIPA Exams

The following study materials are available in the Russian language and are used to prepare candidates for the CAP and CIPA exams.

Financial Accounting 1
Needles, Anderson and Caldwell, Accounting Principles 4th edition [main text]
Golov, S.F., International Accounting Standards 2001, Kiev, FPBA Ukraine
Welch, Glen., Daniel G. Short. Elementary Accounting, Kiev, Asnovi, 1999
Golov, S.F., Kostuchenko, V.M. Accounting and International Standards: Implementation and Comments, Kiev, Libra, 2001
R. Anthony, G. Reese, Accounting, Situation and Examples, Moscow, Finance and Statistics, 1998.

Management Accounting 1
Horngren, C.T., Foster, G. Accounting: A Managerial Emphasis, 6th edition. [main text]
Nikolai O.E., Shuskova, T.V. Management Accounting, 2nd ed., Moscow, Editorial URSS, 2001.
Suvchuk, V.P. Financial Management of Enterprises: Practical Cases and Analysis of Real Business Situations, Kiev, Maximum, 2001.
Golov, S.F. Management Accounting, Kiev, Libra, 2003.
Needles, Anderson and Caldwell, Accounting Principles 4th edition, Moscow 1997.

Tax and Law
36 tax items and 133 law documents and 49 other recommendations items listed as sources

Financial Accounting 2
Kieso, Weygandt and Warfield, Intermediate Accounting. [main]
Golov, S.F. International Accounting Standards 2001, Kiev, FPBA Ukraine
Welch, Glen, Daniel G. Short. Elementary Accounting, Kiev, Asnovi, 1999
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Management Accounting 2
Drury, Management and Cost Accounting, 5th edition [main text]
Horngren, C.T., Foster, G. Cost Accounting: A Managerial Emphasis, 6th edition. Sokolov, editor.
Nikolai O.E., Shuskova, T.V. Management Accounting, 2nd ed., Moscow, Editorial URSS, 2001.
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Lukasevich, Analysis of Financial Operations, Moscow: Financi 1998.
Brigham, U. Gapenski, L. Financial Management 2 parts, St. Petersburg, Economical School 1997.
Bertstein, L.A. Financial Statement Analysis, Moscow: Finance and Statistics 1996.

Audit
Arens, Loebbeke, G.K. Auditing, 5th edition [main]
Campbell, D. Fogarty, T.G. Execution of Auditing Opinion, 5th edition [main]
International Auditing Standards and Professional Ethics Code, 2001 Kiev, Auditing Chamber of Ukraine, 2003.

Chapter 4

ACCOUNTING REFORM IN ARMENIA

Abstract

This chapter describes and summarizes the USAID Accounting Reform Project in Armenia. After a brief introduction that discusses the history and culture of Armenia, the chapter goes into a discussion of the major aspects of accounting reform, which included assisting the Finance Ministry adopt and implement International Accounting Standards (IAS) and International Standards on Auditing (ISA), translating accounting materials into Armenian and Russian, upgrading the accounting curriculum at all the major universities and institutes, facilitating the growth of a private sector accounting association, assisting in the development of continuing professional education programs (CPE) for practitioners and helping to establish an accounting certification program. One of the authors was employed by a private consulting firm that had the USAID accounting reform contract for Armenia.

INTRODUCTION

Armenia became part of Russia in 1828 and was one of the first countries to join the Soviet Union after the communist revolution of 1917 (CIA, 2005). Historically, Armenia had been on friendly terms with Russia, which furnished Armenia with military protection up through the nineteenth century (Bournoutian 2001; Sunny 1993). As a Christian country, it was often in danger of invasion by the Turks, who tried to kill the population or convert them to Islam. Such a massacre actually occurred in 1915, which resulted in the deaths of a substantial portion of the Armenian population (Miller and Miller 1999; Melson et al 1992; Graber 1996; Hovannisian 1986; Dadrian 1995), with many more fleeing to other countries. Interestingly enough, one of the young girls who was taken prisoner and sold into slavery to a Bedouin later found sanctuary with a young accountant (Derdarian 1998).

After the breakup of the Soviet Union, Armenia went to war with Azerbaijan, another former Soviet republic over Karabagh, an Armenian enclave located within the borders of Azerbaijan (Walker 1991). It is now struggling to convert its accounting and legal systems into Western, market models (World Bank 2002; Libaridian 1999), and is experiencing a fair degree of success.

It is probably fair to say that there are now more Armenians living outside of Armenia than within. Many of them settled in Beirut, Venice, Jerusalem, California, France and Australia, although there are Armenian communities in many other countries as well (Marsden 1993). Mount Ararat, where the remains of Noah's Ark is supposed to have been found, used to be in Armenia, but is now in Turkey as the result of a change in borders after the Turk invasion.

While the fact that so many Armenians had to leave their own country is sad, in a way it also provides Armenia with some economic advantages that some of the other former Soviet republics do not have, because a large percentage of the Armenian ex-pat community is engaged in business in whatever country they are living in. They have accumulated capital, and some Armenian business people are favorably inclined to invest in their former homeland, partly out of a sense of patriotism or ethnic pride more than potential profit. Also, because the ex-pat community has relatives in Armenia, they have a network of contacts, which makes it easier to establish business ties.

That is especially important in a country like Armenia, which does not yet have a strong rule of law. It is a well-known fact of international business that personal contacts are invaluable in countries that do not have a strong rule of law, so the fact that there are such unofficial networks connecting Armenia to sources of foreign capital is extremely important. However, the Armenian ex-pat community has limited capital for investment in Armenia, and patriotism goes only so far when it affects the pocketbook. Armenia needs an infusion of more capital than can be provided by the ex-pat community alone. That is where accounting reform comes in. Once Armenia adopts a system of financial transparency, non-Armenian foreign investors will seriously consider it as a possible place to invest.

Armenia is in the Caucasus. It is south of Georgia, north of Iran, west of Azerbaijan and east of Turkey (Hewsen 2001). Although it is geographically part of Asia, most Armenians insist that they are European. Its population is just under 3 million according to the CIA's World Fact Book (CIA, 2005).

Armenia declared its independence after the breakup of the Soviet Union (Libaridian 1991), but it retained the Russian administrative system, including its system of accounting. The Russian accounting system was, and is still highly centralized. The various Soviet republics got their chart of accounts from Moscow and they more or less retained it after the dissolution of the Soviet Union.

The Soviet accounting system was much different than what one would encounter in the developed market economies. Actually, it was more like a bookkeeping system. It was not possible to do ratio analysis involving income statements because there were no income statements. Everything was owned by the state and profit was a crime. Thus, there was no such thing as net income or a profit and loss statement. Prices were determined arbitrarily.

The Soviet accounting model had a highly developed system of journal entries. In fact, students who studied accounting in the Soviet universities took a course in journal entries. Costs were determined arbitrarily, which made it impossible to calculate actual economic costs or determine whether they were making a profit or loss. As a result, there was a massive misallocation of resources. In fact, at least one economist predicted as far back as the 1920s and 1930s that their lack of a cost accounting system would eventually lead to the demise of their system (Mises 1990; 1981; Kirzner 2001). Thus, there was a need to adopt an accounting and financial reporting system that would allow the former Soviet republics to participate and compete in the market economy after the collapse of the Soviet Union.

The United States Agency for International Development (USAID), TACIS, it's EU counterpart, the World Bank and a few other organizations have established programs to assist economies in transition to make the necessary changes to their accounting systems. The Armenian accounting reform project was funded mostly by USAID, although there was also a TACIS project in Yerevan at one point. This chapter summarizes the activities of the USAID Accounting Reform Program, which came to Armenia in July, 1998.

WHY ACCOUNTING REFORM WAS IMPORTANT

Countries that are trying to replace their centrally planned economy with a market model need to attract investment. Most countries in the transition process are in financial straits. There is not a sufficient amount of capital to fund the transformation process. Much of what was once domestically available for investment has fled the country for greener pastures. Thus, a large portion of the investment needed for economic development must come from abroad.

How can foreign investors be enticed to invest in Armenia or any other country going through this transition process? One factor that foreign investors look at is financial transparency. They need to know what they are investing in, and that requires financial statements that are based on some kind of internationally recognized accounting principles. Adopting International Financial Reporting Standards [IFRS] (which were called International Accounting Standards [IAS] at the time Armenia began to reform its accounting system), is one way to help gain credibility in international financial markets, since such standards are recognized and accepted in dozens of countries. The European Union (EU) adopted IFRS as of January 1, 2005; Russia adopted them as of January 1, 2004, although many Russian accountants still do not know anything about IFRS.

Another possibility is to adopt U.S. generally accepted accounting principles (GAAP), since they are also recognized internationally. However, U.S. GAAP is not as widely recognized on a worldwide basis as IFRS, and the trend is toward IFRS rather than U.S. GAAP, so Armenia decided to adopt and implement IFRS rather than U.S. GAAP.

Adopting some kind of recognized accounting standards is only the first step. If companies start using some such standard and there are other impediments to investment, such as the lack of a rule of law, corruption or too many regulations, investors will bypass the country and invest where the investment climate is more to their liking.

Although Armenia has adopted International Accounting Standards, it is still not an extremely attractive place to invest (McGee 1999a), although it is getting better. The *1999 Index of Economic Freedom* ranked it 106 out of 161 countries (Johnson et al 1998), which means there were 105 countries that provided a better investment climate than Armenia. Its rank has improved markedly in recent years (perhaps because of accounting reform and the resulting transparency in financial reporting). The *2002 Index of Economic Freedom* ranked it 45 out of 161 countries, which placed it in a tie with France and Poland (O'Driscoll et al 2001). The *2005 Index of Economic Freedom* ranks it 42 out of 161 countries (Miles, et al., 2005), which places it almost in the top 25 percent, in terms of economic freedom. The fact that things are getting better in Armenia is evidenced by the fact that it is now possible to purchase an investment guide to Armenia (International Business Publications 2002), which is an encouraging sign, since it indicates there is now a market for such information.

Armenia's overall score on economic freedom, which is a composite of a number of variables, has also been improving. On a scale of 1 to 5, where 1 is the most free, its scores in recent years have been as follows (Miles, et al., 2005):

1997 - 3.50
1998 - 3.50
1999 - 3.50
2000 – 3.21
2001 – 3.03
2002 – 2.78
2003 – 2.59
2004 – 2.63
2005 – 2.58

That is a remarkable improvement, considering the limited human resources that Armenia has to work with. Until a few years ago, practically no one in Armenia had studied market economics to the same extent that students in Western Europe and the United States have. There were no texts in the Armenian language that students could refer to. Before the early 1990s, few people knew English. They studied Armenian and Russian.

After the fall of the Berlin Wall and the dissolution of the Soviet Union, a number of changes occurred. Students shifted their study efforts away from Russian and into English, so much so that, in some countries, a large percentage of Russian language instructors became unemployed. Another big change was that textbooks started becoming available in the local language, not so much in Armenian but in a number of other languages. However, Armenian students could use any text that was translated into Russian because they were fluent in Russian. Much of the credit for these translations can be attributed to George Soros and the various foundations he funds. The Soros Foundations poured a great deal of money into the translation of Western texts into the languages of Eastern Europe and the former Soviet Union. USAID did the same thing for accounting textbooks, as we shall discuss below.

THE PROCESS OF REFORMING ACCOUNTING IN ARMENIA

The Armenian version of International Accounting Standards was adopted in Decision No. 740. This pronouncement states that the accounting standards to be used in Armenia are to be based on the International Accounting Standards promulgated by the International Accounting Standards Committee. Where there is no International Accounting Standard on an accounting topic that needs to be addressed, Armenia can develop its own Standard to fill the void.

The Ministry of Finance and Economy is charged with the task of developing Accounting Standards of the Republic of Armenia (ASRA) in three phases. The first phase was completed in 1998 with the adopting of 15 ASRAs. An additional 12 ASRAs were finalized during 1999. One of these ASRAs (No. 3) was to be developed to fill the void left by the absence of an International Accounting Standard on the topic of the structure of an organization's costs and expenditures. The third phase was completed in 2000 with the adoption of an additional 8 ASRAs.

Decision No. 740 also called for the adoption of a Chart of Accounts[1] and for improvement of instructions for financial statement presentation by

[1] ART. 2b. When I first heard that the Finance Ministry was developing a "new" Chart of Accounts to replace the old one, I was quite amused. In most western countries – certainly in the United States – there is no such thing as a mandatory Chart of Accounts. Each company is free to create a chart of accounts to suit its needs. Mandatory charts of accounts are quite common in the CIS. They had them when they used Soviet accounting and they want to keep them. It seems strange for countries that want to adopt western accounting system insist on keeping this top-down planning device, but discussions with Armenian accountants revealed that they would feel lost without it. In one conversation, when I suggested that Armenia

the end of 1998, which was successfully completed a few days before year-end.

The USAID Accounting Reform project landed in Armenia in July 1998. The project had several components. One of the most important components was to assist the Finance Ministry adopt IAS. The Armenian banking system was already in the process of adopting the IAS that applied to banks but the Finance Ministry was only thinking about making changes. USAID was invited to Armenia to help facilitate the conversion process.

An ex-pat was assigned to help the people in the Finance Ministry understand what the new rules (IAS) were about and how they should be applied. Several major problems were encountered early on. For one, no one in the Finance Ministry had any background in accounting. The person in charge of accounting methodology was an engineer who never had an accounting course. His assistant was a lawyer, who also never had an accounting course. Luckily, they were both intelligent and motivated individuals and they wanted the project to succeed.

Another initial problem was that the IAS had not yet been translated into Armenian. Furthermore, the first Russian translation, which was being published in Moscow, would not be available until 1999, so the Finance Ministry people could not refer to the Russian version because it did not yet exist.

Thus, one of the earliest tasks of the USAID project was to translate the IAS into Armenian. Translation proved to be somewhat of a problem, for several reasons. For one, it was not possible to find anyone who was fluent in both English and Armenian and who also knew accounting. The old Soviet university curriculum taught only a course in bookkeeping and perhaps a few mathematics courses that had something to do with economics. There were no courses on intermediate accounting like the kind that are commonly found in American universities. As a result, the project hired translators who had specializations in geology, physics, English literature and economics.

Other problems were encountered once the translation started. The biggest problem was that there were no words in the Armenian language to describe some of the accounting terms. Referring to Russian language dictionaries also was not often very helpful because there were no Russian terms for some of the accounting concepts. The Russian language did not even have a word for *accountant*. They used *buchhalter*, the German word for bookkeeper instead. But bookkeeping is not the same as accounting.

The translation team had to find ways around this problem. One way was to provide a description of what the English language terms meant. Frequent meetings were held during the early weeks of translation to discuss terminology.

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abolish a mandatory chart of account, the person I was conversing with almost had a heart attack. He did not think I was serious.

Another part of the project involved education. Funds were available to assist any university that wanted to revise its accounting curriculum to involve study of IAS and International Standards on Auditing (ISA). This part of the project would have been considered successful if just one major university or institute agreed to revise its curriculum. Luckily, all the major universities and institutes agreed to accept USAID assistance.

The accounting curriculum in those days actually consisted of a single course in making journal entries and perhaps an auditing course (Enthoven et al., 1998). Footnotes and other forms of disclosure did not exist in the former Soviet system. There was no such thing as an accounting major. The sole accounting (bookkeeping) course was taught as part of the economics major. Thus, many new courses would have to be added, which became a touchy topic because that meant some existing courses would have to be eliminated. What would happen to the professors who taught those courses? If professors felt threatened by the proposed revisions, they would resist the changes and might torpedo the whole reform process.

This problem was solved by merely adding a new accounting track to the existing economics curriculum. No one would be out of a job but students would now have the option to take a variety of accounting courses.

The next step was to determine what courses should be offered. USAID projects in other transition economies had used ACCA (Association of Chartered Certified Accountants) materials and it was decided that ACCA materials should also be used for course texts in Armenian universities and institutes. ACCA is a certifying organization, founded and operated in the UK more than 100 years ago. Its certification exams are recognized and respected throughout the world. The exam preparation books were comprehensive and covered all the topics needed to pass the certification exams.

The next decision was which language to translate the books into. The books were in English and it had to be decided whether to translate them into Russian or Armenian. Either language would be fine as far as the students were concerned because Armenian students could all speak both languages. The universities and the Finance Ministry both wanted USAID to translate the books into Armenian. But USAID wanted to translate them into Russian so that they could also be used in other former Soviet republics. USAID would be paying for the cost of translation, but the translation decision presented a sensitive issue, since Armenia was going away from Russian and into the Armenian language after the collapse of the Soviet Union. There was some nationalism involved in wanting the Armenian language to be used.

USAID was able to persuade the universities to accept Russian versions of the books and the Russian translation was started. There were 28 books in the series, 2 for each of the 14 courses, and there were not enough translators to translate all of the books simultaneously, so the decision was made to translate the books that would be used in the first year courses first before going on to the second year courses, etc.

There were some coordination problems with the translations. Although the same translation team was used for both the translation of IAS and the texts, the IAS were being translated into Armenian and the texts were being translated into Russian. Some translators were better at one language than the other, so a separation of duties evolved. Also, the translation of the two projects had to run parallel because the demand for the texts was too great to wait until the translation of the IAS into Armenian had been completed.

There was also a problem of coordination. The basic core of translators was about six people. The speed of translation could not be doubled by adding six additional people. Adding to staff was tried early in the process but problems developed almost immediately. Different translators were translating identical terms in several different ways. Creating a glossary for the common terms helped but it was not sufficient. Some of the full-time translators and most of the part-time translators who worked at home continued to use different Russian words for the same English language word. This problem was solved by filtering all translations through a single individual. Once the initial draft had been done for a particular set of paragraphs or pages, the translation would be checked by this person, who would edit the text. This filtering process helped make the final product more homogeneous.

As the texts were translated a means had to be found to get them into the hands of professors and students. None of the professors in Armenia had ever taken a western style accounting course. Almost without exception they had never been exposed to the accounting concepts that would be taught in their university courses. This problem had to be solved. Merely translating and publishing books would not be sufficient. Professors had to be trained to teach the courses.

This problem was solved by having a series of train the trainer courses. Professors and administrators at the various universities and institutes were notified that a series of courses would be offered on IAS and that they would be free. Any professor who wanted to take the courses was invited to attend at no cost. The actual courses used the texts that would be used in the first undergraduate accounting course, which was mostly bookkeeping and elementary accounting, although a few international accounting standards were discussed in the first course.

A sufficient number of professors and others enrolled in the early courses to make them a success. During the course an announcement was made that those who received the best grades would be given an opportunity to teach the course to the general public. A great deal of interest had developed regarding the courses once the word got out that the courses would be free or almost free. As a result, many individuals began to sign up for the courses. Although some were practicing accountants, many were people who had no accounting background but who wanted to upgrade their credentials so that they could qualify for jobs as accountants. A few of the best students were later sent to the University of Texas at Austin for a master's degree in accounting, with the provision that they return to Armenia and teach after the completion of their studies.

Another task of the USAID project was to train existing practitioners in IAS. This task proved to be rather difficult, since many practitioners saw absolutely no need for such knowledge. The old system had worked fine for decades and many of them did not see the need for change. This attitude reflects the view that the best way to do something is precisely the way it is already being done, which one might label as the tyranny of the status quo (Friedman and Friedman, 1984). However, the Finance Ministry quickly made IAS the law of the land, which provided the incentive needed to convince the hesitant accountants to upgrade their skills.

A related aspect of the project was to strengthen a private sector accounting association. Private institutions had been destroyed during the years of communist rule and it was thought that re-establishing private sector institutions would be a critical step in the accounting reform process.

After a little research it was discovered that three different private sector accounting associations already existed. However, the three groups did not get along very well, they were all weak and none of them could truly claim to be a national organization, which would be needed to gain IFAC (International Federation of Accountants) membership, which was another goal of USAID.

After some discussion and debate the three groups more or less merged, which made it easier to offer programs. USAID funded some continuing professional education (CPE) programs and helped the new Armenian Association of Accountants and Auditors (AAAA) create a new national certification designation that was modeled along the lines of the ACCA certification model, the main difference being that the certification exams would be given in Armenian instead of English. Actually, the exams could be given in either Armenian or Russian but the responses would have to be written in Armenian.

Another task of the USAID project was to visit the main companies in Armenia and assist them to convert their books to IAS. A special team was formed within the USAID project to perform this task. It consisted of one ex-pat and some local Armenians, most of whom had earned an MBA from the American University of Armenia. They spent a few days each at hundreds of Armenian enterprises and engaged in some training during the course of their visits.

The New Certification Model

Part of the accounting reform program included upgrading accounting and auditing certification to international standards. In the past, the exam consisted of a few essays and a few multiple choice questions, some of which were used year after year. Exam takers wrote their names on the exam, which meant that the person grading the exam knew whose exam was being graded. This system provided the opportunity for corruption.

The AAAA scrapped this system and replaced it with one that closely paralleled the ACCA examination system. Rather than have one exam, there were 15, which included the same 14 topics as the ACCA exams plus an exam on the Armenian chart of accounts. Certification was three-tiered, just like the ACCA scheme. Exams were just like ACCA exams. In fact, questions from former ACCA exams were translated into Armenian and given as questions on the first exam offered under the new scheme. Students were assigned numbers, which they put on their exam papers. Their names no longer appeared, so the person grading the exam did not know whose exam was being graded.

The only difference was that the Armenian exams were four hours in length whereas the ACCA exams are three hours in length. Under the old Soviet system, students could take as long as they wanted to complete an exam. The AAAA committee that was coordinating the exams thought that adopting a three-hour requirement would be too much for the Armenian students' emotional systems to bear, at least on the first exam.

Students who passed the English language ACCA exams did not have to also take the Armenian language exams. There was reciprocity, which enhanced the desirability of taking the English version even more. It also enhanced the perception of the quality of Armenian certification, since it was modeled on the ACCA syllabus. The 15 exams included the following subjects:

Exam	
1	Financial Accounting I
2	Armenian Business Law
3	Management Accounting
4	Organizational Framework (a management exam)
5	Information Analysis (an exam on information systems)
6	Auditing I (based on the ACCA syllabus plus Armenian auditing standards and ethics)
7	The Armenian Tax System
8	Managerial Finance
9	Information for Control and Decision Making
10	Financial Accounting II & Auditing II (based on the ACCA syllabus plus Armenian accounting and auditing standards)
11	Tax Planning
12	Management and Strategy
13	Financial Reporting Environment
14	Financial Strategy
15	The Armenian Chart of Accounts

The ACCA changed its syllabus after this plan was adopted. It is likely that the AAAA will change its certification exam requirements to mirror the ACCA changes. As anyone familiar with the ACCA syllabus will notice, the AAAA exam contents are not quite identical to those of the ACCA. The ACCA, for example, requires two exams in the British tax system. The AAA thought that there was no need for Armenian accountants to learn the British tax system, so that requirement was replaced with two exams on the Armenian tax system. The ACCA syllabus includes a course in British business law. Again, the AAAA saw no need for this subject, so it substituted an exam in Armenian business law. The fifteenth exam is on the Armenian Chart of Accounts. The ACCA syllabus has no similar exam.

Some of the exams included questions on Armenian accounting standards, Armenian auditing standards and Armenian ethics. The uninformed reader might easily conclude that Armenian accounting, auditing and ethics standards must therefore be somewhat different than international standards. However, such is not the case. Armenian accounting standards are identical to IAS. Armenian auditing standards are identical to ISA. The code of ethics adopted by the AAAA is a direct translation of the IFAC Code of Ethics. The AAAA insisted on making the distinction in terminology -- Armenian instead of International -- for strictly nationalistic reasons. Armenia was almost always under the domination of some other country. Prior to the breakup of the Soviet Union, the only time it was ever an independent republic was for a few months after World War I. Insisting that the standards be referred to as Armenian was a way of asserting national independence.

Training Enterprise Accountants and Managers

Some of the training for enterprise accountants was already discussed above. The ACCA Russian/Armenian courses held at the AAAA headquarters and Central Bank included enterprise accountants, as did the courses held in other Armenian cities. So did the ACCA English language courses. But the training of enterprise accountants was not limited to the ACCA courses. There was also another, more basic course, that was aimed at providing basic training for individuals who worked at enterprises and who were not accountants but who needed to know some basic accounting.

Accounting for Nonaccountants was the name of the course and the name of the text as well (McGee 1999b). This book was used in the United States as the main text for a two-day seminar aimed at individuals who had little or no accounting background but who needed some knowledge of accounting. The book was translated into both Armenian and Russian and used in a series of two-day seminars throughout Armenia. About 1,000 individuals attended these seminars.

Because the cost of translating the book was relatively low, it was thought that translating it into both Armenian and Russian would be a good idea, since there was some sensitivity about using Russian language texts.

This potential problem was eliminated by translating the book into both languages. Since the book was available in Russian, it could also be used in the accounting reform projects of several other former Soviet republics and East European countries. The book has since been translated into Bosnian and Serbian as well, for use in the accounting reform project in Bosnia & Herzegovina, where language is a much more sensitive issue than it was in Armenia.

Educating Tax Inspectors

The original USAID plan called for educating tax inspectors as well as certified accountants, auditors and enterprise accountants. It was thought that tax inspectors would have to be trained in the new financial reporting rules so that they would understand the books they were auditing. However, this part of the plan ran into some difficulty. One of the top tax inspectors in the country indignantly announced at a meeting that tax inspectors do not need to be educated and that the present (meaning the old Soviet) system works just fine and does not need to be replaced.

One who is familiar with the way taxes are sometimes collected in Armenia and some other former Soviet republics can understand such a mentality. Tax inspectors in Armenia do not always go into a firm and ask to look at the books, pouring over every detail and every journal entry. Tax inspectors have a reputation for sitting in the back room of their tax office, dressed in long black coats, smoking cigarettes and drinking coffee. When they are finished drinking and smoking and want a change of scenery, they pick a target company, pay it a visit and "collect." Firms that cannot pay are closed down. One rather large firm in Armenia was closed down just this way because it could not afford to pay the $30,000 demanded by the tax inspectors. Not much education is needed to perform the tax collection function using this approach.

CONCLUDING COMMENTS

The USAID Accounting Reform Project in Armenia had some unique features, but the basic model has been used in every country where USAID has an accounting reform project. Accounting education is a big part of an accounting reform program, but a comprehensive accounting reform program includes other activities as well, such as helping a country to adopt IAS and ISA, training existing practitioners, strengthening private sector organizations and assisting in the creation of strengthening of accounting certification.

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APPENDIX

The Law Establishing International Accounting Standards in Armenia

(on the seal) Ratified by R. Khocharian
President of the Republic of Armenia
November 26, 1998

ACCOUNTING STANDARDS DEVELOPMENT PHASES IN THE REPUBLIC OF ARMENIA

DECISION No. 740

November 26, 1998,
Yerevan

Reforms in Accounting System

In accordance with Article 4 of the Law on Accounting, and for the purpose of effective implementation of the reforms in the account system, the Government of Armenia *decides;*

1. To define that the accounting standards of the Republic of Armenia should be developed based on the International Accounting Standards, disclosed by the International Accounting Standards Committee.

In case, if relevant international standards lack, to develop accounting standards of the Republic of Armenia based on criteria put into practice in international standards.

2. To the Ministry of Finance and Economy of the Republic of Armenia:

   a. Develop accounting standards of the Republic of Armenia in accordance with the phases defined in the Attachment No. I of the Decision.
   b. Develop an accounting listing plan for the purpose of effective practicing of the Accounting Standards of the Republic of Armenia, before the end of the year of 1998.
   c. Improve instructions for financial statements presentation forms and their filling in, based on the Accounting Standards of the Republic of Armenia in the period of the first quarter of 1999.

3. For the purpose of experimenting the Accounting Standards of the Republic of Armenia in organizations listed in Attachment No. 2, in 1999, the Ministry of Finance and Economy of the Republic of Armenia should;

   a. Approve the first phase of the Accounting Standards of the Republic of Armenia, specified in Attachment No. I of the Decision, before the end of 1998.
   b. Upon its completion, approve the second phase of the Accounting Standards of the Republic of Armenia, specified in Attachment No. 1 of the Decision.
   c. Approve a new listing plan of the accounting, before the end of 1998.
   d. Approve the improved forms for financial statements presentation, before the fourth quarter of 1999.

4. To define that organizations listed in the Attachment No. 2 of the Decision, parallel to maintaining accounting and presenting financial statements in accordance with the acting legislation, in 1999 should conduct and present accounting and financial statements in compliance with experimental listing plan, financial statements presentation forms and the Accounting Standards of the Republic of Armenia.

5. To the Ministry of Finance and Economy of the Republic of Armenia: provide necessary assistance (also, consider assistance provided by the United State Agency for International Development) to organizations listed in Attachment No. 2 of the Decision and to those organizations which along with conducting accounting and presenting financial statements required by the legislation, in 1999, will be willing to conduct accounting in compliance with Accounting Standards, listing plan and financial statements presentation forms, which are approved for experimental purposes. In particular,

   a. provide forms of Accounting Standards, listing plan and financial statements presentation forms,
   b. to organize training courses for accounting staff of organizations,
   c. provide practical assistance in places for the purpose of ensuring transition to the new accounting system,

6. To the Ministry of Finance and Economy of the Republic of Armenia:

   a. before November 1, 1999, based on the results of the experiment revise and approve Accounting Standards of the RoA, the new listing plan and the revised forms of the financial statements of the first and second phases of Attachment No. I of the Decision.

b. during the year of 2000, approve the third phase of the Accounting Standards of the RoA, specified in Attachment No. I of the Decision.
c. amend and improve accounting Standards of the RoA, along with changes and adoption of new accounting standards of the RoA, as well as, parallel to development of market infrastructures in the Republic.

7. To define that registered with the State organizations in the RoA, that are engaged in business activities (including branches and representations of international businesses), starting from January 1, 2000, should be liable to conduct accounting, compile and present financial statements in accordance with Accounting Standards of the RoA, new listing plan and amended financial statements forms, as well as with effective legal acts which will not contradict the latter.

8. To the Ministry of Education and Science:
In regard with transition to the new accounting system, develop and implement;
a. relevant education materials,
b. training programs for specialists in the field of accounting,
c. training programs for specialists engaged in performing accounting services.

9. The decision will come into effect starting from November 26, 1998.

A. Darbinian,
Prime Minister,
Republic of Armenia

Attachment No. I
Decision No 740
Government of Armenia
November 26, 1998

Development Phases of Accounting Standards of the Republic of Armenia (ASRA)

FIRST PHASE
1998

ASRA 1	Presentation of Financial Statements
ASRA 2	Inventories

ASRA 4	Depreciation Accounting
ASRA 7	Cash Flow Statements
ASRA 8	Net Profit of Loss for the Period, Fundamental errors and Changes in Accounting Policies
ASRA 9	Research and Development Costs
ASRA 11	Construction Contracts
ASRA 16	Assets
ASRA 17	Leases
ASRA 18	Revenue
ASRA 20	Accounting for Government Grants and Disclosure of Government Assistance
ASRA 21	The Effects of Changes in Foreign Exchange Rates
ASRA 23	Borrowing Costs
ASRA 25	Accounting for Investments
ASRA 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

SECOND PHASE
1999

ASRA 10	Contingencies and Events Occurring After the Balance Sheet Date
ASRA 12	Profit Taxes
ASRA 22	Business Combinations
ASRA 24	Related Party Disclosure
ASRA 28	Accounting for Investments in Associates
ASRA 30	Disclosures in the Financial Statement of Banks and Similar Financial Institutions
ASRA 31	Financial Reporting of Interests in Joint Ventures
ASRA 32	Financial Instruments: Disclosure and Presentation
ASRA 33	Earnings per Share
ASRA 34	Interim Financial Reporting
ASRA 36	Impairment of Assets
ASRA 3	The Structure of an Organization's Costs and Expenditures

THIRD PHASE
2000

ASRA 14	Segment Reporting
ASRA 15	Information Reflecting the Effects of Changing Price
ASRA 19	Employee Benefits
ASRA 26	Accounting and Reporting by Retirement Benefit Plans
ASRA 29	Financial Reporting in Hyperinflationary Economics
ASRA 35	Discontinuing Operations
ASRA 37	Reserves, Contingent Assets and Contingent Liabilities

ASRA 38 Intangible Assets

H. Tadevossian,

Chief of the personnel,
Government of the Republic of Armenia

PART TWO

ACCOUNTING EDUCATION AND CERTIFICATION

Chapter 5

PRIVATE SECTOR ACCOUNTING EDUCATION IN RUSSIA

Abstract

The Russian Finance Ministry has declared that all banks and large Russian enterprises must prepare their financial statements based on international financial reporting standards (IFRS) as of January 1, 2004, a full year ahead of the European Union deadline for EU member countries. The problem is that the majority of Russian accountants know little or nothing about IFRS and there are few educational resources they can utilize to get up to speed on the subject. Russian universities cannot provide much assistance because many of their professors are not trained in IFRS either. The private sector has risen to the challenge and is providing some of the much needed training but the quantity of educational resources the private sector is able to provide is insufficient to fully educate the Russian accounting profession in time for the deadline, and the quality of some of the education providers leaves much to be desired. This chapter reports on the private sector's initiative to provide quality accounting education. Some of the information in this chapter was gathered from interviews conducted in Moscow, St. Petersburg and a few other Russian cities during the summer and fall of 2003.

INTRODUCTION

Although the private sector provided accounting education in the pre-communist period, such educational institutions went out of existence with the advent of communism. Shortly after the 1917 revolution, many of Russia's accountants were purged because of the belief that they were the tool of the capitalists. Other accountants fled the country, and along with them much of the pre-revolutionary accounting system. Between 1917 and 1921 the new regime tried to establish an accounting system using labor units rather than monetary units, since the goal was to create a system based on Marx's labor theory of value. That system failed and Russia reverted to a currency based accounting system in 1921 with the introduction of the new economic policy (Lebow & Tondkar, 1986).

During the communist period, all accounting education was provided by state institutions – institutes, colleges and universities. Privately provided accounting education in the new Russia did not appear until the end of the 1980s or the beginning of the 1990s, with the reintroduction of the market economy and the rebirth of private institutions. During the communist period, accounting was one of the least prestigious occupations. A survey of secondary school graduates in 1990 ranked it 91 out of 92 professions (Enthoven et al., 1998: 199; Smirnova et al., 1995:834).

Much has changed since Russia abandoned central planning in favor of a market economy. An accountant's role in business and the ability to keep pace with the constant changes in legislation, especially in the area of taxation, has made accounting one of the most prestigious occupations. The educational system needed to prepare accountants who can function effectively in this new environment has also changed. The university curriculum accounting majors now take has been changed to meet the new demands placed on the system by the transition to a market economy.

A variety of new approaches and delivery methodologies have appeared to meet the needs of the new generation of accountants. Short-term courses are being offered with ever-increasing frequency. Several kinds of seminars are also available. Private colleges and universities have come into existence to offer accounting education that complies with state standards. Such things as professional accounting certification and regular professional training have become a reality. International professional certification and training in accounting has been increasing in popularity. It is now possible to say that private accounting education encompasses the entire spectrum of accounting education. Every aspect of accounting education is being provided by the private sector in one form or another.

Accounting education in Russia's state universities has been examined elsewhere (McGee & Preobragenskaya 2005). The purpose of this chapter is to examine private sector involvement in the field of accounting education. Information for this chapter was gathered during a series of interviews conducted with accounting professors, students and business people during the summer and fall of 2003. A variety of accounting issues were discussed. Live interviews were conducted in Russia's two capitals – St. Petersburg, the cultural capital and Moscow, the political capital -- as well as in Kazan and Omsk, two typical Russian cities, both of which have more than one million population. Telephone interviews were also conducted with individuals in Krasnodar, Sergiev-Posad and Moscow. The interviews were conducted with representatives of the following institutions:

Deloitte & Touche, Moscow office [www.deloitte.ru]
KPMG, Moscow office [www.kpmg.ru]
KPMG, St. Petersburg office [www.kpmg.ru]
PricewaterhouseCoopers, Moscow office [www.pwcglobal.com/ru]
Ajour, a Russian auditing and consulting firm, Moscow [www.ajour.ru]

PKF (MKD), a Russian audit and consulting firm, St. Petersburg office [www.mcd-pkf.com]
Independent Directors Association, Moscow [www.independentdirector.ru]
MDM Group, Moscow [www.mdmgroup.ru]
St. Petersburg State Polytechnic University [www.spbstu.ru]
St. Petersburg State Railway University (a.k.a. Petersburg State Transport University) [www.pgups.ru]
Timiryazev Agricultural Academy, Moscow [www.timacad.ru]
Hock Accountancy Training, Moscow office [www.hocktraining.com]
UMC of State University of Omsk [www.omsu.omskreg.ru]
Kazan State Finance Economic Institute [www.kfei.kcn.ru]
Sovetnic, a Russian Audit-Consulting Group, Omsk [www.odo-sovetnic.com]
UMC "The House of Knowledge, Omsk" Omsk
Institute of Professional Accountants of Russia, Omsk branch (IPBR), Omsk [www.ipbr.ru]
Moscow Institute of Entrepreneurial Business and Law
Sergiev-Posad Humanitarian Institute, Sergiev Posad [www.spgi.narod.ru]
South Institute of Management, Krasnodar
Siberian Association of Continuing Education (includes the Siberian Regional School of Business) [www.sano.ru]

LITERATURE REVIEW

The literature on private sector accounting education in Russia, or for any former Soviet republic for that matter, is scant. Actually, it may be nonexistent. The authors were unable to find a single scholarly article devoted to this topic, although several articles and book chapters have been written about state supported accounting education (McGee & Preobragenskaya, 2005).

Enthoven et al. (1992) discuss accounting education in an appendix to their book but their discussion is limited to state university accounting education. At the time this book went to press, private sector accounting education in Russia was in its infancy stage, so there was probably little or nothing to report.

In a later book, Enthoven et al. (1998) devote a chapter of their book to university education in Russian state universities. They briefly discuss some topics of historical significance, such as the fact that accounting as a pedagogical field came into existence in 1773 when the first commercial college was founded in St. Petersburg. They also mentioned that the number of colleges providing accounting education increased to the point where, by 1917 there were 219 such colleges providing accounting education throughout Russia. Commercial institutions of higher education were established in Moscow, Saint Petersburg and Kiev in 1907 and accounting crept into the curriculum of most universities that offered economics and finance courses.

But all of that was swept away after the communists seized power in 1917. All that remained were the state universities and, as was previously mentioned, the accounting curriculum offered in those state universities was much different than the accounting education offered in the pre-revolutionary days.

Smirnova et al. (1995) published an article that described the changes that took place in accounting education in the years following the collapse of the Soviet Union. However, their discussion confined itself to state provided education and went into a great deal of detail about the content of university accounting curriculum. About 12 lines of their article discussed private sector accounting education in general terms.

Preobragenskaya and McGee (2003) conducted a more recent study of accounting education in Russia but their study was confined to curriculum changes in Russian state universities. Their only mention of private sector accounting education was that some private universities now exist in Russia and that some of them provide accounting education. McGee discussed accounting curriculum changes in Bosnian universities (2003a) and universities in the former Soviet republic of Armenia (2003b) but said nothing about accounting education in Russia. Preobragenskaya and McGee (2002) also suggest changes to the Russian university accounting curriculum based on the Bosnian and Armenian experiences but say nothing about private sector accounting education in Russia.

Some of the Russian language literature discusses accounting education. Getman (1999) studied matters connected with changes to the State Standards for the specialty Accounting, Analysis and Auditing in higher education institutions in Russia. Horuzhiy (2001) published an article that discusses issues related to improving accountants' preparation for the attestation function. She also made some suggestions for upgrading accounting qualifications. Sokolov & Terentyeva (2001) point out that it is necessary to cultivate an accountant's professional judgment. The topic of quality in accounting work product and related issues of education and qualification upgrading, as well as the necessity of conceptual thinking, are discussed in a work by Nikolaeva (2000).

UNIVERSITY EDUCATION

When discussing private education it is necessary to point out that the education business is less than 20 years old in Russia. Before perestroika – its beginning is associated with Mikhail Gorbachev in 1985 – all higher education institutions and all other enterprises belonged to the state. Table 1 provides some statistics on non-state universities in Russia.

Table 1
Statistics on Private Universities in Russia

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Number of Private Universities (PU)	78	157	193	244	302	334	349	358
Number of Students in PU (thousands)	69.9	110.5	135.5	162.5	201.8	250.7	344.9	470.6
Percent of Students in PU			4.9	5.5	6.2	7	8.5	9.9

Source: www.stat.edu.ru

The number of private universities nearly doubled between 1995-96 and 2000-01, from 193 to 358 and grew by more than 350 percent since 1993-94. The number of students attending private universities more than quintupled, from 69,900 to 470,600 between 1993-94 and 2000-01. The percentage of total Russian students attending private universities more than doubled between 1995-96 and 2000-01, from 4.9 percent to 9.9 percent.

Not all universities in Russia offer accounting courses. Perhaps the main reason is because in Soviet times there were a number of institutes that specialized in one discipline or several related disciplines. For example, an institute could be devoted to geology and mining. For reasons of prestige, these "institutes" changed their names to universities in many cases, but often continued to offer the same curriculum they had when they were institutes. Thus, geological institutes became geological universities and did not offer accounting courses.

If one considers only the private universities that offer majors in the specialty of "Accounting, Analysis and Auditing," their number in 2002 was 147 out of 506 total Russian universities that teach accounting students. Table 2 provides some statistics.

Table 2
Universities, Offering Accounting Courses for Accounting Majors 2002

	Omsk	Kazan	Saint Petersburg	Moscow	Total Russia
A. Total number of universities offering accounting courses	6	6	25	53	506
B. Universities, offering accounting courses that have state accreditation for those courses	2	5	10	30	239
C. Percentage (B/A x 100)	33.3%	83.3%	40%	56.6%	47.2%
D. Private universities, offering accounting courses	-	1	8	24	147
E. Private universities, offering accounting courses, that have state accreditation	-	1	2	14	52
F. Percentage (E/D x 100)	-	100%	25%	58.3%	35.4%

Source: Data compiled by authors, based on www.edu.ru.

The first private universities came into existence as a reaction to the shift to a market economy. If a need is unmet, the market has a way of meeting the need. The individuals who founded most private universities were teachers, professors and staff members of universities who had extensive experience working in higher education. They introduced their knowledge, experience and culture into the new educational institutions. Thus, the new private institutions of higher learning started to function at a high level immediately, the main asset being experienced teaching staff and administrators.

According to the law "On Education" (p. 2, prov. 27), only universities that have state accreditation for the specialty have the right to issue state standard higher education diplomas. As seen from Table 2, only 47.2 percent of all universities teaching accounting had state accreditation in 2002. For private universities, that percentage is even lower – 35.4 percent. What that means is that unaccredited universities have the right to issue diplomas but not diplomas with the phrase "Diploma of State Standard."

As for the employers' view of diplomas that do not have the State seal or national emblem (that is on the state standard diploma), it depends on the person in the human resources department. Sometimes it matters and sometimes it does not. The problem, from the present authors' point of view, is that potential students, upon entering a university or college, often have no idea of the kind of diploma they will receive at graduation. Schools that do not have accreditation in a certain specialty do not advertise too widely the fact that they are not state accredited.

On the other hand, schools that start off being unaccredited often achieve accreditation by the time the first class graduates. Newly opened law schools face the same situation in the United States. They start off being candidates for accreditation and usually receive full accreditation by the time the first class graduates. The main difference between the American law school and the Russian private university is that the American law school prominently announces that it is not accredited, whereas the Russian universities are more silent in this regard.

The Moscow Institute of Entrepreneurial Business and Law was one of the first private universities to offer education in accounting. It was founded in 1991 by individuals who had a great deal of accounting teaching experience. Currently, it ranks first in terms of the number of students enrolled among private Russian universities that have state accreditation in the specialty of Accounting, Analysis and Auditing. Former state university employees founded the university and removed most of the bureaucratic elements that were holdovers from the Soviet era. It tries to maintain high standards. Only 75 percent of its students return for a second year of study. Only about 50 percent of the students who start the program eventually graduate.

It must be pointed out that such an approach is not typical even for most state universities. Student fees at state universities pay for only a small portion of the university's budget. A much larger share comes from the state budget. A main consideration in retaining poor students is the fact that dismissing them would cause the university to lose a portion of its cash flow. As a result, Russian universities tend to allow poor students to remain in the program even if they cannot handle the coursework. In the case of private universities, 100 percent of their cash inflow comes from student fees, so dismissing poor students affects cash flow even more. But some private universities do it anyway, which gives them more integrity in the eyes of the general public.

The Moscow Institute of Entrepreneurial Business and Law (MIEBL) has a post-graduate course in five specialties. It has excellent computer equipment, which aids in study. Accounting software programs are studied and used in practically all classes.

Another example of innovative methods of teaching accounting is the way the MIEBL approaches practical training. During the Soviet era, students used to spend time as part of their regular university education working with state enterprises to gain experience. The managers of the state enterprises did not mind because it did not cost them anything, and they did not resist because resistance was futile. State enterprises were expected to take on a certain number of students and train them.

Attitudes have changed since the collapse of the Soviet Union and the transition to a market economy. State enterprises cannot be bothered training students they do not have to train and private sector enterprises do not see the benefit of training students for free. They have better ways to allocate their scarce resources. Yet practical training is an official part of the curriculum, comprising about 7 percent of all course time (640 hours according to the State Standard). But the government can no longer force enterprises to train university students. That presents a problem for most universities.

MIEBL has solved this problem by paying company employees for the time they spend working with students. As a result, students are able to gain valuable practical experience working on real accounting problems and seeing how the problems are solved. It is often the first time they have ever had the opportunity to gain accounting experience or solve accounting problems.

Another university ranked in the top three (see Table 3) is Sergiev-Posad Humanitarian Institute (Sergiev-Posad). Founded in 1994, it now prepares students in five specialties. Its material resources include its own building, a local computer network and a library containing 15,000 items, which is updated regularly. The professional staff consists of 92 teachers, including 13 Doctors of Science and 43 Candidates of Science, which allows the university to provide high quality educational services using the newest teaching tools (A Candidate of Science is equivalent to a British or American PhD; a Doctor of Science is higher than a PhD. American schools usually do not offer a degree higher than the PhD. European universities often do award higher doctorates on the basis of research and publication.) It has video and audio equipment, computer programs, teaching and checking software, electronic textbooks, teaching tools on CD, etc. It is one of the few universities that have postgraduate programs. Its Training Methods Center (UMC) of professional accountants was founded to supplement its accounting educational offerings. The Center offers a Program for the Preparation of Professional Accountants (240 hours) and continuing professional education courses (40 hours) to upgrade the skills of practicing accountants.

Table 3 presents some information on the top ten private universities that teach accounting majors and that had state accreditation in the accounting specialty in 2002. They are ranked in order of the number of accounting majors they have.

Table 3
Ranking of Private Universities Offering Accounting Courses Accredited by the State
Based on Number of Accounting Students 2002

RANK	University	City	2002 Acct. students		Teaching Staff					
			1sr Yr. Stud.	Total enrollment	Total	Dr. Science	Cand. Sci.	Professor	Assistant	Ownership
1	Moscow Institute of Entrepreneurial Business and Law	Moscow	80	358	132	34	57	26	46	Ind. &Corp.
2	Institute of Commerce	Moscow	40	335	18	4	14	3	13	Corp.
3	Sergiev-Posad Humanitarian Institute	Sergiev-Posad	127	218	92	13	43	11	30	Corp.
4	Volzhsky Institute named after Tatishev	Toliatty	98	188	101	7	35	4	14	Indiv.
5	Branch of the Institute of Economics and Law	Kursk	83	187	26	1	16	0	9	Indiv.
6	Institute "High School Universum"	Himky	42	171	29	1	22	1	22	Ind. &Corp.
7	Moscow International Institute of Econometrics, Informatics and Finance	Moscow	25	164	420	31	165	52	139	Corp
8	Russian University of Innovation (Institute)	Moscow	33	159	48	2	34	8	29	Ind. &Corp
9	Taganrog Institute of Management and Economics	Taganrog	44	150	73	17	56	15	31	Ind. &Corp.
10	Russian Academy of Private Enterprise	Moscow	15	134	54	16	28	12	18	Corp.

Source: Compiled by authors, based on data from www.edu.ru.

As Table 3 shows, five out of the top ten universities are located in Moscow. As to ownership, 45 universities (30.6%) are founded by individuals, 91 (61.9%) were founded by companies and other organizations, usually branches of universities, and 11 universities (7.5%) have founders that are a mix of individuals and legal persons.

The same laws and regulations apply regardless of whether the university is privately owned or government owned. The law "On High and Post-graduate Education" (prov. 7) of the Russian Federation has several classifications of degrees. The Bachelor's degree requires not less than 4 years of study. The Specialist designation requires not less than five years of study. The Master's degree requires at least six years of study. The majority of universities prepare specialists and offer a five-year program. This program is typical for both private and state universities.

During the course of the interviews it was learned why the four-year bachelor's degree is not popular. The main reason is because employers think that five years are necessary to get a higher education. They do not think that four years is sufficient. Whether this perception is accurate is another matter, but it is the employer's perception that seems to be driving the popularity of the five-year program. Graduates with a four-year bachelor's degree are working at a competitive disadvantage when they compete for jobs with graduates who have earned the specialist designation. But individuals who have completed the Master's degree do not find that they have a competitive advantage over the specialist graduates. The market does not pay higher salaries for master's degree holders, so students have little or no incentive to earn the master's. Furthermore, they may have to pay tuition for the sixth year, whereas the first five years may be free, depending on a number of factors.

University study might be done on a full-time day basis or by distance. Distance learning students study on their own using textbooks and other study materials and visit the university two or three times a year, generally right before exams. During these visits they usually receive intensive training with many hours devoted to lectures. Students also have the opportunity to speak with their professors and teachers and to work with practical cases.

Table 4 contains data about students at private universities who study on a full-time resident basis and on a distance basis. In 2002 there were a total of 10,152 students enrolled in the Accounting, Analysis and Auditing specialty in private universities, which accounts for 63 percent of all private university accounting students. The other 37 percent, or 5,963 students, were studying on a distance basis.

Students who enrolled for the first time in 2002 had a different ratio – 2,731 students (56.3%) were full-time day students while 43.7% were distance students, so the percentage of students studying full-time in residence is decreasing. This trend is not good if the perception that full-time resident attendance provides a higher quality education than does distance education. It might be mentioned that this trend of studying by distance instead of by attending classes on a full-time basis also exists for the state universities.

Table 4
Number of Accounting Students at Private Universities 2002

	First year students	**Total Number of Students**
A. All accounting students	4 850	16 115
B. Full-time day students	2 731	10 152
C. Percentage (B/A x 100)	56.3%	63%
D. Distance students	2 119	5 963
E. Percentage (D/A x 100)	43.7%	37%

Source: Compiled by authors, based on data from www.edu.ru.

It is necessary to examine the content of the educational process in order to understand the laws that regulate private university education. According to the law "On High and Post-graduate Education" (prov. 5), the state educational standards guarantee the quality of education. The standards are supposed to ensure equality of education throughout the Russian Federation. They are the basis for an unbiased assessment of institutions of higher education and their programs. Thus, accounting education for the specialty Accounting, Analysis and Audit must follow the requirements of the Standard approved by the Ministry of Education in 2000.

The new Standard adopted in 2000 adds the following new topics to the list of mandatory subjects: International Accounting Standards, International Standards of Audit, Financial Management, Financial Statement Analysis and Class Training (case study) on Accounting. The Fundamental Educational Program (FEP) consists of a federal component, a regional (university) component, electives and additional courses (also elective) and must include the following discipline categories (Table 5) and final state examination. The FEP makes content provisions for the federal component disciplines. The regional disciplines and electives are chosen by the university and are supposed to reflect regional preferences.

Table 5
Comparative Study of the New (2000) and the Old (1995) Standards

Disciplines	**1995 Standard**		**2000 Standard**	
	Hours	**%**	**Hours**	**%**
TOTAL	8 208	100	8 640	100%
The General Humanitarian and Social-Economics Disciplines	1 500	18.3%	1 800	20.8%
The General Mathematics and Natural Science Disciplines	1 200	14.6%	1 400	16.2%
The General Professional Disciplines	2 150	26.2%	2 200	25.5%
Special Courses	2 310	28.1%	2 790	32.3%
Additional Courses	1 048	12.8	450	5.2%

Source: Compiled by the authors on the basis of data at www.edu.ru/db/cgi-bin/portal/kl_spe/list.plx?substr=060500&gr=0.

Interestingly enough, the new standards require an additional 432 hours of study for the Specialist diploma, but most of the increase is assigned to courses other than accounting. The general professional disciplines increase by only 50 hours, from 2,150 hours under the old standards to 2,200 under the new standards. Humanities requirements increase by 300 hours and general mathematics and natural sciences increase by 200 hours. Special courses increase by 480 hours.

The new standards also stipulate the introduction of the following five specializations:

- Accounting, Analysis and Auditing for Business Enterprises (except banks and other credit organizations)
- Accounting, Auditing and Analysis for Banks and Other Credit Organizations
- Accounting, Analysis and Inspection for Budget and Non-profit Organizations
- Accounting, Analysis and Inspection of International Activity
- Accounting, Analysis and Inspection of Taxation and Legal-accounting Examination

Depending on the chosen specialization, each university devotes 840 hours of in-depth teaching of certain subjects. In most cases a university chooses one or two specializations, sometimes more. In one of the universities being used as an example in this paper, Sergiev-Posad Humanitarian Institute, the two specializations chosen are Accounting, Analysis and Auditing for Business Enterprises (except banks and other credit organizations) and Accounting, Analysis and Inspection for Budget and Non-profit Organizations. For the South Institute of Management (Krasnodar) there are also two specializations: Accounting, Analysis and Auditing for Business Enterprises (except banks and other credit organizations) and Accounting, Analysis and Inspection of taxation and Legal-accounting Examination.

This chapter makes a comparative study of curriculums of two state universities and two private universities. Information regarding the curriculums was kindly provided by each university. The private universities included in the study are Sergiev-Posad Humanitarian Institute (Sergiev-Posad) (Appendix 1) and South Institute of Management (Krasnodar) (Appendix 1). The State universities chosen for this study were Saint Petersburg State Polytechnic University and Omsk State University. (Appendix 2).

Saint Petersburg State Polytechnic University was selected for this study because it is a typical state university. It started offering accounting after the market demand for accounting courses increased. Also, it is located in one of Russia's capital cities. Omsk State University was selected because it is a typical state university and is not located in one of Russia's capital cities. It is also the best university in Omsk.

Sergiev-Posad was one of the private universities selected because it has the largest accounting enrollment of any private university that is not located in one of Russia's capital cities and is also one of the best. South Institute of Management was selected because it is a typical private university and is located in the middle of Russia.

It was thought that selecting universities from different Russian cities, including non-capital cities, would provide a better balance. The vast majority of universities in Russia are not located in one of the capital cities and it was thought that the majority of the universities selected for this study also should not be located in one of the capital cities. The authors interviewed individuals from other universities as part of this study and the insights gained from these interviews are incorporated into this study. However, it was thought that providing statistical information about four universities would be sufficient to present a complete and balanced view of university accounting education in Russia. The interviews conducted at the other universities found that the universities excluded from the statistical portion of the present study are not substantially different from the universities that are included. Thus, it was felt that there was no need to include statistical information for every university where interviews were conducted.

For purposes of analysis, all subjects from the curriculums were divided into the following four groups: accounting disciplines, financial disciplines, business disciplines and other disciplines. (Appendix 1.1, Appendix 1.2). It should be mentioned that the number of hours listed for each university in Table 6 does not represent the number of hours spent in lectures. The Russian education system combines hours spent in lectures, seminars and self-study. The American system, on the other hand, assigns course weights on the basis of semester hours, with one semester hour representing one hour (of 50 minutes duration) per week spent in lectures for

15 weeks, and ignores time spent in self-study. The bachelor's degree at a typical American university requires students to complete between 120 and 128 semester hours of coursework. Thus, there is no direct comparison between the Russian accounting curriculum and that offered in American universities, although comparisons can be made if estimates are made of the number of hours spent in self-study by American accounting students. However, even this comparison suffers from a structural deficiency, because American accounting programs are generally four years in length, whereas Russian programs are usually five years in length. British programs, on the other hand, are usually three years in length, although some are four years long.

Table 6
Comparison of Allocation of Hours among Blocks of Disciplines
Two Private and Two State Universities
Five-Year Specialist Diploma

Courses 2003-2004	Private Universities			State Universities		
	South Institute of Management hours	Sergiev-Posad Humanitarian Institute hours	Average %	Omsk State University hours	Saint Petersburg State Polytechnic University hours	Average %
TOTAL	8 640	8 640	100%	8 646	8 208	100%
Accounting Courses	2 892	2 936	33.7%	2 789	2 071	28.7%
Financial Courses	1 192	958	12.4%	1 292	1 382	15.9%
Other Business Courses	1 582	1 766	19.4%	2 020	2 273	25.5%
Other Courses	2 974	2 980	34.5%	2 545	2 482	29.9%

Disciplines were classified without making a distinction between the federal or regional components or the electives. Actual curriculums are constructed in this manner by the various universities. The same subject might be studied as part of both the federal and regional components. Students are more interested in obtaining knowledge than in knowing which component they are fulfilling by taking a particular course. In cases where students had a choice of elective, the authors made a decision based on their preferences. However, the authors' preferences did not affect the statistics because electives are usually in the same category. Making choices made it possible to complete the table. Otherwise it would have been impossible to complete Table 6.

As can be seen from Table 6, accounting courses comprise only about 30 percent of the total curriculum. The two private universities included in the study devote somewhat more time to accounting courses than do the state universities, in terms of both hours and as a percentage of the total curriculum. The largest number of hours devoted to accounting courses is Sergiev-Posad, one of the private universities, with 2,936 hours. The university with the least number of hours devoted to accounting courses is Saint Petersburg State Polytechnic University, with 2,071 hours. Thus, Sergiev-Posad provides 865 more hours for accounting courses than does Saint Petersburg State University, which amounts to an extra 42 percent.

The various finance disciplines comprise about 14 percent of the total, on average, with the two state universities providing more hours in financial courses, both as a percent of the total hours and in terms of hours. In the aggregate, the combined accounting and finance disciplines comprise about 45 percent of the total, in both state and private universities. Thus, the disciplines not connected with the accounting profession comprise a slight majority of the curriculum, about 55 percent.

If we consider only the accounting discipline, there is no fundamental difference in the list of subjects offered and the number of hours required, although the difference may be considered substantial if one compares the university with the lowest accounting requirement to the university with the highest accounting requirement, as was done above. The reason for the relative uniformity is because all curriculums are developed to conform to the Standard. In the private universities, a higher number of hours are devoted to the following subjects: Accounting (400 hours in the South Institute of Management and 374 in the Sergiev-Posad Humanitarian Institute); Auditing (300/338); Complex Economic Analysis of Enterprise Activity (240/270); Class Training (case study) on accounting (170/136); Management Accounting (144/136). The largest allocation of hours other than accounting are devoted to mathematics (600/600); physical training (408/408); foreign languages (340/340). The content and extent of accounting courses are not substantially different for the state and private universities if their curriculums are in conformity with the state standard.

There are other aspects of private accounting education in Russian universities that could be mentioned, such as the lack of qualified teaching staff, problems of supplying high quality, inexpensive textbooks, and so forth, but these problems are present at state universities as well and are not unique to private universities. During the interviews it was mentioned time and time again that it is difficult to find professors who are qualified to teach the new accounting curriculum. The reasons for this shortage have mostly to do with economics. Potential accounting teachers, when faced with the choice of earning a market salary in the private sector or a much lower salary teaching for a university, often choose the market over the university. Of course, private universities have more freedom than state universities in matters of salary, because there are fewer constraints. All students pay for the courses at private universities, whereas a large percentage of students at state universities receive free tuition. But that freedom to pay higher salaries is constrained by budgetary considerations, which limit their ability to purchase the services of accounting professors. The average annual tuition for an accounting course is about US$1,200 and tuition is the major source of funds for private universities, so they must work within this constraint.

Another problem that faces all Russian universities, private as well as state, is that the majority of teachers became accountants and professors when the Russian economy was centrally planned, when independent thought was not welcomed. The market reforms hit them by surprise, like a snowball to the head. Many of the professors now teaching in Russian university accounting departments have a different mindset than that required to teach the new accounting. A number of the former Soviet professors have made the mental transition to private enterprise accounting, but many of them have not.

If we look at the statistics on the replenishment of teaching staff, those who have the appropriate academic degree, we find that in 2000 the number of postgraduate students who successfully defended a PhD in accounting was 2,764 people. Students from Moscow and the Moscow region comprised 860 (31%) of that total, which leaves less than two thousand, only 1,904 individuals from the rest of Russia. In 2001, the number of accounting dissertations were 2,100, of which 756 (36%) were from Moscow and the Moscow region. Considering the increase in the number of students studying accounting, from 241.4 thousand people in 2000 to 283.2 thousand in 2001, universities experiences a lack of influx of new accounting teachers.

This number may seem low, especially when one considers that many of the people now teaching accounting in Russian universities earned their PhDs when Russia had a centrally planned economy, and thus are perhaps not as qualified as the new PhDs coming out of Russian universities. But the statistics for the United States are even worse. American universities turn out less than 200 accounting PhDs a year. In some recent years it has been less than 100, even though there are more than 3,000 colleges and universities in the United States (Hasselback 2002).

So it would seem that the United States is facing an even worse crisis than Russian universities when it comes to replenishing teaching staffs. However, such may not be the case because the professors now teaching in American universities never had to change their mindset from central planning to market planning. Professors at American universities who earned their PhDs 10 or 20 or 30 years ago do not have the same obstacles to overcome that their Russian brothers and sisters must face.

One reason for the inability to find a sufficient number of Russian PhDs is because Russian universities have to compete with the market economy for their services. While this is also true in the United States, it is not true to the same extent. Individuals in the United States who obtain a PhD degree have already decided that they prefer teaching to working in the private sector, so working in the private sector is not as tempting for American PhDs.

Russian accountants face the problem of constantly changing tax and accounting rules. In this situation, when tax legislation (Tax Code, p. 3 prov. 120) sets the responsibility for accounting errors on accountants, a good accountant is one who remembers many rules and instructions. Responding to that demand, teachers try to cram as much laws and rules into the students' heads as possible. Unfortunately, most of the laws and rules they learn in school become out of date by the time the students graduate. Teaching students to think, analyze and make decisions is a luxury not many students can partake of in Russian universities.

Another issue is the textbook problem. Many accounting textbooks look much like a legal code or rule book. They are filled with instructions and laws. Unfortunately, not many textbooks that students have easy access to in libraries have practical cases and exercises. Again we see a deficiency in the incentive to think. Part of the problem is because the Russian legal system resembles the civil law system of most European countries, where there is a written rule for everything. The Russian (and European) mentality is to find which paragraph of the Code tells them what to do. Little or no room is left for professional judgment (Choi et al, 2002). The Anglo-American legal system is more "thinking friendly" in this regard. Although there are rules in the Anglo-American system, there is sufficient flexibility to allow for independent thought and professional judgment.

International Accounting Standards (IAS), which are an Anglo invention and are based on the Anglo legal system, leave more room for professional judgment. As Russia converts to IAS, the Anglo way of thinking, which includes the possibility of exercising professional judgment, will start to creep into the Russian accountant's tool kit. This will cause problems in the early stages, as Russian accountants have not been trained to think along the lines of the Anglo legal system. They feel more comfortable with the civil code approach, which they must continue to use for all areas outside of accounting. The new generation of Russian accountants will have to be able to function mentally in both the civil law system and the Anglo system, at least when it comes to making accounting decisions.

IAS are starting to creep into Russian language textbooks. The IAS were translated into Russian in 1999. That translation is out of date in some respects, as are the Russian textbooks that are based on that translation, but they are better than nothing. As for International Standards on Auditing (ISA), they remain a big secret to professors who cannot read English. Such professors must use other course materials for their classes.

This chapter attempts to examine all aspects of accounting education in private Russian universities. Despite all the existing problems, it is believed that this comparatively new branch will respond to the market demand on the one hand, and to go a step further, to add new requirements for tomorrow's accountant in society.

COLLEGE EDUCATION

When discussing the educational system in Russia it is necessary to mention that the system differs from that in the West in some important respects. One of the differences is that, since the Soviet time, post-secondary educational institutions are divided into several categories, depending on the level of education they provide. Universities and institutes are referred to as high education institutions. Schools that provide lower level education (mid-level professional education) are referred to as technicums or colleges. Typically, each school belongs to just one category, either university or college. However, in the last decade, some institutions have restructured and have introduced multi-level educational options. The newly-opened, mostly non-state schools also try to offer different levels of professional education in one school. This part of the chapter looks at middle level professional education as applied by private educational institutions.

Regarding terms, a Technicum is a middle level professional education school (MLPES) that provides education for:

- high school graduates, after they have completed 11 years of school. The period of study is 1 year and 10 months.
- General school graduates, who have completed 9 years of school. The period of study for these students is 2 years and 10 months.

A College, in Russian terms, is a middle level professional education school that has the right to provide education at the advanced level. Typically, to become a college graduate, one must complete one additional year of education beyond the technicum. After MLPES graduation a student may enter a university and graduate in 3 years rather than the usual 5 years needed to become a specialist.

Middle level professional accounting education is regulated by the state Standard accepted by the Ministry of Education on January 22, 2002. In addition to other issues such as entrance requirements, the Standard addresses issue relating to the categories of study (full-time days, distance education, etc.), equipment requirements for a school and qualitative requirements for graduation. The Standard includes requirements for the minimum content of the general educational program as well. Also, in the body of the Standard there is a model curriculum that should be taken as a base by MLPES when developing their individual curriculum. One requirement for graduation is knowledge of International Accounting Standards.

In this chapter we study the actual curriculum of an MLPES located in Omsk – the Siberian Regional School of Business. It is a private school, founded by several individuals in 1995, and is part of a larger entity. The Siberian Association of Continuing Education consists of three schools, the Siberian Institute of Business and Information Technology, the Institute of Economics and Law and the Siberian Regional School of Business. The first two are considered high education institutions. The third provides a middle level education.

The Siberian Institute of Business and Information Technology and the Institute of Economics and Law offer undergraduate classes and a supplementary professional education course. This is an excellent example of a multi-level educational structure. Founded from scratch, this institution presently has a few buildings, a library, five computer classrooms that are connected by a local network with internet access, a printing house and sport hall. Most students study on a distance basis. A large part of the teaching materials are developed by the school's own teachers. This was especially important in the early years after the school's founding, when textbooks became out of date because of the rapid changes that were being made to Russia's accounting and economic system. Making their own materials made it possible to provide more current and higher quality educational materials than their competitors and provide more flexibility of education. Today, distance students' learning materials consist of lecture notes, cases that include solutions and cases that do not include solutions. They are offered in two formats, depending on the student's choice – paper or CD. A special department is responsible for practical training and job placement of their graduates.

Their curriculum (Appendix 1.3) completely complies with state standard requirements, and so might be examined as typical. In Table 7 there is an analysis of the allocation of all disciplines into four categories. This analysis is similar to the one that was done for universities. Consultations (200 hours) are distributed as follows: 100 hours are devoted to accounting, 50 hours for finance and 50 for business. The additional courses (252 hours) were included as "Other Disciplines."

Table 7
Allocation of Hours between Blocks of Disciplines
Siberian Regional School of Business

Courses 2003-2004	**Allocation Hours Between Blocks of Disciplines**	
	Hours	**%**
TOTAL	3 402	100
Accounting Courses	1 057	31.1
Financial Courses	210	6.1
Other Business Courses	864	25.4
Other Courses	1 271	37.4

Accounting courses account for 1,057 hours, or 31.1 percent. Finance courses comprise 210 hours, or 6.1 percent of the total curriculum. Other business courses take 864 hours to complete and comprise 25.4 percent of the total curriculum. Other courses account for 1,271 hours, or 37.4 percent of the curriculum. Is this proportional optimal? Let's try to answer this question by analyzing which subjects have the greatest amount of time devoted to them.

Table 8
Top 5 Disciplines from the Curriculum
(Additional courses are not considered)
Siberian Regional School of Business

#	Disciplines	Hours	% of TOTAL
1	Accounting	342	10.1%
2	Economic Analysis of Enterprise Activity	165	4.9%
3	Foreign Languages	164	4.8%
4	Physical Training	164	4.8%
5	Economics of Enterprise	140	4.1%

The curriculum devotes the largest block of time to accounting (10.1%), which makes sense, since it is an accounting program. Economics occupy two of the top five positions, with a combined 9 percent total. Foreign languages and physical round out the top-five list. These latter two subjects make the top five because the Standards require a relatively large block of time to be devoted to them. Because of the relative importance assigned to these topics it might be assumed that graduates are both healthy and fluent in a foreign language. However, 164 hours is not sufficient to become fluent unless one has had prior language training, which is often the case. The curriculum does not include courses in International Accounting Standards or International Standards on Auditing. Supposedly, students acquire some knowledge of these subjects during the course of their accounting studies, most probably in the accounting theory class.

Private schools face some specific problems or bureaucratic hurdles. At a meeting between the rectors of private universities and top Ministry of Education management that took place 8 July 2003 in Russian New University, the university representatives expressed their support for real competition. Some of them also complained that the Education Ministry's "quality police" perform their jobs in a discriminatory manner when they evaluate the quality of private university programs. One way to evaluate quality, perhaps the best way, is to look at the rate of graduates' employment. For example, the private International Banking Institute is one of the leaders in Saint Petersburg (Borisov 2003).

Unfortunately, regional bureaucrats often take a jaundiced view of private education. They often retain the old Soviet view that anything that is aimed at making a profit is inherently bad. This mentality pervades the educational bureaucracy at all levels. They tend to forget to invite students from private schools to scientific or sporting competitions but do not forget to invite students from state institutions. They also forget to invite them to job vacancy fairs and do not recognize students' rights to use public transport at a reduced fee in cases where the students are from private institutions. Thus, these institutions and their students, which do not take anything from the state budget, but rather contribute taxes to it, do not enjoy the same privileges and rights as students at state schools.

PRIVATE ACCOUNTING ASSOCIATION EDUCATION PROGRAMS

Attestation (certification) and professional accountants' qualification upgrading in Russia started in 1997, after a Ministry of Finance initiative. In April 1997 The Institute of Professional Accountants (IPBR) [www.ipbr.ru]was founded by several universities, scientific and public organizations. In November 2001 it became an IFAC (International Federation of Accountants) member. One of the main activities of the IPBR is to coordinate the offering of professional education to accountants and upgrade qualifications.

At present there are more than 420 Training Method Centers (UMC) accredited by IPBR that provide professional accounting education. Its website stipulates accreditation requirements as follows: a UMC must have an education license in the area of supplementary education in the specialty of "Accounting and Auditing;" teaching experience in economics; teachers approved by IPBR; and necessary material resources.

Accounting education at a UMC consists of two categories:

- certification programs, and
- qualification upgrading

There are two ways to prepare for the certification exams. The first option consists of a 240/280 hour course for accountants who are university graduates. The second option is for accountants who graduated from MLPE schools. They must complete 500/520 hours of instruction. Preparation for the certification program (240/280 hours) was set by the IPBR President Council and has been required since 1 October 2002. In September 2003 "Cost Management" was added. The 500-hour program has been in force since August 2003. Table 9 shows a comparison of the two curriculums.

Table 9
Programs of Preparation and Attestation of Professional Accountants

#	Section	Class Study (hours)	
		240 hour course	**500 hour course**
	General:	**200**	**440**
1	Introduction to the Profession	2	10
2	Accounting (basic course)	98	200
3	Analysis of Financial- Economic Activity	40	70
4	Introduction to Auditing	12	40
5	Taxes (basic course)	24	60
6	Legal Administration of Economic Activity (basic course)	24	60
	Electives*:	**40-80**	**60-80**
7	Accounting Statements.	40	60
8	Financial Management.	40	60
9	Cost Management.	40	60
10	International Accounting Standards (IAS).	80**	80**
	TOTAL	**240-280**	**500-520**

Source: Compiled by authors, based on data at www.ipbr.ru.
*Advanced Courses depend on the specialization chosen.
** Introduced in 2004.

Students may choose one elective as part of the program. On a positive note, from the authors' perspective, is that one of the electives, which is to be introduced in 2004, is a course in International Accounting Standards (IAS). This addition constitutes a major step in the right direction. The Russian Ministry of Finance is forcing Russian banks and other enterprises to adopt IAS, but accountants who graduated from the university more than a few years ago probably did not have any exposure to these rules when they were at the university. The Russian edition of the International Accounting Standards book was not available until 1999, so the only Russian accountants who became familiar with IAS before 1999 were the ones who could read English.

Unfortunately, the probability is that most centers outside of Moscow and Saint Petersburg will have difficulty offering this course because of a lack of qualified teachers and course materials. That is because the vast majority of clients that need to prepare their financial statements in accordance with IAS are located either in Moscow or Saint Petersburg. Accountants outside of Russia's two capitals tend not to be familiar with IAS because there is no need to be. Where there is no demand from clients, accountants do not feel any need to develop expertise. That will change with time, since the Finance Ministry is requiring IAS, so the problem of offering the IAS elective may be a short-term problem.

The second area of UMC educational activity is professional accountants' qualification upgrading. The IPBR Statement has a provision that requires every member to take a 40-hour course every year. This requirement is similar to the continuing professional education requirement of most state CPA societies and accountancy boards in the United States. A continuing education requirement is also recommended by the International Federation of Accountants (IFAC) [www.ifac.org].

A list of courses has been developed and there are content requirements for each course. Every UMC selects the courses it wants to offer based on its resources and the needs of its members. During the research for this chapter the authors conducted a frequency analysis of the courses most offered as of 1 October 2002. Data included in the sample were from 389 UMCs. A ranking of the ten most frequently offered courses is given in Table 10.

Table 10
Continuing Professional Education Courses Offered in Accounting Professional Training Programs
Frequency of Offerings (2002)

Rank	# Centers	Course Title	Hours
1	114	The New Chart of Accounts	40
2	113	Financial Statements	40
3	112	International Accounting Standards	40
4	100	Management Accounting	40
5	96	Financial Analysis	40
6	81	Updating in Legislation and Actual Tax Problems	40
7	76	Auditing	80
8	75	Update in Accounting, Audit, Economic Analysis, Finance, Management, Taxation and Law	40
9	70	Financial Statement Analysis	40
10	61	International Transactions and Currency Operations Accounting	40

Source: IPB (2002): 330-479.

The popularity of "The New Chart of Accounts" course (114 UMC out of 389, or 29.3% offer it) is explained by the fact that 2002 was the first year the majority of companies had to implement the new chart of accounts, which was introduced by Ministry of Finance Order #94n on 31 October 2000. Consequently, there was much demand for, and interest in this course. A nearly equal amount of interest was expressed in the Financial Statements course (113 UMC, or 29%) and the International Accounting Standards course (112 UMC, or 28.2%). There was also a great deal of interest in the Management Accounting course and in the courses about legislative updates and financial statement analysis.

UMCs are founded, in most cases, as branches of educational institutions such as colleges and universities. An analysis of the list of UMCs (IPB 2002) found that 61.7 percent of UMCs were departments of various educational institutions. This kind of organizational relationship allows the UMC to use university resources and also serves to allow university professors to disseminate their knowledge and culture into the professional accounting educational sphere.

Courses in UMCs are most often presented in the form of lectures, where students write down the information provided by the lecturers. Practical training or case studies are not often used. It is rare that the training materials used in these courses is developed by the UMC. The lecturers are usually university professors with practical experience in accounting or auditing and tax service representatives. During the course of the interviews it was stated that these courses become a real test for the lecturers, since the audience consists of professional accountants who also have practical experience. Whereas students in the certification courses are concentrating on receiving information, for the 40-hour continuing professional education courses the classes often turn into an active exchange of views. Having the opportunity to communicate on an intellectual and professional level with other practicing accountants is something that Russian accountants do not often get to do, so these classes provide that opportunity. In some cases, this opportunity to communicate and share ideas is the most important part of the course.

It is believed that, in the future as the UMC education process evolves, more attention should be paid to active methods of teaching – practical training, business games, cases, etc. The development and implementation of learning materials and textbooks needs to be introduced into the educational process. Emphasis must be shifted away from the obligatory study aspect or rationale for taking the course because of IPBR requirements to internal motivation and learning for the sheer fun and professional improvement it provides.

One cannot but admit that one of the main goals of such lessons should be the "formation and development of the listeners' professional judgment, their ability to search for optimal solutions in non-typical situations. The main feature of the professional accountant is conceptual thinking, and skills, based on general principles to solve practical problems not provided in instructions." (Nikolaeva 2000).

OTHER PRIVATE EDUCATION PROVIDERS

Russian accounting and audit firms also offer educational programs. The frequency and number of offerings depend on the firm's size. The largest firms, mostly located in Moscow or Saint Petersburg, offer programs for their staff and also conduct seminars for clients and, to a lesser extent, to the general public. All of the Big-4 audit firms have Russian branches and they all include education in their list of services (Kommersant 2003).

The primary form of education services is seminars. The various topics include accounting, taxes, management accounting and law. International Accounting Standards (IAS) and Generally Accepted Accounting Principles (GAAP) are offered by all of the leading companies. In an online poll conducted by one of the Russian accounting firms to determine what kind of courses people wanted, the question was asked "Which topics are you interested in?" Table 11 shows the top four answers.

Table 11
Popularity of Continuing Education Courses
Conducted by Poll
14 November 2003

Rank	Title of Course	%
1	International Accounting Standards	39%
2	Management Accounting	25%
3	Tax and Law	21%
4	Accounting	15%

Source: www.elsfbk.ru/voting

The individuals who conduct the training are mostly high level professional consultants with the firm, leading university professors and representatives from the government Ministries. Seminars are usually one or two days long. Participants are sometimes given training materials.

Firms also conduct seminars for their corporate clients. Corporate seminars might take 4-6 days. As for IAS and U.S. GAAP seminars, in most cases they are basic courses and include material on the basic financial statements. Courses on these topics are in high demand. There are several reasons for such high popularity. For one, most IAS materials and U.S. GAAP materials are originally written in English. Not many Russian authors publish books on these subjects in the Russian language. So the kind of learning that takes place at these seminars tends to be passive. The audience listens rather than reads because there is nothing to read. There is also high interest in these subjects, especially IAS, because banks and some other enterprises will be required to implement IAS starting in 2004, one full year ahead of the European Union. Because of the high demand, the fee for taking these courses is usually higher than for other courses. The minimum cost of a 1-2 day seminar on IAS or U.S. GAAP is US$200, which is a lot of money for many Russian accountants.

As for audit companies located outside of Moscow and Saint Petersburg, they conduct training for their staff. The topics and form of the training are determined by the company's policy in that regard. Some training is in response to recent changes in tax or accounting legislation. Often these classes are held in the form of a discussion rather than a lecture, and views are exchanged. This type of class usually takes place once a week. Trainers are mostly the leading consultants or heads of departments. If necessary, they invite consultants from other departments (e.g., law) or external specialists, i.e., tax service representatives.

Local audit firms also provide seminars on accounting and taxation that are open to the public. They also conduct seminars for corporate clients on whatever topic the client is interested in.

Another example of training in the provinces is seminars led by lecturers from Moscow who may be from the Ministry of Finance or the Tax Service. Despite the higher than usual fee for these seminars, participants are not always satisfied with the quality of the seminar or lecturers, although the opposite is also sometimes the case. In one case, an accounting professor from Saint Petersburg has been coming to Omsk in Western Siberia twice a year for the last six years. Because of the simplicity of her presentation and the topicality of her lectures, she has developed a built-in audience who try not to miss her lectures when she comes to town.

Other accounting education programs might be divided into three categories:

- programs to prepare candidates for international certification exams,
- long-term education programs, and
- short-term seminars and training that are given by non-audit companies.

Courses to prepare candidates for international certification exams are offered by a few companies. One might divide the kinds of courses by continent, which is to say that some companies prepare students to pass exams given in Europe while others train their students to pass exams given in the USA. The most popular European exams are the ACCA and CIMA exams. Actually, the ACCA exams are given on all continents, in more than 130 countries, so they cannot strictly be called European, although these exams originated in the UK and are given only in English.

A search of the internet revealed websites for two companies that offer certification preparation courses for the American exams such as the certified public accountant (CPA), certified management accountant (CMA) and certificate in financial management (CFM). One is the Moscow office of CBSD (www.rus.cbsd), which also offers Thunderbird Accounting Foundations. The other is Hock Accounting Training (www.hocktraining.com), which offers preparation courses for the CPA, CMA, CFM and also the certified internal auditor (CIA) exam. The main difference between these two companies is that, for CBSD, it is a company that has accounting and finance as just one of its divisions, whereas for Hock Accounting Training, its sole focus is on accounting education. Trainers are mostly foreign teachers. They have no language problems or difficulties because the courses are conducted in English. The companies provide students with learning materials, including materials they develop themselves. Students who live in other cities can study by distance learning.

The interest that has been generated in the last few years by IAS has increased demand for the ACCA certification exams. Preparation for and passing this series of exams can take quite long, at least two and a half years, and perhaps five years or more. Several companies offer ACCA exam preparation courses. IBS-Plekhanov offers courses to prepare students for just some of the exams. Others, like Griffits College plan to offer the complete set of training courses by the end of 2003. All courses are offered only in English, since the ACCA exams are given only in English.

Another certification is offered by the International Association of Book-Keepers (IAB). This program is oriented toward the lowest level of accounting qualification. It has the advantage of being offered in the Russian language, whereas the other exams mentioned above are offered only in English.

The most recently introduced certification exam that has international stature is the certified international professional accountant (CIPA) exam. In 2001 the United States Agency for International Development (USAID) provided assistance in the founding of the International Institute of Certified Accountants and Auditors. At present (2003) it consists of 12 members, with organizational representatives from Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Ukraine and Uzbekistan. Certification is at two levels. IPBR started a project on preparation for and organization of the exams in the fall of 2003. There are to be seven exams. The purpose of this exam scheme is to provide a regional certification that is recognized in several Russian speaking countries. The exams are given in Russian. Time will tell whether this certification exam is popular.

Long-term educational programs do not seem to be as well advertised on the internet as the short-term programs, according to the web surfing conducted by the authors as part of this research project. The program International Practice of Accounting in Management was developed by professors from the Institute of Narodnogo Hozyastva and the Institute of Certified Accountants of Scotland (ICAS). This program is aimed at managers and financial managers. The course is 540 hours long and includes study in accounting, management accounting, financial management and practical management. The trainers are university professors. The cost of the course is US$5,000, which makes it quite expensive by Russian standards.

Another provider of long-term educational programs is Asceri-Acca. Seven out of nine long-term programs the authors were able to find on the internet (www.gaap.ru) were offered by that company. The real advantages of this program are mobility, comparatively low cost and learning materials.

Short-term seminars of one or two day duration is perhaps the most popular form of study. Every accountant has participated in this kind of training at least once. It has become an essential part of the accounting profession since rapid changes began taking place in the accounting and tax rules starting at the beginning of the 1990s. Providers and topics vary. Topics reflect accounting community interests. Management accounting seminars seem to be attracting a lot of attention. There is also a niche for courses on IAS and U.S. GAAP. There are also quite a few seminars on Russian accounting, law and taxation.

CONCLUDING COMMENTS

The interviews conducted during the course of this study were very enlightening. They pointed to a number of accounting educational opportunities offered by the private sector in Russia and provided information about the current state of accounting education in Russia. This was especially important, since the literature on private sector accounting in Russia, or in any of the former Soviet republics for that matter, is nonexistent. Private universities are popping up all over Russia to meet the demand for accounting education. State universities are also trying to fill the gap that exists between the supply of accounting courses and the demand for them.

One of the main problems that all universities face is finding qualified people to teach the courses. This problem will not be alleviated soon, although it probably will ease with the passage of time. Russian universities are turning out many more accounting PhDs each year than American universities, so it is just a matter of time until the shortage of Russian accounting PhDs is greatly reduced.

One view that kept popping up in the course of the interviews was the perception that accounting education is better in Moscow and Saint Petersburg than in other Russian cities. It remains to be seen whether this is true and more research needs to be done on this point, but the reasoning behind this view seems plausible. Most of the IAS experts are in Moscow and Saint Petersburg because the vast majority of large Russian companies that need the services of these experts are in these two Russian capitals. The client demand for IAS outside of Russia's two capitals is much less than the demand within these two cities, so it seems logical that there would be fewer IAS experts in Russia's other cities. However, even if this perception is accurate at the moment, the situation will likely change in the next few years, since Russia's Ministry of Finance has decreed that all Russian banks and many other Russian enterprises must adopt IAS. Demand for knowledge of IAS will increase in the provinces and experts will come into existence to fill the increased demand.

Another interesting point discovered during the course of the interviews is the number of distance learning students taking accounting courses at Russian universities. The general perception, which was iterated during several of the interviews, was that the quality of education received by distance learning students was distinctly lower than that received by resident students. This qualitative difference presents some structural difficulties, since there is no easy way to reduce this disparity.

Another interesting bit of information that was uncovered during the interviews is that there seems to be a two-tier system developing in Russia based on language ability. Accountants who can read English have an advantage over those who cannot because they are able to read international accounting materials in the original language. They can also take and pass the various international certification exams that are offered only in English, which makes them more marketable than their non-English speaking Russian brethren. Some of the larger accounting firms that were interviewed stated that they only hire individuals who can speak English, which gives English speaking Russians a distinct advantage in the marketplace. Just about everyone who works at one of the Big-4 accounting firms in Moscow or Saint Petersburg is studying for one or more of the international certification exams. It is practically required for long-term employment. Their firms encourage them to take the international certification exams and sometimes provide assistance in this regard. Thus, the demand for English may increase along with the demand for experts in IAS.

The present study opens the door to a number of interesting research possibilities. Since literature on private sector accounting education in former Soviet republics does not exist, a gap needs to be filled. Studies similar to the present study can be done of private sector accounting education in each of the other 14 former Soviet republics. Similar studies can also be done of the various Eastern European countries that broke free from the communist yoke in the late 1980s and early 1990s. Similar studies can be done of private sector accounting education in transition economies in other parts of the world, including Asia, Latin America and Africa. Comparative studies can be made of private sector accounting education in several countries. There is any number of possibilities.

APPENDICES

Below are the appendices for the curriculums at four typical Russian universities – 2 private and 2 state. There are more similarities than differences, although there are definitely differences, as was pointed out above. The programs at these universities are all five-year programs. As can be seen, the curriculum is highly structured, regardless of whether the university is private or state owned. Certain courses must be taken in certain semesters. The university administration determines whether exams, tests or term papers will be required. The Table lists both "tests" and "exams." The tests are similar to pass/fail exams in the USA. The Russian word for this kind of test is *zachet*. Russian students also take exams (*examen* in Russian), which are graded – excellent, good, satisfactory, etc.

APPENDIX 1.1A CURRICULUM AT PRIVATE UNIVERSITIES

DISCIPLINE	SERGIEV-POSAD HUMANITARIAN INSTITUTE, Sergiev-Posad								
	EXAMS, allocation among semesters			STUDYING (hours)					
					In class				
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lectures	Seminars	Self-study	% of Total (8640)
General Humanitarian and Social Economic Disciplines				**1800**	**714**	**338**	**376**	**1086**	**20.8**
Federal Component				**1260**	**444**	**164**	**280**	**816**	**14.6**
Foreign Languages	6	1-5		340	204		204	136	3.9
Physical Training		1-8		408				408	4.7

Russian History	1			106	52	36	16	54	1.2
Science of Law							0	0	0.0
Civil Law							0	0	0.0
Labor Law							0	0	0.0
Finance Law							0	0	0.0
Philosophy	1			106	52	36	16	54	1.2
Theory of Economics	1,2	2	2	300	136	92	44	164	3.5
Regional (University Component)				**270**	**134**	**92**	**42**	**136**	**3.1**
History of Kuban							0	0	0.0
Bibliography							0	0	0.0
Russian and the Culture of Speech							0	0	0.0
Science of Law	3	2		130	66	44	22	64	1.5
Social Science		6		70	34	24	10	36	0.8
Culture Science		2		70	34	24	10	36	0.8
Electives				**270**	**136**	**82**	**54**	**134**	**3.1**
Political Science							0	0	0.0
Psychology and Pedagogy							0	0	0.0
Social Science							0	0	0.0
Culture Science							0	0	0.0

Russian and the Culture of Speech		1-2		136	68	34	34	68	1.6
Logic		2		68	34	24	10	34	0.8
Russian Philosophy		1		68	34	24	10	34	0.8
Psychology and Pedagogy		1-2		136	68	34	34	68	1.6
Medico-Social Basis for Health		2		68	34	24	10	34	0.8
Ethics		2		66	34	24	10	32	0.8
Methods of Self-study		1		66	34	24	10	32	0.8
Political Science		1		68	34	24	10	34	0.8
General Mathematics and Natural Science Disciplines				**1400**	**698**	**336**	**362**	**702**	**16.2**
Federal Component				**1120**	**562**	**248**	**314**	**558**	**13.0**
Mathematics	2, 4	1, 3		600	272	142	130	328	6.9
Information Science	2, 4	1, 3		200	136	24	112	64	2.3
Information Systems in Economics	8	7		130	68	30	38	62	1.5
The Concept of Modern Natural Science		4		120	52	34	18	68	1.4
Econometrics		5		70	34	18	16	36	0.8
Regional (university) Component				**140**	**68**	**48**	**20**	**72**	**1.6**

Computer Networks, Office Equipment							0	0	0.0
The Ecology of Kuban							0	0	0.0
Regional Economic Geography	1			140	68	48	20	72	1.6
Electives				**140**	**68**	**40**	**28**	**72**	**1.6**
The Rational Use of Nature		3		140	68	40	28	72	1.6
Ecology		3		70	34	20	14	36	0.8
Special Course		3		70	34	20	14	36	0.8
General Professional Disciplines				**2200**	**1158**	**800**	**358**	**1042**	**25.5**
Federal Component				**1760**	**904**	**622**	**282**	**856**	**20.4**
Economics of Enterprises	3			136	68	48	20	68	1.6
Management	3			102	50	34	16	52	1.2
Marketing	5			68	34	24	10	34	0.8
Statistics	5	4		202	110	72	38	92	2.3
World Economics	2			136	68	46	22	68	1.6
Financial Management	6			102	50	36	14	52	1.2
Finance	3			102	50	36	14	52	1.2
Insurance	6			102	50	36	14	52	1.2
Cash, Loans, Banks	4			136	68	48	20	68	1.6
Stock Exchange	6			68	34	24	10	34	0.8

Taxes	5			102	50	36	14	52	1.2
The Theory of Accounting	3			130	68	48	20	62	1.5
The Theory of Economic Analysis	5			130	68	48	20	62	1.5
Control and Audit		6		68	34	24	10	34	0.8
International Accounting Standards		7		68	34	24	10	34	0.8
International Standards of Audit		9		68	34	24	10	34	0.8
Business Communication		5		40	34	14	20	6	0.5
Regional (University) Component				**220**	**134**	**94**	**40**	**86**	**2.5**
Safety of life-activity							0	0	0.0
Automated Processing of Accounting Information							0	0	0.0
Budget System of Russian Federation	4			70	50	34	16	20	0.8
Capital Investment	7			80	50	36	14	30	0.9
Pricing		3		70	34	24	10	36	0.8
Electives				**220**	**120**	**84**	**36**	**100**	**2.5**
The History of Accounting							0	0	0.0
Finance Calculations							0	0	0.0
The Role of Documents in Management							0	0	0.0

The Evolution and Theory of Double-Entry Bookkeeping							0	0	0.0
Professional Ethics		6		60	34	24	10	26	0.7
Basic Scientific Research		6		60	34	24	10	26	0.7
Personnel Management		8		100	52	36	16	48	1.2
Administrative Law		8		100	52	36	16	48	1.2
Regional Economics		4		60	34	24	10	26	0.7
Legal Examination of Trade Business		4		60	34	24	10	26	0.7
Special Disciplines				**2790**	**1386**	**910**	**476**	**1404**	**32.3**
Financial Accounting	5	4	5	374	170	112	58	204	4.3
Management Accounting	6		6	136	68	48	20	68	1.6
Financial Statements	7		7	90	50	36	14	40	1.0
Complex Economic Analysis of Enterprise Activity	8	7	8	270	136	90	46	134	3.1
Financial Statement Analysis	8			136	68	48	20	68	1.6
Auditing	9	8	8	338	170	112	58	168	3.9
Accounting Case Study		7-8		136	68	0	68	68	1.6
Accounting Business		9		70	34	20	14	36	0.8
Electives				**400**	**200**	**144**	**56**	**200**	**4.6**

Finance of Enterprises							0	0	0.0
Business Estimation							0	0	0.0
Business Administration in Accounting							0	0	0.0
Financial Environment of Business and Entrepreneurial Risks							0	0	0.0
Concepts and Analysis of Cash Flows		6		100	50	36	14	50	1.2
Internal Audit Standards		8		100	50	36	14	50	1.2
Controllership		8		100	50	36	14	50	1.2
The Evolution and Theory of Double-Entry Bookkeeping		9		100	50	36	14	50	1.2
Tax Calculations in Accounting		9		100	50	36	14	50	1.2
Risk Estimation and Analysis		8		100	50	36	14	50	1.2
Financial Analysis		8		100	50	36	14	50	1.2
The History of Accounting		6		100	50	36	14	50	1.2
Specialization Disciplines				**840**	**422**	**300**	**122**	**418**	**9.7**
ACCOUNTING AND AUDITING FOR BUSINESS ENTERPRISES									
Cost Accounting, Calculations and Budgeting for Different Industries	7			100	50	36	14	50	1.2

Accounting for Small Business		7		68	34	24	10	34	0.8
Tax Accounting							0	0	0.0
Accounting for Non-profit Organizations							0	0	0.0
Accounting for Trade Business*/Building Industry** /Services		8		204	102	72	30	102	2.4
Management Analysis for Industries		8		68	34	24	10	34	0.8
Accounting for Bankruptcy		9		68	34	24	10	34	0.8
Accounting and Auditing in Commercial Banks							0	0	0.0
Accounting and Auditing for International Activity	7			100	50	36	14	50	1.2
Legal Basis for Taxation		9		100	50	36	14	50	1.2
Planning in a Market Economy		9		68	34	24	10	34	0.8
Economic Security of Business		6		64	34	24	10	30	0.7
Additional Courses				**450**	**224**	**116**	**108**	**226**	**5.2**
Foreign Language for Business Communication				340	204		204	136	3.9
Economic Security of Business							0	0	0.0

Civil Defense							0	0	0.0
The Theory and Practice of Driving							0	0	0.0
1C-computer program				110	52		52	58	1.3
Creative Image-making				70	34	24	10	36	0.8
History of Art				100	52	34	18	48	1.2
Self-Management				70	34	24	10	36	0.8
Mathematical Sociology				100	52	34	18	48	1.2
Self-presentation				40	18	8	10	22	0.5
Natural Science for Economists				100	52	34	18	48	1.2
TOTAL HOURS				**8640**	**4180**	**2500**	**1680**	**4460**	**100.0**
EXAMS	**35**								
TESTS (ZACHET)		**58**							
TERM PAPERS			**7**						

APPENDIX 1.1B CURRICULUM AT PRIVATE UNIVERSITIES

DISCIPLINE	SOUTH INSTITUTE OF MANAGEMENT, Krasnodar												
	EXAMS, allocation among semesters				EXAMS, allocation among semesters			STUDYING (hours)					
									In class				
	Exam	Test (zachet)	Term paper		Exam	Test (zachet)	Term paper	TOTAL	Total	Lecture	Seminars	Self-study	% of Total (8640)
General Humanitarian and Social Economic Disciplines								**1800**	**1190**	**370**	**820**	**610**	**20.8**
Federal Component								**1402**	**976**	**238**	**738**	**426**	**16.2**
Foreign Languages	6	1-5			4	1,2,3		340	204		204	136	3.9
Physical Training		1-8			8	1-7		408	408		408	0	4.7
Russian History	1				1			108	54	36	18	54	1.3
Science of Law					2			54	32	22	10	22	0.6
Civil Law						3		30	18	10	8	12	0.3
Labor Law						4		30	16	10	6	14	0.3
Finance Law						5		54	36	24	12	18	0.6

Philosophy	1				3			144	72	48	24	72	1.7
Theory of Economics	1,2	2	2		1,2		2	234	136	88	48	98	2.7
Regional (University Component)								**162**	**78**	**40**	**38**	**84**	**1.9**
History of Kuban						2		54	24	16	8	30	0.6
Bibliography						1		36	18		18	18	0.4
Russian and the Culture of Speech						1		72	36	24	12	36	0.8
Science of Law	3	2									0	0	0.0
Social Science		6									0	0	0.0
Culture Science		2									0	0	0.0
Electives								**236**	**136**	**92**	**44**	**100**	**2.7**
Political Science					2			64	32	22	10	32	0.7
Psychology and Pedagogy						1		54	36	24	12	18	0.6
Social Science					2			64	32	22	10	32	0.7
Culture Science						1		54	36	24	12	18	0.6
Russian and the Culture of Speech		1-2									0	0	0.0
Logic		2									0	0	0.0
Russian Philosophy		1									0	0	0.0
Psychology and Pedagogy		1-2									0	0	0.0

Medico-Social Basis for Health		2									0	0	0.0
Ethics		2									0	0	0.0
Methods of Self-study		1									0	0	0.0
Political Science		1									0	0	0.0
General Mathematics and Natural Science Disciplines								**1400**	**734**	**316**	**418**	**666**	**16.2**
Federal Component								**1200**	**634**	**254**	**380**	**566**	**13.9**
Mathematics	2,4	1,3			2,4	1,3		600	306	136	170	294	6.9
Information Science	2,4	1,3			4	1,2,3		252	136	30	106	116	2.9
Information Systems in Economics	8	7			6	5		168	102	34	68	66	1.9
The Concept of Modern Natural Science		4			1			108	54	36	18	54	1.3
Econometrics		5				5		72	36	18	18	36	0.8
Regional (university) Component								**104**	**52**	**30**	**22**	**52**	**1.2**
Computer Networks, Office Equipment						5		56	28	14	14	28	0.6
The Ecology of Kuban						2		48	24	16	8	24	0.6
Regional Economic Geography	1										0	0	0.0

Electives								**96**	**48**	**32**	**16**	**48**	**1.1**
The Rational Use of Nature		3				2		96	48	32	16	48	1.1
Ecology		3									0	0	0.0
Special Course		3									0	0	0.0
General Professional Disciplines								**2200**	**1134**	**682**	**452**	**1066**	**25.5**
Federal Component								**1860**	**962**	**586**	**376**	**898**	**21.5**
Economics of Enterprises	3				3			108	54	36	18	54	1.3
Management	3				3			108	54	36	18	54	1.3
Marketing	5				5			108	54	30	24	54	1.3
Statistics	5	4			4	3		204	102	56	46	102	2.4
World Economics	2				4	3		204	102	68	34	102	2.4
Financial Management	6				7			108	54	28	26	54	1.3
Finance	3				4			100	64	44	20	36	1.2
Insurance	6					6		96	48	32	16	48	1.1
Cash, Loans, Banks	4				5, 6			204	102	68	34	102	2.4
Stock Exchange	6				7			108	54	36	18	54	1.3
Taxes	5				5			108	54	24	30	54	1.3
The Theory of Accounting	3				4			102	64	32	32	38	1.2
The Theory of Economic Analysis	5				6			96	48	32	16	48	1.1

Control and Audit		6			9			74	40	20	20	34	0.9
International Accounting Standards		7				6		60	32	22	10	28	0.7
International Standards of Audit		9				9		40	20	12	8	20	0.5
Business Communication		5				4		32	16	10	6	16	0.4
Regional (University) Component								**168**	**86**	**46**	**40**	**82**	**1.9**
Safety of life-activity						2		72	32	22	10	40	0.8
Automated Processing of Accounting Information					7			96	54	24	30	42	1.1
Budget System of Russian Federation	4										0	0	0.0
Capital Investment	7										0	0	0.0
Pricing		3									0	0	0.0
Electives								**172**	**86**	**50**	**36**	**86**	**2.0**
The History of Accounting						3		36	18	10	8	18	0.4
Finance Calculations						5		36	18	8	10	18	0.4
The Role of Documents in Management						4		64	32	22	10	32	0.7
The Evolution and Theory of Double-Entry Bookkeeping						5		36	18	10	8	18	0.4
Professional Ethics		6									0	0	0.0
Basic Scientific Research		6									0	0	0.0

Personnel Management		8									0	0	0.0
Administrative Law		8									0	0	0.0
Regional Economics		4									0	0	0.0
Legal Examination of Trade Business		4									0	0	0.0
Special Disciplines								**2790**	**1428**	**664**	**764**	**1362**	**32.3**
Financial Accounting	5	4	5		5, 6		5	400	204	76	128	196	4.6
Management Accounting	6		6		7		7	144	72	36	36	72	1.7
Financial Statements	7		7		7		7	108	54	26	28	54	1.3
Complex Economic Analysis of Enterprise Activity	8	7	8		8	7	8	240	120	48	72	120	2.8
Financial Statement Analysis	8				9			80	40	20	20	40	0.9
Auditing	9	8	8		9	8	9	300	152	76	76	148	3.5
Accounting Case Study		7-8			8	7		170	90		90	80	2.0
Accounting Business		9			9			80	40	26	14	40	0.9
Electives								**412**	**204**	**130**	**74**	**208**	**4.8**
Finance of Enterprises					6		6	160	80	48	32	80	1.9
Business Estimation					8			96	48	32	16	48	1.1
Business Administration in Accounting						6		36	16	10	6	20	0.4

Financial Environment of Business and Entrepreneurial Risks						9		60	30	20	10	30	0.7
Concepts and Analysis of Cash Flows		6				9		60	30	20	10	30	0.7
Internal Audit Standards		8									0	0	0.0
Controllership		8									0	0	0.0
The Evolution and Theory of Double-Entry Bookkeeping		9									0	0	0.0
Tax Calculations in Accounting		9									0	0	0.0
Risk Estimation and Analysis		8									0	0	0.0
Financial Analysis		8									0	0	0.0
The History of Accounting		6									0	0	0.0
Specialization Disciplines								**856**	**452**	**226**	**226**	**404**	**9.9**
ACCOUNTING AND AUDITING FOR BUSINESS ENTERPRISES													
Cost Accounting, Calculations and Budgeting for Different Industries	7				8	7		144	72	36	36	72	1.7
Accounting for Small Business		7			7			68	36	18	18	32	0.8
Tax Accounting					8			90	48	24	24	42	1.0
Accounting for Non-profit Organizations					8			70	36	18	18	34	0.8

Accounting for Trade Business*/Building Industry** /Services		8				9		74	40	20	20	34	0.9
Management Analysis for Industries		8			9			112	60	30	30	52	1.3
Accounting for Bankruptcy		9				9		74	40	20	20	34	0.9
Accounting and Auditing in Commercial Banks					9			112	60	30	30	52	1.3
Accounting and Auditing for International Activity	7				9			112	60	30	30	52	1.3
Legal Basis for Taxation		9									0	0	0.0
Planning in a Market Economy		9									0	0	0.0
Economic Security of Business		6									0	0	0.0
Additional Courses								**450**	**260**	**90**	**170**	**190**	**5.2**
Foreign Language for Business Communication						*		100	60		60	40	1.2
Economic Security of Business						*		50	30	20	10	20	0.6
Civil Defense						*		150	70	40	30	80	1.7
The Theory and Practice of Driving						*		150	100	30	70	50	1.7
1C-computer program											0	0	0.0
Creative Image-making											0	0	0.0

History of Art											0	0	0.0
Self-Management											0	0	0.0
Mathematical Sociology											0	0	0.0
Self-presentation											0	0	0.0
Natural Science for Economists											0	0	0.0
TOTAL HOURS								**8640**	**4746**	**2122**	**2624**	**3894**	**100.0**
EXAMS	**35**				**47**								
TESTS (ZACHET)		**58**				**41**							
TERM PAPERS			**7**				**7**						

APPENDIX 1.2
CURRICULUM AT PRIVATE UNIVERSITIES
SUMMARY OF COURSES

	SOUTH INSTITUTE OF MANAGEMENT, Krasnodar		**SERGIEV-POSAD HUMANITARIAN INSTITUTE**			**Average**
	TOTAL		**TOTAL**			
	Hours	**%**	**Hours**	**%**		**%**
TOTAL	**8640**	**100**	**8640**	**100**		**100**
Accounting Courses	**2892**	**33.5**	**2936**	**34.0**		**33.7**
Business Administration in Accounting	36					
1-C Computer Program			110			
Accounting and Auditing for	112		100			

International Activity						
Accounting and Auditing in Commercial Banks	112					
Accountancy	80		70			
The Evolution and Theory of Double-Entry Bookkeeping	36		100			
Accounting for Non-profit Organizations	70					
Accounting for Small Business	68		68			
Accounting for Trade Business	74		204			
Accounting for Bankruptcy	74		68			
Auditing	300		338			
Automated Processing of Accounting Information	96					
Accounting Case Study	170		136			
Complex Economic Analysis of Enterprise Activity	240		270			
Controllership			100			
Cost Accounting and Budgeting for Different Industries	144		100			
Financial Accounting	400		374			
Financial Statements	108		90			
Financial Statement Analysis	80		136			
International Accounting Standards	60		68			
Internal Audit			100			

Standards						
International Auditing Standards	40		68			
Management Accounting	144		136			
Management Analysis for Industry	112		68			
Tax Accounting	90					
Taxes	108		102			
The History of Accounting	36					
The Theory of Accounting	102		130			
Finance Courses	**1192**	**13.8**	**958**	**11.1**		**12.4**
Business Estimation	96					
Capital Investment			80			
Cash, Loans, Banks	204		136			
Concepts and Analysis of Cash Flows	60		100			
Control and Inspection	74		68			
Finance	100		102			
Finance Calculations	36					
Finance of Enterprises	160					
Finance Law	54					
Financial Management	108		102			
Insurance	96		102			
Pricing			70			
Stock Exchange	108		68			
Theory of Economic Analysis	96		130			
Other Business Courses	**1582**	**18.3**	**1766**	**20.4**		**19.4**
Basics of Scientific Research			60			

Business Communication	32		40			
Civil Law	30					
Computer Networks and Office Equipment	56					
Econometrics	72		70			
Economics of Enterprises	108		136			
Economic Security of Business	50		64			
Financial Environment of Business and Entrepreneurial Risks	60					
Information Systems in Economics	168		130			
Labor Law	30					
Legal Basis for Taxation			100			
Management	108		102			
Marketing	108		68			
Personnel Management			100			
Planning in a Market Economy			68			
Professional Ethics			60			
Science of Law	54		130			
Statistics	204		202			
The Role of Documents in Management	64					
Theory of Economics	234		300			
World Economics	204		136			
Other Courses	**2974**	**34.4**	**2980**	**34.5**		**34.5**
Bibliography	36					
Budget System of Russian Federation			70			
Civil Defense	150					
Culture Science	54		70			
Ecology	48					

Regional Economic Geography			140			
Ethics			66			
Business Communications	100		340			
Foreign Languages	340		340			
Information Science	252		200			
Logic			68			
Mathematics	600		600			
Philosophy	144		106			
Physical Training	408		408			
Political Science	64					
Psychology and Pedagogy	54					
Rational Use of Nature	96		140			
Russian and the Culture of Speech	72		136			
Russian History	108		106			
Safety of Life-activity	72					
Social Science	64		70			
The Concept of Modern Natural Science	108		120			
The History of Kuban	54					
The Theory and Practice of Driving	150					

APPENDIX 1.3
CURRICULUM AT A TYPICAL PRIVATE COLLEGE

DISCIPLINE	SIBERIAN REGIONAL SCHOOL OF BUSINESS								
	EXAMS, allocation among semesters			STUDYING (hours)					
					In class				
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lectures	Practice	Self-study	% of Total (8640)
General Humanitarian and Social Economic Disciplines				**645**	**496**	**222**	**274**	**149**	**19.0**
Federal Component				**561**	**432**	**166**	**266**	**129**	**16.5**
Foreign Languages		1, 2		164	126	0	126	38	4.8
Physical Training		1-4		164	126	6	120	38	4.8
Fundamentals of Social Science and Political Science		3		62	48	42	6	14	1.8
Fundamentals of Law		1		42	32	28	4	10	1.2
Russian and Culture of Speech		1		72	56	46	10	16	2.1
Fundamentals of Philosophy	2			57	44	44	0	13	1.7
Electives				**84**	**64**	**56**	**8**	**20**	**2.5**
Social Psychology		4		42	32	28	4	10	1.2
Fundamentals of Ethics		3		42	32	28	4	10	1.2
General Mathematics and Natural Science				**198**	**132**	**82**	**50**	**66**	**5.8**

Disciplines									
Federal Component				**198**	**132**	**82**	**50**	**66**	**5.8**
Mathematics		1		60	40	20	20	20	1.8
Information Science		1		90	60	30	30	30	2.6
Ecology Fundamentals of Nature		1		48	32	32	0	16	1.4
General Professional Disciplines				**872**	**738**	**468**	**270**	**134**	**25.6**
Federal Component				**872**	**738**	**468**	**270**	**134**	**25.6**
Economics of Enterprises	2		2	140	120	62	58	20	4.1
Management	2			72	60	40	20	12	2.1
Marketing	3			60	50	32	18	10	1.8
Statistics		2		60	50	32	18	10	1.8
Documentation		3		56	48	28	20	8	1.6
Business Planning		4		38	32	16	16	6	1.1
Fundamentals of Banking		4		38	32	20	12	6	1.1
Legal Basis for Professional Activity		3		56	48	30	18	8	1.6
Finance, Currency and Credit	3			72	60	40	20	12	2.1
Safety of Life-activity		1		80	68	48	20	12	2.4
The Theory of Accounting	1			94	80	50	30	14	2.8
The Theory of Economics	1			106	90	70	20	16	3.1
Special Disciplines				**1085**	**792**	**420**	**372**	**293**	**31.9**
Accounting	2, 3			342	250	130	120	92	10.1
Taxes	3			112	82	52	30	30	3.3
Auditing	4			82	60	36	24	22	2.4
Economic Analysis of Enterprise Activity	4	3	4	165	120	52	68	45	4.9
Information Technology in		4		112	82	20	62	30	3.3

Professional Activity									
Electives				**272**	**198**	**130**	**68**	**74**	**8.0**
International Activity		4		48	36	26	10	12	1.4
Labor Law		2		74	54	18	36	20	2.2
Financial Management		4		50	36	30	6	14	1.5
Tax Accounting and Tax Returns		4		50	36	30	6	14	1.5
Psychology		2		50	36	26	10	14	1.5
Disciplines of Regional Component				**150**	**110**	**84**	**26**	**40**	**4.4**
The History and Culture of Siberia		1		44	32	32	0	12	1.3
Business Communications		4		62	46	20	26	16	1.8
Regional Economics		2		44	32	32	0	12	1.3
Consultations				**200**	**200**	**200**	**0**	**0**	**5.9**
Additional Courses (Liberal Arts, Business, Foreign Languages, Physical Training)				**252**	**252**	**252**	**0**	**0**	**7.4**
TOTAL HOURS				**3402**	**2720**	**1728**	**992**	**682**	**100.0**
EXAMS	**12**								
TESTS (ZACHET)		**32**							
TERM PAPERS			**2**						

APPENDIX 1.4
SUMMARY OF COURSES
SIBERIAN SCHOOL OF BUSINESS (OMSK)

	Hours	%
TOTAL	**3402**	**100.0**
Accounting Courses	**1057**	**31.1**
Accounting	342	
Auditing	82	
Consultations	100	
Economic Analysis of Enterprise Activity	165	
Information Technology in Professional Activity	112	
Tax Accounting and Tax Returns	50	
Taxes	112	
The Theory of Accounting	94	
Finance Courses	**210**	**6.2**
Consultations	50	
Finance, Currency, Credit	72	
Financial Management	50	
Fundamentals of Banking	38	
Other Business Courses	**864**	**25.4**
International Activity	48	
Business Communication	62	
Economics of Enterprises	140	
Business Planning	38	
Labor Law	74	

Management	72	
Marketing	60	
Consultations	50	
Legal Basis for Professional Activity	56	
Fundamentals of Law	42	
Statistics	60	
Documentation	56	
The Theory of Economics	106	
Other Courses	**1271**	**37.4**
The History and Culture of Siberia	44	
Additional Courses	252	
Ecology Fundamentals of Nature	48	
Foreign Languages	164	
Fundamentals of Ethics	42	
Fundamentals of Philosophy	57	
Fundamentals of Social and Political Science	62	
Information Science	90	
Mathematics	60	
Physical Training	164	
Psychology	50	
Russian and the Culture of Speech	72	
Safety of Life Activity	80	
Social Psychology	42	
Regional Economics	44	

APPENDIX 2.1A CURRICULUM AT STATE UNIVERSITIES

DISCIPLINE	OMSK STATE UNIVERSITY									
	EXAMS, allocation among semesters			STUDYING (hours)						
					In class					
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lectures	Seminars	Self-study	% of Total (8646)	
General Humanitarian and Social Economic Disciplines				**1800**	**1416**	**0**	**1416**	**384**	**20.8**	
Federal Component				**1260**	**972**	**0**	**972**	**288**	**14.6**	
Foreign Languages	4	1, 2, 3		340	256		256	84	3.9	
Physical Training		1-6		408	408		408	0	4.7	
Russian History	1			90	68		68	22	1.0	
Science of Law		4		94	50		50	44	1.1	
Psychology and Pedagogy		7		62	36		36	26	0.7	
Russian and the Culture of Speech		2		62	32		32	30	0.7	
Philosophy	3			102	52		52	50	1.2	
Theory of Economics	1			102	70		70	32	1.2	

Regional (University) Component				**270**	**186**	**0**	**186**	**84**	**3.1**	
Microeconomics	2			116	68		68	48	1.3	
Macroeconomics	2			94	68		68	26	1.1	
Economics and Social Science of Labor		4		60	50		50	10	0.7	
Science of Law							0	0	0.0	
Social Science							0	0	0.0	
Electives				**270**	**258**	**0**	**258**	**12**	**3.1**	
General University Disciplines		1-3		99	97		97	2	1.1	
Political Science		1		38	36		36	2	0.4	
State Regulation of Economy		3		38	36		36	2	0.4	
Culture Science		1		38	36		36	2	0.4	
Economical Social Science		2		38	36		36	2	0.4	
Economic Growth Problems		5		19	17		17	2	0.2	
General Mathematics and Natural Science Disciplines				**1400**	**754**	**0**	**754**	**646**	**16.2**	
Federal Component				**1120**	**580**	**0**	**580**	**540**	**13.0**	
Mathematics	1, 2	3, 5, 6		600	300		300	300	6.9	

Information Science	2			200	102		102	98	2.3	
Information Systems in Economics		8		184	92		92	92	2.1	
The Concept of Modern Natural Science		1		68	52		52	16	0.8	
Econometrics		4		68	34		34	34	0.8	
Regional (University) Component				**140**	**102**	**0**	**102**	**38**	**1.6**	
Econometrics							0	0	0.0	
Civil Law		5		68	50		50	18	0.8	
Regional Economic Geography	1			72	52		52	20	0.8	
Electives				**140**	**72**	**0**	**72**	**68**	**1.6**	
The Concept of Modern Natural Science		2		72	36		36	36	0.8	
Probability Theory							0	0	0.0	
Economic Information Protection		5		68	36		36	32	0.8	
General Professional Disciplines				**2206**	**1251**	**0**	**1251**	**955**	**25.5**	
Federal Component				**1766**	**977**	**0**	**977**	**789**	**20.4**	
Economics of Enterprises	4			89	51		51	38	1.0	

Management	5			120	60		60	60	1.4	
Marketing		6		68	42		42	26	0.8	
Statistics	3, 4			262	140		140	122	3.0	
World Economics	6			60	44		44	16	0.7	
Financial Management	8			84	42		42	42	1.0	
Finance	5			120	60		60	60	1.4	
Insurance		5		72	36		36	36	0.8	
Cash, Loans, Banks	4, 5			200	100		100	100	2.3	
Stock Exchange	7			108	54		54	54	1.2	
Taxes	3			98	70		70	28	1.1	
The Theory of Accounting	3			127	70		70	57	1.5	
The Theory of Economic Analysis	6			122	72		72	50	1.4	
Control and Audit	9			60	36		36	24	0.7	
International Accounting Standards	9			60	36		36	24	0.7	
International Standards of Audit		9		60	36		36	24	0.7	
Business Communication		8		56	28		28	28	0.6	
Regional (University) Component				**220**	**130**	**0**	**130**	**90**	**2.5**	
The History of Accounting		3		68	34		34	34	0.8	

Personnel Management		8		90	45		45	45	1.0	
Introduction to Production Processes		2		62	51		51	11	0.7	
Business Communication							0	0	0.0	
Electives				**220**	**144**	**0**	**144**	76	**2.5**	
Administrative Law		8		56	36		36	20	0.6	
The Study of Conflict		8		56	36		36	20	0.6	
Organizational Behavior		7		52	36		36	16	0.6	
Corporate Finance		6		56	36		36	20	0.6	
Vital Functions Safety and Protection of Labor							0	0	0.0	
Pricing							0	0	0.0	
Special Disciplines				**2790**	**1441**	**0**	**1441**	**1349**	**32.3**	
Financial Accounting	4, 5			384	192		192	192	4.4	
Management Accounting	6			112	56		56	56	1.3	
Financial Statements	6			88	44		44	44	1.0	
Complex Economic Analysis of Enterprise Activity	7, 8			240	120		120	120	2.8	
Financial Statement Analysis		7		72	36		36	36	0.8	

Auditing	7, 8, 9			336	168		168	168	3.9	
Accounting Case Study		6, 7, 8		224	112		112	112	2.6	
Accountancy		9		72	36		36	36	0.8	
Electives				**422**	**254**	**0**	**254**	**168**	**4.9**	
Investment Analysis/Real Estate Economics		7		39	36		36	3	0.5	
Accounting and Auditing of Stock Transactions		9		36	24		24	12	0.4	
Financial Law		6		52	32		32	20	0.6	
Internal Company Planning		8		47	24		24	23	0.5	
Taxation Investigation		7		56	36		36	20	0.6	
Forecasting and Planning in Taxation		7		72	36		36	36	0.8	
Internal Audit Standards		9		36	24		24	12	0.4	
Financial Mathematics		7		36	18		18	18	0.4	
Investment Institutions		8		48	24		24	24	0.6	
Specialization Disciplines				**840**	**423**	**0**	**423**	**417**	**9.7**	
ACCOUNTING AND AUDITING FOR BUSINESS ENTERPRISES										
Bank Activity Analysis	9			84	42		42	42	1.0	

Accounting for Small Business		5		70	35		35	35	0.8
Accounting for Non-profit Organizations		7		108	54		54	54	1.2
Accounting for Trade Business		6		72	36		36	36	0.8
Commercial Bank Reporting	8			70	36		36	34	0.8
Accounting for Bankruptcy		8		84	42		42	42	1.0
Accounting in Commercial Banks	7			108	54		54	54	1.2
Accounting and Auditing for International Activity		9		72	36		36	36	0.8
Bank Auditing		9		70	36		36	34	0.8
Tax Accounting, Audit		7		102	52		52	50	1.2
Cost Accounting and Budgeting for Different Industries							0	0	0.0
Logistics							0	0	0.0
Additional Courses				**450**	**228**	**0**	**228**	**222**	**5.2**
Foreign Language for Business Communication		5, 6, 7, 8		138	72		72	66	1.6
The Theory of Accounting		6		56	28		28	28	0.6
Hypertext		9		48	24		24	24	0.6
Safety of Life Activity		6		100	50		50	50	1.2

Corporate Communications		7		108	54		54	54	1.2
Other							0	0	0.0
TOTAL HOURS				**8646**	**5090**	**0**	**5090**	**3556**	**100.0**
EXAMS	**37**								
TESTS (ZACHET)		**70**							
TERM PAPERS			**0**						

APPENDIX 2.1B CURRICULUM AT STATE UNIVERSITIES

DISCIPLINE	SAINT PETERSBURG STATE POLYTECHNIC UNIVERSITY								
	EXAMS, allocation among semesters			STUDYING (hours)					
					In class				
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lecture	Seminars	Self-study	% of Total (8208)
General Humanitarian and Social Economic Disciplines				**1802**	**1241**	**272**	**969**	**561**	**22.0**
Federal Component				**1462**	**1071**	**170**	**901**	**391**	**17.8**
Foreign Languages	6	1-5		510	340		340	170	6.2
Physical Training		1-6		408	408		408	0	5.0
Russian History		4		85	51	34	17	34	1.0
Science of Law							0	0	0.0
Psychology and Pedagogy							0	0	0.0
Russian and the Culture of Speech							0	0	0.0
Philosophy	1			102	68	34	34	34	1.2

Theory of Economics	1-3			357	204	102	102	153	4.3
Regional (University) Component				**238**	**136**	**102**	**34**	**102**	**2.9**
Microeconomics							0	0	0.0
Macroeconomics							0	0	0.0
Economics and Social Science of Labor							0	0	0.0
Science of Law	2-3		3	170	102	68	34	68	2.1
Social Science		6		68	34	34	0	34	0.8
Electives				**102**	**34**	**0**	**34**	**68**	**1.2**
General University Disciplines							0	0	0.0
Political Science							0	0	0.0
State Regulation of Economy							0	0	0.0
Culture Science		3		102	34		34	68	1.2
Economical Social Science							0	0	0.0
Economic Growth Problems							0	0	0.0
General Mathematics and Natural Science Disciplines				**1542**	**982**	**440**	**542**	**560**	**18.8**
Federal Component				**1270**	**778**	**338**	**440**	**492**	**15.5**

Mathematics	1-3	1-3		391	238	119	119	153	4.8
Information Science	1	1	2-4	459	289	85	204	170	5.6
Information Systems in Economics	9	8	9	165	132	66	66	33	2.0
The Concept of Modern Natural Science	2	1		255	119	68	51	136	3.1
Econometrics							0	0	0.0
Regional (University) Component				**170**	**136**	**68**	**68**	**34**	**2.1**
Econometrics	6	5	6	170	136	68	68	34	2.1
Civil Law							0	0	0.0
Regional Economic Geography							0	0	0.0
Electives				**102**	**68**	**34**	**34**	**34**	**1.2**
The Concept of Modern Natural Science							0	0	0.0
Probability Theory	4			102	68	34	34	34	1.2
Economic Information Protection							0	0	0.0
General Professional Disciplines				**2222**	**1280**	**758**	**522**	**942**	**27.1**
Federal Component				**1831**	**1110**	**656**	**454**	**721**	**22.3**

Economics of Enterprises	5	6	5	204	153	85	68	51	2.5
Management	5		3	221	85	51	34	136	2.7
Marketing	4		4	102	68	34	34	34	1.2
Statistics	6	5	6	170	136	68	68	34	2.1
World Economics		4		119	68	34	34	51	1.4
Financial Management	8	7	8	136	102	68	34	34	1.7
Finance	4			102	51	34	17	51	1.2
Insurance	7		7	102	68	51	17	34	1.2
Cash, Loans, Banks	9	9		128	80	48	32	48	1.6
Stock Exchange			9	176	80	48	32	96	2.1
Taxes	8		8	136	85	51	34	51	1.7
The Theory of Accounting	8			102	51	34	17	51	1.2
The Theory of Economic Analysis							0	0	0.0
Control and Audit							0	0	0.0
International Accounting Standards	8			85	51	34	17	34	1.0
International Standards of Audit		9		48	32	16	16	16	0.6
Business Communication							0	0	0.0
Regional (University) Component				**221**	**68**	**34**	**34**	**153**	**2.7**

The History of Accounting							0	0	0.0
Personnel Management							0	0	0.0
Introduction to Production Processes							0	0	0.0
Business Communication			2	221	68	34	34	153	2.7
Electives				**170**	**102**	**68**	**34**	**68**	**2.1**
Administrative Law							0	0	0.0
The Study of Conflict							0	0	0.0
Organizational Behavior							0	0	0.0
Corporate Finance							0	0	0.0
Vital Functions Safety and Protection of Labor	5			68	51	34	17	17	0.8
Pricing	8			102	51	34	17	51	1.2
Special Disciplines				**2166**	**1009**	**539**	**470**	**1157**	**26.4**
Financial Accounting	5		6	306	153	85	68	153	3.7
Management Accounting	7		7	136	85	51	34	51	1.7
Financial Statements							0	0	0.0
Complex Economic Analysis of Enterprise Activity	7		8	238	136	68	68	102	2.9
Financial Statement Analysis	7			102	51	34	17	51	1.2

Auditing	7	6	7	238	119	68	51	119	209
Accounting Case Study		7-9		264	82		82	182	3.2
Accountancy							0	0	0
Electives				**160**	**64**	**48**	**16**	**96**	**1.9**
Investment Analysis/Real Estate Economics		9		160	64	48	16	96	1.9
Accounting and Auditing of Stock Transactions							0	0	0.0
Financial Law							0	0	0.0
Internal Company Planning							0	0	0.0
Taxation Investigation							0	0	0.0
Forecasting and Planning in Taxation							0	0	0.0
Internal Audit Standards							0	0	0.0
Financial Mathematics							0	0	0.0
Investment Institutions							0	0	0.0
Specialization Disciplines				**722**	**319**	**185**	**134**	**403**	**8.8**
ACCOUNTING AND AUDITING FOR BUSINESS ENTERPRISES									
Bank Activity Analysis							0	0	0.0

Accounting for Small Business							0	0	0.0
Accounting for Nonprofit Organizations							0	0	0.0
Accounting for Trade Business							0	0	0.0
Commercial Bank Reporting							0	0	0.0
Accounting for Bankruptcy							0	0	0.0
Accounting in Commercial Banks							0	0	0.0
Accounting and Auditing for International Activity		7		119	51	34	17	68	1.4
Bank Auditing							0	0	0.0
Tax Accounting, Audit							0	0	0.0
Cost Accounting and Budgeting for Different Industries	9	8	9	297	132	66	66	165	3.6
Logistics	5.6			306	136	85	51	170	3.7
Additional Courses				**476**	**476**	**0**	**476**	**0**	**5.8**
Foreign Language for Business Communication							0	0	0.0
The Theory of Accounting							0	0	0.0
Hypertext							0	0	0.0
Safety of Life Activity							0	0	0.0

Corporate Communication							0	0	0.0
Other				476	476		476	0	5.8
TOTAL HOURS				**8208**	**4988**	**2009**	**2979**	**3220**	**100.0**
EXAMS	**37**								
TESTS (ZACHET)		**33**							
TERM PAPERS			**21**						

APPENDIX 2.2 CURRICULUM AT STATE UNIVERSITIES SUMMARY OF COURSES

	Omsk State University			Saint Petersburg State Polytechnic University			Average
	TOTAL			TOTAL			
	Hours	%		Hours	%		%
TOTAL	**8646**	**100**		**8208**	**100**		**100**
Accounting Courses	**2789**	**32.3**		**2071**	**25.2**		**28.7**
Accounting and Auditing for International Activity	72			119			
Accountancy	72						
Accounting in Commercial Banks	108			100			
Accounting for Non-profit Organizations	108						
Accounting for Small Business	70						
Accounting for Trade Business	72						
Accounting for Bankruptcy	84						
Auditing	336			238			
Bank Auditing	70						
Accounting Case Study	224			264			
Commercial Bank Reporting	70						
Complex Economic Analysis of Enterprise Activity	240			238			
Cost Accounting and Budgeting for Different Industries				297			
Financial Accounting	384			306			
Financial Statements	88						
Financial Statement Analysis	72			102			
International Accounting Standards	60			85			
Internal Audit Standards	36						
International Auditing Standards	60			48			
Management Accounting	112			136			
Tax Accounting, audit	102						
Taxes	98			136			

The History of Accounting	68						
The Theory of Accounting	183			102			
Finance Courses	**1292**	**14.9**		**1382**	**16.8**		**15.9**
Accounting and Auditing of Stock Transactions	36						
Bank Activity Analysis	84						
Cash, Loans, Banks	200			128			
Corporate Finance	56						
Control and Inspection	60						
Finance	120			102			
Financial Law	52						
Financial Management	84			136			
Financial Mathematics	36						
Forecasting and Planning in Taxation	72						
Insurance	72			102			
Internal Company Planning	47						
Investment Analysis/Real Estate Economics	39			160			
Investment Institutions	48						
Other				476			
Pricing				102			
Stock Exchange	108			176			
Taxation Investigation	56						
The Theory of Economic Analysis	122						
Other Business Courses	**2020**	**23.4**		**2273**	**27.7**		**25.5**
Administrative Law	56						
Business Communication	56			221			
Civil Law	68						
Corporate Communications	108						
Econometrics	68			170			
Economic Growth Problems	19						
Economic Information Protection	68						
Economics of Enterprises	89			204			
Economics and Social Science of Labor	60						
Hypertext	48						
Information Systems in Economics	184			165			

Introduction to Production Processes	62						
Logistics				306			
Macroeconomics	94						
Management	120			221			
Marketing	68			102			
Microeconomics	116						
Organizational Behavior	52						
Personnel Management	90						
Science of Law	94			170			
State Regulation of Economy	38						
Statistics	262			170			
Theory of Economics	102			357			
Vital Functions Safety and Protection of Labor				68			
World Economics	60			119			
Economic Social Science	38						
Other Courses	**2545**	**29.4**		**2482**	**30.2**		**29.8**
Foreign Language for Business Communications	138						
Foreign Languages	340			510			
General University Disciplines	99						
Information Science	200			459			
Mathematics	600			391			
Philosophy	102			102			
Physical Training	408			408			
Political Science	38						
Probability Theory				102			
Psychology and Pedagogy	62						
Russian and the Culture of Speech	62						
Russian History	90			85			
Safety of Life Activity	100						
Social Science				68			
Ecology	68						
Concepts of Modern Natural Science	72			255			
Culture Science	38			102			
Regional Economic Geography	72						
The Study of Conflict	56						

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Chapter 6

ACCOUNTING EDUCATION IN UKRAINE

Abstract

This chapter presents the results of interviews conducted with accounting educators in Ukraine.

INTRODUCTION

Prior to the collapse of the Soviet Union, accounting education in Ukrainian universities was similar to accounting education in Russian universities. The basic course was bookkeeping, which was perhaps supplemented by some economics and math courses. Accounting generally was not a separate discipline but was part of the economics curriculum.

After the disintegration of the Soviet Union, Ukraine's accounting system changed rapidly as the country moved toward a market system. Accounting became more popular with students as the newly privatized enterprises searched for employees who had an accounting background. One might say that the demand for accounting education is a derived demand. Enterprises demanded accounting expertise, which led to an increase in the demand for accounting education in universities.

The authors wanted to learn about the current state of accounting education in Ukraine so we conducted interviews with the following firms and institutions during the summer of 2004:

All About Accounting (newspaper, Kiev) www.vobu.com.ua
Ukraine Accounting Reform Project (Kiev) www.capcipa.biz/
Deloitte & Touche (Kiev) www.deloitte.com.ua
Ernst & Young (Kiev) www.ey.com/ukraine
KPMG (Kiev) www.kpmg.com.ua
Auditorckoe Agentstvo Margo (Ukrainian accounting and audit firm, Odessa)
Odessa State Economic University (Odessa) www.oseu.odessa.ua
Odessa National I.I. Mechnikov University (Odessa) www.odnu.edu.ua
KIMI (Kyiv Investment Management Institute) (Kiev) www.kimi.edu

EDUCATION OF ACCOUNTING PRACTITIONERS

Accounting practitioners have to keep current with developments in the areas of accounting, auditing and taxation to maintain their certification. Although local Ukrainian accounting firms provide some training, much of the IFRS training is provided by the Big-4 accounting firms. The reason for this preponderance of IFRS training is quite simple. It is mostly the Big-4 firms that have the expertise to conduct such training. They have excellent training materials, which have developed and evolved over several decades of trial and error and use.

However, the training the Big-4 provides is not readily available to the local Ukrainian accounting community. Much of the training is limited to employees of the Big-4 and their clients. Furthermore, most of the training materials, for their employees at least, are available only in the English language. That does not present a problem because the Big-4 only hires individuals who are fluent in English. In cases where course materials are used to train clients, some translation is done, but these materials generally are not made available to non-clients.

There are some exceptions. For example, some of the Big-4 firms use training as a practice development tool. They hold some seminars and breakfast training sessions for potential clients. The training materials they distribute at these sessions are used not only for training but also to introduce potential clients to the quality of the training they offer, training that could be available to their employees if they became clients.

The Big-4 firms provide ACCA, CPA and CFA training to their employees. One of the firms interviewed said it uses the Becker CPA Review materials. In the past it flew its staff to Moscow for training because there were no local training providers, but that situation has changed.

There is a 40-hour annual continuing professional education (CPE) requirement. Accounting training in the Ukrainian language "is a disgrace, a complete joke," according to one interviewee who has taken both Ukrainian CPE and English language CPE courses offered by one of the Big-4. This interviewee also mentioned that the professors who teach the Ukrainian language CPE courses do not know what they are talking about.

ACCOUNTING EDUCATION IN UKRAINIAN UNIVERSITIES

Many new accounting departments have been started since the breakup of the Soviet Union. Accounting was not such a popular subject before the breakup and many universities did not offer accounting programs.

The growth of accounting departments in universities is the result of the increase in demand for accountants in the private sector. It is now fair to say that most Ukrainian universities have accounting departments.

The number of accounting journals has also increased in recent years and they are very popular. They tend to be practitioner oriented rather than scholarly, in the American sense of that term. Stated differently, the gap between practitioner journals and scholarly journals in Ukraine is not nearly as wide as is the case in the United States.

Ukrainian universities have started to incorporate IFRS and ISA into their accounting curriculums. However, they face several problems in this regard. One problem is the lack of good course materials. Local language materials were not available in the early stages of the transformation from central planning to a market economy. However, this problem is being alleviated in two ways. Initially, accounting course materials were provided by translating books from English into Ukrainian and Russian. However, some of those translations were mediocre. The translation problem can be overcome by having local professors write texts in the local languages. Such texts did not exist in the early stage of the transformation but such texts are now becoming more common. Some texts are available in both Russian and Ukrainian.

Some of the texts have become out of date, due to the rapid changes in Ukrainian national accounting standards and the adoption of IFRS. The universities deal with this problem by assigning readings from accounting journals and newspapers as supplementary material.

One complaint some practitioners have about accounting education in Ukrainian universities is that the lectures are too theoretical and not sufficiently practical. This problem is prevalent where the professor giving the lecture does not have any practical experience. This problem is being partially overcome by hiring professors who are practitioners and by allowing full-time professors to engage in accounting work outside of the university.

The practitioners interviewed in Odessa perceived the professors to be up to date as far as course material and content were concerned. The professors and administrators interviewed at two of the top accounting departments in Ukraine also said that professors are up to date with recent developments in accounting. However, some of the practitioners interviewed in Kiev did not hold this opinion, at least when it came to lectures delivered as part of continuing education courses.

Some of the most prestigious universities in Ukraine still do not have a course devoted just to IFRS. IFRS is inserted into the course on foreign accounting.

Sixty or seventy universities in Ukraine participate in the accounting Olympics each year. These Olympics consist of conferences where students present their papers. Sometimes there are competitions between teams in the third year. These events are highly competitive and serve to create friendships between students and improve their view of accounting. Such competitions serve to make the material less dry and boring and make it come to life.

The prestige of accounting has increased in recent years, according to the university professors and administrators interviewed, because enterprises need tax specialists and people who can create and interpret accounting information. Directors are starting to recognize the importance of accounting.

This enhanced prestige is having an effect on students and the way they study and view themselves. Students now read extra articles that are not required reading and discuss them. Most students are enthusiastic about their studies, which is a relatively recent phenomenon.

Every university has its own approach toward accounting education. However, there are only so many ways to reform the accounting curriculum or to teach accounting, so there are many common features.

Odessa State Economic University is a case in point. It now offers a four-year bachelor's degree in accounting and a fifth-year master's degree. The State gave them the option of offering either a fifth-year specialist degree or a master's degree, so they chose the master's degree for prestige purposes. Almost everyone who completes the bachelor's degree goes on for the master's. It also has a one year specialist designation for people who have already completed a bachelor's degree in another field. In contrast, many universities in Russia now offer a four-year bachelor's degree, a fifth-year specialist degree and a sixth-year master's degree (Preobragenskaya and McGee, 2005).

The accounting curriculum has undergone major changes in recent years because of the changes in national accounting standards and the adoption of IFRS. Before, the university used to offer just a course in the theory of accounting and some specialized accounting courses, such as agricultural accounting. They now offer a fuller range of courses, including financial accounting, financial reporting, management accounting, accounting for international enterprises and accounting for foreign countries. Starting in the 2004-2005 academic year they started to offer a course in tax accounting and reporting. Formerly, the tax course was offered as part of the financial accounting course but it will now be a separate course. There is no special course in IFRS. However, there are courses about international companies. The university also now offers electives. Under the former Soviet system, there were no electives. All students in accounting had to take the same exact courses throughout their program.

There is a special course in the fourth year that requires students to work with accounting documents for three weeks. The documents replicate the documents that exist in a real accounting department, from original invoices through the various stages of the accounting process. The documents are posted to ledgers, with the end result being the preparation of financial statements. Students must work in all areas of accounting.

In the fifth year students receive practical training. They work with real documents from real companies. Each student works in a certain area, with some of the documents. The end result is the production of financial statements. The work involves more documents and more transactions than was the case in the fourth year. Students also make tax declarations based on their work.

The curriculum is as follows:

1st year - general subjects
2nd year- basic accounting
3rd and 4th year - other accounting – all the main accounting subjects.
5th year - advanced financial accounting and analysis.

Students also write a diploma project in the fifth year after they have received practical training in real companies. They do their diploma project after getting experience. They must defend their diploma project like a thesis.

The delivery format is a combination of lectures, seminars and case studies. Students also study using computer software and there are special courses in computer software. All examinations are written and usually take the form of practical exercises. Some exams require students to produce financial statements. This practice differs from that used during the Soviet era, when some exams were oral.

The language the lectures are delivered in depends on the students. At the start of the semester each professor asks the class whether they would prefer the lectures to be in Ukrainian or Russian. The lectures are delivered in whichever of the two languages the majority of the class prefers. Such an option may seem strange, or at least interesting, to an American audience, since American professors never give such options. But apparently this option is not so unusual in Ukraine. Some Swedish universities have a similar option, except that in the case of Swedish universities the professor asks the students whether they would prefer the lectures to be in Swedish or English.

The accounting faculty does not specialize to the extent of accounting faculties in other countries. Most of the accounting professors at Odessa State Economic University can teach any of the accounting courses. They do not teach just financial accounting or just managerial accounting or just auditing. One benefit of this approach is that they are forced to keep current on developments in all areas of accounting. The drawback is that they have to spend more time preparing their lectures. Also, they cannot become specialists, although that is probably not necessary at the undergraduate level.

The university does not have difficulty finding people to teach. Accounting professors earn about $200 a month, which is considered adequate. They also qualify for better pensions – 90 percent of salary – compared to about $32 a month for the majority of the population. Some people become professors for the prestige. It is also possible to do consulting and many professors have businesses or consulting practices outside of the university.

About 45-50 percent of their students receive full tuition scholarships, which means that their education is free. Scholarships are awarded on the basis of merit. Students not receiving scholarships have to pay tuition of 3600 greven per year, which is about $700. Such an amount may seem small to people from developed economies, but to many Ukrainians it is a large amount.

Students do not have difficulty finding jobs after graduation because most of them already have jobs. The fact that the university is prestigious also helps them in the job search. Salaries for new graduates are about $100 a month. Experienced accountants can earn up to $800 per month.

Odessa National I.I. Mechnikov University also has a strong accounting program. Some members of the faculty there are trying to spread the idea that accounting can be used as a tool for decision making, an idea that most managers and even many teachers still do not understand.

In the two years prior to the interviews, the university instituted some major changes to its accounting and business curriculum. New courses were offered for the first time. This change was motivated by the appearance of new kinds of enterprises. Courses like financial management, insurance, the stock market and management accounting were taught for the first time. However, there is no special course in IFRS. This topic is incorporated into their course on accounting in foreign countries.

Tax accounting is another new subject. All enterprises are now required to compute taxes, so the university offers a tax course to meet market demand. The emphasis is on the ability to solve tax problems.

The professors and administrators interviewed at Odessa National I.I. Mechnikov University confirmed some of the statements made by practitioners and the professors and administrators at Odessa State Economic University. They also agreed that the prestige of the accounting profession has increased because businesses are starting to realize how important accounting information is for them. Managers are starting to recognize how much value a good accountant can add to their business.

Many of their students also work in the field of accounting during the course of their studies, which gives them an opportunity to earn income while gaining practical experience. Their students do not have difficulty finding jobs after graduation because of the practical experience they have gained and also because Odessa National I.I. Mechnikov University is one of the more prestigious universities in Ukraine. Their students participate in the accounting Olympics and often score well. At the beginning of the semester professors ask their students whether they would like to have the lectures delivered in Russian or Ukrainian.

Odessa National I.I. Mechnikov University offers three levels of accounting credentials – the four-year bachelor's degree, the fifth year specialist designation and the sixth year master's degree. Practically all of their students study for five years and earn the specialist designation.

Many of the accounting texts they use in their classes were written by Prof. Butenyetz Franz Franchevich, a Ukrainian professor. Thus, there is no need to deal with books that were translated from English, eliminating the problems that invariably result from mediocre translations. His books filled the gap that was created when the Soviet Union collapsed but before the new accounting system took hold. The professors like his books, but they supplement his books with newspaper and journal articles when preparing their lectures. Professors who write textbooks also often incorporate material from articles into their text books. Many books have been translated from English into the local languages, which enables students and professors to have access to the accounting literature of other countries.

The university curriculum is subdivided into hours spent in class (lectures and seminars) and hours spent in self-study. The hours spent in each category of activity for four-year bachelor's degree students at Odessa National University and Odessa State Economic University are summarized in Table 1. More details may be found in the Appendix.

Table 1
Four-Year Bachelor Degree Curriculum

	Odessa National University		Odessa State Economic University	
	Hrs.	%	Hrs.	%
Humanities	1512	21.4	2052	27.1
General economics	3078	43.7	3179	41.9
Accounting and other professional courses	2457	34.9	2349	31.0
Totals	7047	100.0	7580	100.0

Total study time, both in and out of class, totals 7047 hours for Odessa National University and 7580 hours for Odessa State Economic University. Humanities courses comprise between 21 and 27 percent of the curriculum. General economics courses, including basic accounting, comprise slightly over 40 percent. Accounting and closely related courses comprise the remaining 31 to 35 percent.

CONCLUDING COMMENTS

Accounting education in Ukraine has undergone significant changes in recent years. As the country moves away from central planning and toward a market economy the need for accountants will continue to increase. Ukrainian universities and private sector accounting education providers will have increasing demands placed on them to educate more accountants and to educate them better. The demand for training in International Financial Reporting Standards will also likely increase. International investors often demand financial statements prepared using IFRS. The European Union has adopted IFRS effective January 1, 2005. Ukrainian accountants will have to become familiar with IFRS if Ukraine is to someday become a member of the EU.

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Ukraine Accounting Reform Project www.capcipa.biz/

APPENDIX 1
CURRICULUM AT
ODESSA NATIONAL UNIVERSITY
Bachelor – 4 years (7047 hours)

DISCIPLINE	ODESSA NATIONAL UNIVERSITY								
	EXAMS, allocation among semesters			STUDYING (hours)					
					In class				
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lecture	Seminars	Self-study	% of Total (8208)
General Humanitarian and Social Economic Disciplines				**1512**	**954**	**316**	**638**	**558**	**21.5**
Federal Component				**1512**	**954**	**316**	**638**	**558**	**21.5**
Foreign Languages	3	1		324	216		216	108	4.6
Physical Training		2,4,6		216	216		216	0	3.1
Logic		2		54	36	22	14	18	0.8
Ukrainian Language (Speech)	1			81	36	22	14	45	1.1
Ethics and Esthetics		4		54	36	22	14	18	0.8

Science of Culture		5		81	36	22	14	45	1.1
Psychology		3		81	36	22	14	45	1.1
Law	1			81	36	22	14	45	1.1
Religions		3		54	36	22	14	18	0.8
Philosophy	1			108	54	32	22	54	1.5
History of Ukraine	1			108	54	32	22	54	1.5
Sociology	2			54	36	22	14	18	0.8
Ecology		1		54	36	22	14	18	0.8
Political Science	2			108	54	32	22	54	1.5
Health		4		54	36	22	14	18	0.8
General Economics Disciplines				**3078**	**1710**	**1028**	**682**	**1368**	**43.7**
Federal Component				**3078**	**1710**	**1028**	**682**	**1368**	**43.7**
Accounting	3			135	72	44	28	63	1.9
Audit		5		54	36	22	14	18	0.8
Cash, Loans, Banks	4			81	54	32	22	27	1.1
Civil Defense		7		54	36	22	14	18	0.8
Econometrics		5		81	54	32	22	27	1.1

Economic Analysis		4		81	54	32	22	27	1.1
Economics of Entrepreneurship	4		4	1	7	4	28	90	2
Economics of Labor and Social Relations	5			108	54	32	22	54	1.5
Finance	3			108	54	32	22	54	1.5
Finance of Entrepreneurship	5			8	5	3	22	27	1
History of Economic Studies	4			8	5	3	22	27	1
History of Economics	5			81	54	32	22	27	1.1
Informatics and Computers	2	1		270	144	88	56	126	3.8
Insurance		6		81	36	22	14	45	1.1
International Economics	4			108	54	32	22	54	1.5
Investment		7		81	36	22	14	45	1.1
Macroeconomics	3			108	54	32	22	54	1.5
Management	5			108	54	32	22	54	1.5
Marketing	5			108	54	32	22	54	1.5
Mathematics	2	1		216	144	88	56	72	3.1
Microeconomics	2			108	54	32	22	54	1.5
Patent Law Fundamentals		8		54	36	22	14	18	0.8
Political Science	1		2	135	72	44	28	63	1.9
Probability Theory and Mathematical Statistics		3		108	54	32	22	54	1.5
Programming		4		10	54	32	22	54	1.5
State Law		2		81	54	32	22	27	1.1

State Regulation of Economy	7			81	54	32	22	27	1.1
Statistics	3			135	72	44	28	63	1.9
Work Force Allocation and Regional Economy	4			81	36	22	14	45	1.1
PROFESSIONAL DISCIPLINES									
FEDERAL COMPONENT				972	468	284	184	504	13.8
Financial Accounting 1	6			162	72	44	28	90	2.3
Financial Accounting 2	7			162	72	44	28	90	2.3
Managerial Accounting	7			135	72	44	28	63	1.9
Organization, methods of auditing	8			135	72	44	28	63	1.9
Accounting in Foreign Countries	6			108	54	32	22	54	1.5
Financial Law	6			108	54	32	22	54	1.5
Information Systems and Technology in Accounting	7			162	72	44	28	90	2.3
REGIONAL (UNIVERSITY) COMPONENT				**837**	**522**	**310**	**212**	**315**	**11.9**
Fundamentals of Accounting Theory		2		81	54	32	22	27	1.1
Audit of Juridical Persons (Companies)		6		81	54	32	22	27	1.1
Audit of Persons		7		81	54	32	22	27	1.1
Management 2		6		81	54	32	22	27	1.1
Control and Revision		6		108	54	32	22	54	1.5

Financial Management		7		81	54	32	22	27	1.1
Corporate Governance	8			81	54	32	22	27	1.1
Commerce Logistics		8		54	36	22	14	18	0.8
Contract Law		6		108	54	32	22	54	1.5
Tax System of Ukraine		3		81	54	32	22	27	1.1
ELECTIVES				**648**	**414**	**248**	**166**	**234**	**9.2**
International Finance	8			81	54	32	22	27	1.1
Company Budgeting		8		54	36	22	14	18	0.8
Audit of Transnational Corporations		8		54	36	22	14	18	0.8
Labor Law		5		81	54	32	22	27	1.1
Exchange System		5		81	54	32	22	27	1.1
Financial Market	5			81	54	32	22	27	1.1
Management Continuum	6			108	72	44	28	36	1.5
Personnel Management	8			108	54	32	22	54	1.5
TOTAL HOURS				**7047**	**4068**	**2186**	**1882**	**2979**	**100.0**
EXAMS	**38**								
TESTS (ZACHET)		**37**							

TERM PAPERS			**4**						

APPENDIX 2
CURRICULUM AT
ODESSA STATE ECONOMIC UNIVERSITY
Bachelor – 4 years (7580 hours)

DISCIPLINE	ODESSA STATE ECONOMIC UNIVERSITY								
	EXAMS, allocation among semesters			STUDYING (hours)					
					In class				
	Exam	Test (zachet)	Term paper	TOTAL	Total	Lecture	Seminars	Self-study	% of Total (8208)
General Humanitarian and Social Economic Disciplines				**2052**	**1120**	**450**	**670**	**932**	**27.1**
Federal Component				**1512**	**840**	**278**	**562**	**672**	**19.9**
Foreign Languages	4	1,2,3		324	210		210	114	4.3

Physical Training		1-4		216	140		140	76	2.8
Logic		1		54	28	18	10	26	0.7
Ukrainian Language (Speech)		1		81	40	8	32	41	1.1
Ethics and Esthetics		4		54	28	18	10	268	0.7
Science of Culture		1		81	40	24	16	41	1.1
Law	3			108	54	30	24	54	1.4
Religions		3		54	28	18	10	26	0.7
Philosophy	2			108	54	30	24	54	1.4
History of Ukraine	1			108	54	30	24	54	1.4
Sociology		3		81	40	24	16	41	1.1
Ecology		2		54	28	18	10	26	0.7
Political Science	2			81	40	24	16	41	1.1
Health		2		54	28	18	10	26	0.7
Educational Psychology		2		54	28	18	10	26	0.7
REGIONAL (UNIVERSITY) COMPONENT				**270**	**140**	**82**	**58**	**130**	**3.6**
Philosophy of Science		1		54	28	18	10	26	0.7
Psychology of Business Communication		3		54	28	10	18	26	0.7
Labor Law		2		54	28	18	10	26	0.7
History of Ukrainian Culture		2		54	28	18	10	26	0.7

Regional Science		1		54	28	18	10	26	0.7
ELECTIVES				**270**	**140**	**90**	**50**	**130**	**3.6**
History of Ukrainian State System		2		54	28	18	10	26	0.7
Philosophy Problems of Globalization		2		54	28	18	10	26	0.7
International Communications		3		54	28	18	10	26	0.7
Social Ecology		3		54	28	18	10	26	0.7
Political Psychology		2		54	28	18	10	26	0.7
General Economics Disciplines				**3179**	**1608**	**862**	**746**	**1571**	**41.9**
Federal Component				**3017**	**1524**	**816**	**708**	**1493**	**39.8**
Audit		7		54	28	18	10	26	0.7
Cash, Loans, Banks	4			81	42	22	20	39	1.1
Civil Defense		1		54	28	18	10	26	0.7
Econometrics		5		81	42	22	20	39	1.1
Economic Analysis		5		81	42	22	20	39	1.1
Economics of Entrepreneurship	5			162	82	50	32	80	2.1
Economics of Labor and Social Relations	6			108	54	30	24	54	1.4
Finance	5			108	54	30	24	54	1.4

Finance of Entrepreneurship	6			81	42	22	20	39	1.1
History of Economic Studies		4		108	54	28	26	54	14
History of Economics		3		81	40	24	16	41	1.1
Informatics and Computers	2	1,3,4		270	140	60	80	130	3.6
Insurance		5		81	42	22	20	39	1.1
International Economics	4			108	54	30	24	54	1.4
Investment		5		81	42	22	20	39	1.1
Macroeconomics		4	4	108	54	30	24	54	1.4
Management	5			108	54	30	24	54	1.4
Marketing		6		108	54	30	24	54	1.4
Mathematics	1,2			216	108	54	54	108	2.8
Microeconomics	3			108	54	30	24	54	1.4
Patent Law Fundamentals		8		54	28	18	10	26	0.7
Political Science	2	1		182	84	48	36	98	2.4
Probability Theory and Mathematical Statistics	3			108	54	28	26	54	1.4
Programming		4		108	54	28	26	54	1.4
State Law		7		81	42	22	20	39	1.1
State Regulation of Economy	6			81	42	22	20	39	1.1
Statistics	5			135	68	34	34	67	1.8

Work Force Allocation and Regional Economy	1			81	42	22	20	39	1.1
REGIONAL (UNIVERSITY) COMPONENT				**108**	**56**	**28**	**28**	**52**	**1.4**
Small Business Accounting		8		54	28	18	10	26	0.7
Office Work		8		54	28	10	18	26	0.7
ELECTIVES				**54**	**28**	**18**	**10**	**26**	**0.7**
Foreign Countries' Economy		5		54	28	18	10	26	0.7
PROFESSIONAL DISCIPLINES				**2349**	**1208**	**666**	**542**	**1141**	**31.0**
FEDERAL COMPONENT				**1188**	**600**	**312**	**288**	**588**	**15.7**
Financial Accounting 1	6,7	5	6	378	182	92	90	196	5.0
Financial Accounting 2	8			108	54	30	24	54	1.4
Managerial Accounting		7		135	68	36	32	67	1.8
Organization, methods of auditing	8		6	135	68	36	32	67	1.8
Accounting in Foreign Countries	7			108	54	30	24	54	1.4
Information Systems and Technology in Accounting	8	7		162	84	38	46	78	2.1
The Theory of Accounting	4			162	90	50	40	72	2.1
REGIONAL (UNIVERSITY) COMPONENT				**675**	**358**	**198**	**160**	**317**	**8.9**

Control and Revision		8		108	54	30	24	54	1.4
Tax System of Ukraine		6		54	28	18	10	26	0.7
Industrial Statistics	6			135	70	34	36	65	1.8
Technology Industry		1		54	28	18	10	26	0.7
Technology Agriculture		2		54	28	18	10	26	0.7
Economics in Agriculture		5		54	28	18	10	26	0.7
	7	6	7	216	122	62	60	94	2.8
ELECTIVES				**432**	**250**	**156**	**94**	**236**	**6.4**
International Finance		6		54	28	18	10	26	0.7
Financial Market		6		54	28	18	10	26	0.7
Tax Code		7		54	28	18	10	26	0.7
Accounting for International Activity		7		108	54	30	24	54	1.4
Industrial Accounting		6		54	28	18	10	26	0.7
Social Programming		6		54	28	18	10	26	0.7
Ecology - Project		8		54	28	18	10	26	0.7
The History of Accounting		7		54	28	18	10	26	0.7
TOTAL HOURS				**7580**	**3936**	**1978**	**1958**	**3644**	**100.0**
EXAMS	**34**								

TESTS (ZACHET)		19							
TERM PAPERS			4						

Chapter 7

ACCOUNTING EDUCATION IN BOSNIA AND HERZEGOVINA

Abstract

This chapter reports on the education segment of the USAID Accounting Reform Project in Bosnia and Herzegovina. The USAID program trained both professors and practitioners. One of the authors was a consultant for the private consulting firm that won the USAID contract for Bosnia and Herzegovina.

INTRODUCTION

When the United States Agency for International Development (USAID) goes into a country to reform the accounting system, one task it usually takes on is the reform of accounting education. This reform can have several components. Sometimes it offers programs to train students. Sometimes it trains professors. Sometimes it trains practitioners. In the case of Bosnia and Herzegovina (BiH) it trained both professors and practitioners.

Although the challenges of reforming accounting education are different in each country, there are certain common elements. If the economy is in the process of changing from central planning to a market model, practitioners and professors generally are not familiar with the accounting models that exist in the United States, Germany, England and other market economies. They somehow have to learn the new system, since they never learned it in school.

Part of the problem of learning the new system is the absence of learning materials. Unless the target country speaks a language that is also spoken in a developed market economy, there often are no textbooks or other learning materials they can refer to. Thus, there is a need to translate materials from English or some other language into the language of the target country.

Part of the BiH accounting reform project involved translating texts and other materials from English into the target language. Problems developed almost immediately, since BiH has three official languages, one for each ethnic group, and they all wanted 100 percent of the textbooks translated into their own language. From a conversation one of the authors had with a PhD student in linguistics from the University of Sarajevo, it was learned that the three languages are 95 percent the same, which means they are also 5 percent different.

This may not seem like a big deal to outsiders, but it is a really big deal if you are a Bosnian. So perhaps a few words need to be said about the political and culture situation in Bosnia.

Bosnia and Herzegovina, which we will call Bosnia in the interests of brevity, was one of the six republics that made up Yugoslavia before the country broke up as a result of several Balkan wars. Details of this breakup can be found in many places, including Burg & Shoup (1999), Daalder (2000), Holbrooke (1998), Rieff (1995), Silber and Little (1997), and Zimmerman (1995).

Bosnia is really two or three different countries, depending on how you look at it. The three main ethnic groups are Orthodox Christian Serbs, Roman Catholic Croats and Muslim Bosniaks. The country was split into two main sections as part of the Dayton Peace Accords of 1995. Fifty-one percent of the country was labeled the Muslim Croat Federation, the capital of which is Sarajevo. The other forty-nine percent is the Serb part of the country and is called Republika Srpska, the capital of which is Banja Luka. Each part has its own finance ministry, as do the country as a whole and each of the ten cantons that comprise Bosnia. Thus, this little country has a total of 13 finance ministries. The capital of the entire country is Sarajevo.

Prior to the Balkan wars the main language of Yugoslavia was Serbo-Croatian. The main difference between the two languages was the alphabet. Serbian used the Cyrillic alphabet whereas Croatian used the Roman alphabet. The Dayton Peace Accords created a new language – Bosnian – which used both alphabets, although the vast majority of Bosniaks prefer the Latin alphabet, because that is the alphabet the Serbs don't use.

After much discussion between USAID and the various parties in Bosnia it was agreed that the textbooks would be translated one-third into each of the three languages. That seemed to make everybody happy, or at least equally unhappy. And since there was already a publishing firm in Croatia that was translating texts into Croatian, the USAID project was able to concentrate on translating the remaining texts into just Serbian or Bosnian.

That arrangement worked fine until the first book came out in Serbian. When a complimentary copy was presented to the dean of the University of Sarajevo, the largest university in Bosnia and also a Muslim university (if universities can have religion), he immediately rejected the book, stating that if his students brought that book home, their parents would come knocking on his door to complain that the university was using Serbian textbooks to educate their children. Thus, the Muslim-Croat Federation rejected half of the books that USAID had paid thousands of dollars to translate into Serbian. The accounting education project went downhill from there.

Having said that, let's take a look at the training process USAID used to train Bosnian professors and practitioners.

One problem these projects always face is the educational preparation and experience of the professors who will be expected to teach the new curriculum. Most of them are inadequately prepared. They are not familiar with International Accounting Standards, perhaps because the Standards have not yet been translated into their language. They are unfamiliar with Western accounting rules and techniques, in part because textbooks are not available in their language. These problems can partially be overcome by translating the necessary materials and making them available to students and professors. But more than translation is needed. The education of the country's professors must be enhanced by exposing them to the material they will be expected to teach and supplementing that exposure with lectures that give them the opportunity to ask questions. This chapter presents an example of how that problem can be addressed, using the USAID Accounting Reform Project in Bosnia & Herzegovina as a case study.

ADOPTING INTERNATIONAL ACCOUNTING STANDARDS

USAID had been working with the various finance ministries in Bosnia for several years when it introduced the accounting education portion of its reform package. Both of the main finance ministries – the ones in the Muslim-Croat Federation and the Republika Srpska – had more or less agreed to adopt International Accounting Standards (IAS). We say "more or less" because they did not quite adopt all of the standards the way the International Accounting Standards Board would have liked and they used two different approaches to adopting IAS.

The Republika Srpska took an especially interesting approach. Once it learned that the Muslim-Croat Federation had adopted just the *indirect* method of accounting for cash flows, the people in charge of accounting reform in Republika Srpska decided to adopt only the *direct* method of accounting for cash flows. International standards allow for the adoption of either or both methods and many of the countries that have adopted IAS allow both methods. But not Bosnia. It is one country with two different sets of international accounting standards.

Another interesting approach the Republika Srpska took is to adopt IAS in toto but to implement the various standards one at a time, with some standards not being implemented at all. The reason for this approach was that the person in charge of accounting reform in Republika Srpska did not want to receive a lot of visits and phone calls from practitioners who wanted his guidance because they did not understand the various standards. He wanted to have a chance to read them all first and understand them before making them the law of the land.

One standard he absolutely refused to adopt was the standard on impairment of assets. There was no way he would allow such a standard to exist in Republika Srpska because many of his clients had assets that were overvalued and adopting the impairment standard would force them to write down their assets to market value. That would have weakened their financial ratios and would make them look bankrupt in some cases. However, in a place like Republika Srpska, what would have more likely happened is that his clients would have found another accountant who did not insist on writing down the assets.

TRAINING PROFESSORS

The USAID project set out to train both professors and practitioners. Professors were often a target audience in USAID accounting reform projects because there was a long-term need to reform the accounting curriculum in the universities and this task could not be accomplished until there was a core of professors who could teach the new accounting courses. Universities in transition economies usually did not have enough professors who already knew IAS because there was absolutely no need to know them in a system that was centrally planned and closed to the outside world. This problem was no less acute in Bosnia than it has been in other centrally planned economies. Although Yugoslavia had always maintained some kind of a market economy, even under communism, its accounting system looked a lot like the Soviet model, with a Slavic accent. The Yugoslav accounting system had been influenced by other European systems, most notably Germany and France, but the country had one basic chart of accounts, just like the Soviet model. Although professors were free to leave the country, many of them did not avail themselves of the opportunity to seek education in the West. Those who did avail themselves of this opportunity often did not return to teach in Yugoslav universities.

When USAID was preparing to contact the various universities in Bosnia it hoped to get at least one university to agree to implement the turnkey program it was proposing. It decided to approach the University of Sarajevo first, since it was the largest university in the country and educated more than 50 percent of all the accounting students in Bosnia.

It got lucky. When the USAID representative discussed the proposal with the dean at the University of Sarajevo he was told that the university was thinking about reforming its accounting curriculum but did not know how to do it or where to start. Thus, the program sold itself. Of course, the fact that USAID was going to bear the full cost of training and furnishing texts also helped sell the program. Once word got out that USAID was going to reform the entire accounting curriculum at the University of Sarajevo, it was easy to sell the program to the other seven universities in Bosnia. In some cases, representatives from a university called to schedule an appointment before the USAID representative could make the call himself.

There was a good reason for them to call. Although there was support for accounting reform at all eight universities, there was also the fear that failure to adopt the reform program would leave them without students after a year or two. Once students learned that a university was offering a program in Western accounting, they would rush to that university, since learning Western accounting would provide them with a one-way ticket out of Bosnia, a goal that many young people had, since there was a widespread perception that economic opportunities were limited in Bosnia.

All eight universities signed a Memorandum of Understanding in April 2001. They all agreed to adopt the curriculum reform proposals offered by USAID. The program was to be implemented over four years, starting with the fall 2001 semester, which did not give anyone a lot of time to prepare. However, USAID already knew what it wanted to do. The people working on the Bosnia project had worked on accounting reform projects in several other transition economies and they had learned from their mistakes. Thus, any mistakes they would make in Bosnia would be new mistakes, not a mere repetition of old ones.

The accounting curriculum was mostly based on the 14-course ACCA (Association of Chartered Certified Accountants) syllabus. USAID had used the ACCA syllabus successfully in Georgia, Armenia and several African countries. However, the people working in Bosnia had to disguise the fact that it was mostly the ACCA model being used because the people at USAID in Washington had had a change of heart regarding the use of a British accounting model. The Washington bureaucrats wanted IAS to be taught using American textbooks. This could not be done, of course, since American textbooks do not include IAS. The United State does not recognize IAS and so American textbook authors say little or nothing about IAS in the texts that are intended for an American audience. The ex-pats working on the Bosnia assignment got around this problem by translating American textbooks and also translating some ACCA test preparation materials, which included a heavy does of IAS. Thus, USAID was happy and so were the ex-pats who had to teach IAS without the aid of U.S. textbooks.

The ACCA syllabus was a good model to use not only because it included training in IAS but also because its content complied with UNCTAD and IFAC education guidelines. Also, the ACCA program is well known and accepted. ACCA exams are given in the English language in 160 countries, making it the only truly international accounting certification. The first four of these courses were to be given during the 2001-02 academic year. Two of the four courses are on nonaccounting subjects. The other two courses are financial accounting and managerial accounting.

Some American textbooks had already been translated into one or more of the local languages and a few professors were already using those texts in their classes. However, the project task was to teach IAS, which was not covered in the American textbooks, so it was necessary to train the professors in the IAS rules.

Once it was agreed that professors should be trained the decision had to be made about which professors should be trained and where they should be trained. It would have been cheaper to train them in Bosnia but USAID wanted to give them some exposure to the American educational system. They wanted the professors to see American classrooms and experience American teaching methods. USAID wanted the professors to see what life on an American university was like. USAID also wanted the professors to visit some American accounting organizations so that they could see firsthand how the private sector institutions are formed and what they do, since no similar institutions existed in Bosnia.

A number of criteria were used to choose which professors to send to America for training. Since the first two sets of textbooks being translated were financial and managerial accounting, professors had to be chosen who teach these subjects on a regular basis. At least one professor from each of Bosnia's eight universities should participate in the training, if possible.

One problem that was encountered immediately was that, in Bosnia, professors tend to teach either financial accounting or managerial accounting, not both. Thus, if the goal were to be accomplished, USAID would have to foot the bill to send 16 professors to America, 8 who specialized in financial accounting and 8 managerial accounting specialists.

Although sending 16 professors to America for training was never a hard and fast goal, it was a target to shoot for. The target was not quite hit, mostly because of the way that professors were chosen. Since USAID did not know any of the professors in Bosnia, it was decided that the best way to choose professors would be for the deans at each university to nominate the individuals to be selected for training. Hopefully, they would put politics aside and choose the best candidates.

Another problem USAID had to face was one of balance. The USAID people wanted all three ethnic groups to be adequately and fairly represented. But how would fairness be determined? The Serbs wanted 49 percent of the professors to be Serbs, since the Dayton Peace Accord gave 49 percent of Bosnia to the Serbs. The Croats, who represented just 17 percent of the population, wanted each group to get one-third of the slots. The Bosniaks didn't have just one opinion but had several. It was pointed out that since the University of Sarajevo educated more than 50 percent of all the accounting students in Bosnia, it would make sense that more than half of the professors should be from the University of Sarajevo. But the fact that the University of Sarajevo was regarded as a Muslim university did not sit well with the other two ethnic groups.

The idea of choosing professors based on religion or ethnic background was toyed with briefly by the USAID people. However, it was difficult to allocate slots strictly by religion or ethnic background, since USAID did not know who belonged to which religion or ethnic group and it did not want to request this information. Furthermore, generations of intermarriage had blurred ethnic lines, so it was not always easy to tell who belonged to which ethnic group. For example, the top professor at the University of Sarajevo (a Muslim university), was born in Croatia of a Slovenian father and Serbian mother.

The ultimate decision of selection was made by a committee consisting of representatives from World Learning, International Business and Technical Consultants (the consulting firm that had the USAID contract) and USAID. The breakdown of the first-year training group was as follows:

Table 1
First-Year Training Participants

University	# Professors	Ethnicity of University
U. Sarajevo	4	Muslim
U. Srpska Sarajevo	1	Serb
U. Banja Luka	2	Serb
U. Brcko	1	Serb
U. Mostar (East)	1	Muslim
U. Mostar (West)	0	Croat
U. Tuzla	1	Muslim
U. Bihac	0	Mixed

Seton Hall University in New Jersey was selected for the first-year training. Seton Hall was selected for several reasons. The American professor who would conduct the training was on the Seton Hall faculty. Seton Hall was close to Manhattan, which made it convenient to visit AICPA and IFAC. It was also close to IMA headquarters in Montvale, New Jersey, which made it easy to visit that accounting organization as well.

Training started July 9, 2001 and lasted until August 9. Training lasted five weeks. The first two weeks were devoted to financial accounting. The last two weeks were spent on managerial accounting. Training was from 9am to 1pm, Monday through Friday.

Although most of the professors could speak some English, an interpreter was used to facilitate understanding. The textbooks used were still in the draft stage of translation. Many mistakes were found, which were jotted down and given to the translation team upon return to Bosnia. The mediocre quality of the first draft of the translation slowed down the process, since much time was spent discussing what the text said and what it should have said. Having to use an interpreter also slowed things down – by 50 percent – since the lecturer had to say something in English, then wait for the interpreter to repeat it in the local language. The interpreter was from Croatia originally, but had taught at the University of Sarajevo for about 20 years before fleeing to England, then Michigan at the outbreak of the first Balkan war. He was one of the interpreters used at the Dayton, Ohio peace talks.

Professors stayed in student dorms, which were nearly vacant because the university was on summer break. Professors were given a food allowance that was more than adequate for the restaurants within walking distance of the university.

On August 10 the professors were flown to Atlanta to attend the Annual Meeting of the American Accounting Association. USAID wanted them to become exposed to a large academic accounting organization and wanted them to network, which they did. They also returned home with a large supply of accounting textbooks.

The text chosen for the financial accounting course was Sidney J. Gray and Belverd E. Needles, Jr., Financial Accounting: A Global Approach (1999). This text was chosen because it incorporated International Accounting Standards (IAS) rather than American GAAP and because it had been translated into Serbian.

The text chosen for managerial accounting was Charles T. Horngren, George Foster and Srikant M. Datar, Cost Accounting: A Managerial Emphasis, 10th edition (2000). It was translated into Bosnian, using the Latinic alphabet, by a group of translators in Sarajevo. This text was one of several under consideration. The project chose the Horngren text because one of the senior professors at the largest university in Bosnia studied under Horngren at Stanford during the 1960s and he strongly urged the project to choose the Horngren book for translation. It seemed like a reasonable selection, since it covered the material needed for an entry-level managerial accounting course and also included enough advanced material that it could be used for several advanced courses as well. Also, at least one professor was already familiar with the material, which gave the Horngren book an edge over the other books being considered.

There were some terminology problems, especially with the Horngren book, because similar terms did not exist in any of the local languages. This problem was partially overcome by having the lecturer explain the terms in English, then have the interpreter translate the explanation. However, the interpreter did not always give a strict interpretation of what the lecturer had said. He sometimes incorporated his own views into the discussion.

The lecturer also spent a few hours going through the annual report for the Coca-Cola Company. For those who didn't know English, they had to rely mostly on the interpreter, because the Coca-Cola annual report was not translated into the local language. However, they were all able to see how the financial statements were structured, even if they didn't understand most of the words.

Many of the professors had never seen the annual report of a Western company before, so showing them how such a report was structured was a learning experience for them. Most of the discussion centered on footnote disclosures, since this was a new topic for them. The lecturer spent a few minutes going over each footnote, explaining what disclosures companies had to make and why. The Coca-Cola disclosures included more topics than what IAS covered, so even the professors who were somewhat familiar with IAS were exposed to some new material.

The Coca-Cola presentation was given after the discussion of stocks and bonds, so by the time the professors saw the Coca-Cola annual report they had already been exposed to much of the material that was in the financial accounting course. The back of the Needles financial accounting book included the fully translated annual report of a major international company that used IAS, so by the time the class reached the end of the book they were prepared to go into more detail. This annual report was translated into Serbian, so the whole class was able to follow the discussion.

Choosing the Coca-Cola annual report was an excellent choice for other reasons as well. The professors could relate to the company, since Coca-Cola was a popular drink in Bosnia. But this choice proved to be good for another reason as well. The CEO of Coca-Cola was one of the speakers at the annual meeting of the American Accounting Association meeting in Atlanta, which the group attended after the training in New Jersey. The CEO spent most of his time talking about the financial situation at Coca-Cola, including some of the items that were discussed in class. The professors who couldn't speak English gathered around the interpreter, who translated the CEO's comments as he made them. Part of the CEO's presentation included multi-colored Power Point graphics and spreadsheets.

The classroom experience brought the professors together for 20 hours a week. Some of the professors knew each other well or at least casually before the classes started, but a great deal of bonding went on during the sessions, which was apparent both in and out of the classroom. Although not part of the original USAID training plan, this bonding was viewed in very positive terms by USAID. A few years before (1991-95), the three ethnic groups -- Muslim Bosniaks, Roman Catholic Croats and Orthodox Christian Serbs -- had been killing each other (Burg and Shoup 1999; Zimmerman 1999; Silber and Little 1997; Rieff 1995). Before the trip to America some concern was expressed about having them stay in the dorms together and attend classes in the same classroom. Such concerns quickly evaporated as the classes began.

The classroom used for the sessions was one of the most advanced rooms in the university. It had all the latest gadgets as well as a lot of board space, something that is lacking in most Bosnian classrooms. The furniture was new and each professor had more than adequate room to spread out books, etc. This aspect of the training is mentioned only because Bosnian students usually sit in small, cramped and old desks or tables.

During the course of the five-week training the trainer noticed that there were large gaps in the professors' knowledge. While they were quite knowledgeable about basic concepts like debits and credits, some terminology was new to them. Terminological problems were complicated by the fact that their language did not have equivalent terms for some of the things that were being discussed in the book or in class. These problems were overcome by group discussion. Usually at least one of the professors was familiar with the concept being discussed, and was able to explain it to the others in the group.

The chapters in the financial accounting book that were on stocks and bonds presented special problems because these things do not yet exist in Bosnia. The USAID privatization project is introducing these things, but at the time the class was given, all they knew about was vouchers, which was the method used to privatize corporations in Bosnia. One professor asked what the difference was between a stock and bond, which gave the lecturer the opportunity to launch into a broad discussion of the various aspects of each method of financing and the pros and cons of each.

The Horngren Cost Accounting book also presented some problems for the class. Aside from terminology problems, some of the professors were not familiar with a number of concepts. One professor asked why there were so many variances and suggested that perhaps two or three would be sufficient.

Another aspect of the training that was especially beneficial to the professors was all the examples that the trainer presented in class. Texts in Eastern Europe and the former Soviet Union generally do not have many examples. It is a standing joke within the ex-pat accounting community that the only numbers you will see in an East European accounting book are the page numbers. While this is not quite true, it is also not too much of an exaggeration. Most East European and Soviet accounting texts concentrate on the Chart of Accounts, which is handed down from Moscow in the case of the former Soviet Union.

The professors were amused to find that the Needles text didn't devote more than about five lines to the chart of accounts. Some of them were not aware that American companies are completely free to make their own chart of accounts. One of them asked how reliable the financial statements could be if all companies used a different chart of accounts. The lecturer explained that the rules and journals entries always led to the same end point and that the chart of accounts a company had was just the path to that destination. It was not certain that this explanation convinced all of the professors, however, as there were some puzzled looks in the audience after this explanation was given.

Case studies were also new for some of them. The end of each chapter contained numerous examples and some case studies, which the professors found quite helpful. Some of the solutions to these exercises, problems and case studies were translated so that the professors could see what the solutions looked like. The project translated some of these solutions so that the professors would be able to use them in their classes upon their return to Bosnia.

The chapter on cash flow statements drew some lively responses. Bosnia now requires cash flow statements, so the professors had some knowledge in this area. However, the method the lecturer used to construct the statement, using T accounts, was new to them. They were familiar with T accounts but had never seen them used to construct a cash flow statement before.

Both the direct and indirect methods were discussed, which presented a bit of a touchy political situation, since the Muslim-Croat Federation adopted just the indirect method and the Republika Srpska adopted just the direct method.

Each professor also received a detailed syllabus for each book, complete with suggested homework and class exercises, the idea being that they would use the USAID-prepared syllabi when they returned to their universities. When the professors saw these syllabi, some of them asked the business school dean if she could provide the syllabi Seton Hall University uses for all of its accounting courses. The dean was happy to comply with their request. Each professor also received a copy of the undergraduate and graduate Seton Hall University catalog, which they wanted so that they could read the course descriptions and see what the requirements were for an American bachelor's and master's degree.

Some of the professors asked about the requirements for the various certification exams, so the lecturer gave a short lecture on the education and experience requirements for the CPA exam and the topics that are covered on the CPA exam. He also discussed some of the other certification exams that some accountants and auditors take in America. These questions arose because the trainer, who had a background in CPA exam preparation, kept mentioning exam techniques that would help gain points or save time on the CPA exam. He also discussed the study techniques he used to pass the CPA exam.

Examinations in some Eastern European and former Soviet countries often have an oral component. In fact, some exams are 100 percent oral. It surprised some of the professors that the CPA exam did not have any oral component, and also that the exam was given under strictly supervised conditions. Some professors requested sample copies of the exams given by Seton Hall University professors. The Seton Hall professors were glad to comply with this request.

The professors did not just go to class, then return to their rooms. They had a number of other activities, both planned and spontaneous. The first few days they were on campus the lecturer made it a point to introduce them to the various eating places in town. They seemed to prefer the Mexican restaurant and the Irish pub, which had music on Thursday and Sunday evenings. For lunch they almost always chose the faculty dining room, since it was convenient, the food was good and also cheap. They had an expense allowance of $34 per day and lunch was only $5, which left plenty for other things.

The dean invited the group for a barbecue at her house. The Director of the Institute for International Business invited them to dinner at one of his favorite restaurants in South Orange. The lecturer also showed them how to catch the train to Manhattan and gave them a one-day tour. They subsequently made other trips to Manhattan, where they visited the World Trade Center, New York Stock Exchange, Chinatown and Little Italy, Greenwich Village, Rockefeller Center, St. Patrick's Cathedral, the Metropolitan Museum of Art, etc. The trip to the New York Stock Exchange was especially interesting. They were amazed that an average of $40 billion of securities is traded there every day.

Some of the professors spent a lot of time in the library. They needed to do research for their PhDs, which they had not yet completed, and the lecturer introduced them to the librarian who speaks Croatian. They learned how to use the databases and were able to print out a lot of materials, which they took back home with them. They also photocopied a few books.

USAID sponsored field trips to the American Institute of Certified Public Accountants (AICPA) and the International Federation of Accountants (IFAC) both of which are in Manhattan, and to the Institute of Management Accountants (IMA) in Montvale, NJ.

While on these field trips the professors met with representatives of these organizations, who made presentations outlining what their organization did. Most of the professors had heard of IFAC but several of them had never heard of the AICPA or IMA, or if they did, they only had a vague idea of what these organizations did. Some of the senior professors in the group were also officers of their local accounting associations, and it was hoped that they would bring back some of the ideas they encountered during their trip to America. Another part of the USAID Accounting Reform Project in Bosnia involved forming local accounting organizations that are modeled after the AICPA and the various State accounting organizations, so exposing them to the largest accounting association in the world (AICPA) was thought to be a good idea. Business cards were exchanged, and it was hoped that contact between the U.S. accounting organizations and the Bosnian professors would continue after they returned home.

The group had planned to make a trip to visit the accounting department of a large American corporation in Manhattan but it turned out that the corporation (Verizon) preferred to send one of its representatives to visit the group at the university instead. The Verizon representative discussed a number of accounting policies, procedures and events that the professors found fascinating. The presentation was scheduled for 60 to 90 minutes but lasted 3 1/2 hours because the professors were so responsive to what the Verizon representative had to say. It boggled their minds that a company could have 265,000 employees. Bosnia is a small country. Not even their army has 265,000 people.

The group also made some non-USAID sponsored field trips. In addition to several New York City trips, they rented a van and went to Atlantic City and Washington, DC. The Atlantic City trip was a day trip. They went and returned the same day. For the Washington, DC trip, they stayed overnight. The lecturer's daughter and her husband live in Frederick, Maryland, so the group stopped there on Friday night. Their house was not large enough to accommodate all the professors, so the two female professors stayed in their spare bedroom and the males stayed in a few motel rooms down the road. Interestingly, the professors' choice of roommate was not based on ethnicity, a fact that was important, since it showed that the animosity among the ethnic groups that was exacerbated during the several wars that occurred between 1991 and 1995 did not present an insurmountable barrier. The bonding that had taken place during the first few weeks of the training overcame this potential problem.

On Saturday they went into Washington and walked around. The Croatian English professor who acted as interpreter was familiar with the city, so he helped show them around. He also did some of the van driving (the lecturer did the rest). Sunday they had a barbecue at the house and returned to New Jersey. They stopped in Philadelphia at a yuppie café close to the Liberty Bell on the way to DC and on the way back. The professors insisted that they stop there on the way back. They also insisted on playing country music on the radio.

There was an awards ceremony at the conclusion of the five-week training program where the professors received certificates from the Seton Hall business school. The Seton Hall librarian of Croatian descent and the university's main Russian professor organized the event. The Russian professor has a reputation for being a bakaholic, and she lived up to her reputation. Much of the food was prepared by the Russian professor and some of her friends. Several Eastern European dishes were served. The Seton Hall public relations department was able to generate some press coverage, but the main news event of the day was the record-breaking temperature. They were able to schedule a news conference on one of the local cable television stations.

The American Accounting Association has its annual meeting the third week of August each year. In 2001 they had it in Atlanta. USAID scheduled training so that it would end a few days before the AAA meeting. The professors flew to Atlanta the day before the meeting started. They spent the remainder of the day meeting other professors, mostly from the United States but from a variety of other countries as well. During the meeting they attended a number of presentations, some with a translator and some without. There was also an officially AAA-sponsored tour of the Atlanta Zoo. Some of them also went to the Coca-Cola Museum, which was a 15-minute walk from the hotel.

They were quite impressed with the Atlanta Marriott Marquis, which served as the headquarters of the meeting. From the lobby one could look up to the roof, 47 floors above. Most of the elevators were partially glass, so one could look out at the various floors while going up or down. It was visually tantalizing, except for one of the professors, who had trouble with heights. However, the hotel also had internal elevators with no glass, so it was possible to go up and down without being traumatized by the spectacular view. The same professor who hesitated to use the glass elevators at the Marriott Marquis also hesitated to take the elevator to the observation deck of the

World Trade Center. Luckily, he garnered the courage to go to the top, since he will not have another opportunity to make that particular trip.

Attendance at the AAA Annual Meeting gave the professors an opportunity to sample some of the hundreds of paper presentations that academics from all over the United States and abroad were giving at the various sessions. The professors also have the opportunity to meet and network with other professors. It was the first time that some of the professors had ever observed the kind of presentation that is common in such meetings. One of the professors remarked to the trainer that he had never seen papers critiqued and criticized before. He mentioned that in Bosnia, people just present their papers and no one makes any comments, formal or otherwise. He thought it was a refreshing experience to see papers critiqued. It was a new methodology for him.

There were dozens of booths at the meeting. Various publishers were giving away books in the hope that the professors would adopt a few hundred copies for their classes. It is a normal marketing practice that publishers do at such meetings. They were told to take an empty suitcase with them to America. The professors collected free texts aggressively. Some of them decided to take the books to the Atlanta post office and have them shipped back to Bosnia by M-Bag, which costs just $1 a pound. On the evaluation forms that USAID gave the professors at the end of the trip, most of them mentioned the Atlanta experience as the best part of the trip, mostly because of the impression they got from seeing thousands of accounting professors from all over the world.

International Business & Technical Consultants, Inc (IBTCI), the private contractor that was awarded the USAID contract, sponsored an open house on the second evening of the meeting. It was poorly attended, mostly because there were so many competing parties going on. However, the open house was not a total loss. The professors got to meet and chat with Charles Horngren and Belverd Needles, two of the authors of the books they used for their training. The senior Bosnian professor who studied under Horngren at Stanford during the 1960s got to see Prof. Horngren again after more than 30 years. Prof. Horngren gave a short talk describing how he came to write his classic cost accounting book. He had approached Prentice Hall with the idea of writing a financial accounting book, but the Prentice Hall editor told him that what they really needed was a book on cost accounting.

Training for the summer of 2002 was a bit scaled down. Training was held in three Bosnian cities, one for each ethnic group. An advanced financial accounting course was taught in Sarajevo, a Muslim city. Financial management was taught in Mostar, which was split into East and West into Muslim and Croat sections. The course was taught in the neutral zone, which was in the center of the city. An auditing course was taught in Banja Luka, the capital of Republika Srpska.

The three new courses would be taught in the universities the following fall and the professors who were chosen to take the training courses were the professors who would be teaching the second-year courses in the fall. However, the selection of professors was different in the second year, in the sense that the selection was not limited to just Bosnian professors. Once the word got out about the quality of the training the first-year professors had received, universities from other former Yugoslav republics inquired about expanding the training to include their universities and professors. But USAID could not expand the program into the other former Yugoslav republics because Congress had just approved training for Bosnia. However, USAID did allow professors to sit in on the classes that were being held in Bosnia and provided them with course materials.

Training for the third and fourth year courses was cut back almost to the point of nonexistence because of USAID's dissatisfaction with the way the accounting reform project was going. The university deans had agreed to accept and use the texts that USAID was paying to have translated but when it came time to use the texts that were translated into the Serbian language, all the Muslim universities balked, which wasted thousands of dollars in USAID resources. Cooperation became increasingly tense after that and USAID hesitated to continue pouring funds into the project.

The situation could have been salvaged by translating the Cyrillic texts into the Latin alphabet. Software was available and the University of Sarajevo offered to do it for free. But the USAID representative in charge of the project flatly refused to turn over the software files. He was miffed that the Muslim universities refused to use Cyrillic texts and he took it as a personal affront. Because of his ego problem, tens of thousands of U.S. taxpayer dollars that went into the project, and that could have been salvaged, were wasted needlessly. A project that was a success up to that point turned into a semi-failure because of the ego of one USAID bureaucrat.

TRAINING PRACTITIONERS

Another task of the USAID Accounting Reform Project was to train practitioners. Rather than train accounting practitioners who worked for accounting firms, the emphasis was on accountants who worked in Bosnian enterprises. A team of two local Bosnian accountants who worked with the USAID project conducted seminars, followed by visits to dozens of Bosnian enterprises over a period of several months to train their staff in basic Western accounting. The two staff members chosen had become experts in IAS. One member of the team helped translate IAS into Bosnian.

Prior to the start of this phase of the accounting reform project, mot Bosnian companies kept their books under the old system that existed when Bosnia was part of Yugoslavia. The problem with the old system is that it did not comply with International Accounting Standards.

An initial problem that had to be overcome was to educate the accountants who worked in those enterprises. They had never been exposed to

IAS in school and there was practically no way to learn the IAS rules after they started working as accountants because materials did not exist in their language and there were no training sessions offered by any private sector accounting organizations. The first step was to create accounting materials they could use, so materials had to be created and translated into their language.

Training manuals were developed. However, accountants in Republika Srpska used slightly different rules than did the accountants in the Muslim-Croat Federation, so two different sets of training manuals had to be made, one for each group.

Training advanced more rapidly in the Muslim-Croat Federation because the two trainers who started the training phase of the project were both Muslim. Sending them to train Croatian and Serbian accountants would have been a problem, at best, and probably would have been impossible. In order to get around this insurmountable obstacle, a different set of trainers were used in the non-Muslim parts of the country – Herzegovina and Republika Srpska.

The accounting materials used for training consisted of a 220-page manual that provided an overview and commented on the new accounting standards, and another manual that dealt with the application and contents of the new Chart of Accounts used in Bosnia. During the last four months of 2001, the Muslim trainers conducted a total of four three-day seminars in Tuzla, Sarajevo, Zenica and Mostar. The seminars were attended by more than 150 accountants from more than 60 enterprises. All participants received the training materials. Participants were asked to fill out an evaluation form at the conclusion of each seminar.

The evaluations showed that the participants were generally satisfied with the seminar. The training material was generally at the right level and the seminal material got very high grades for usefulness. About 40 percent of the material was new for the average participant, although 100 percent of the material was new for some of the respondents, which showed the need for the seminar. The length of the seminar – three days – was usually considered to be about right. A longer seminar would have drawn fewer participants.

High marks were also given for various aspects of the presentation – visual equipment, the manner of presentation, the quality of the handouts, organization of the seminar, quality of the meeting facility, etc. The highest marks were given for the questions “Would you recommend this seminar to a colleague?” and “Would you attend another seminar presented by our organization?”

Participants thought highly of the seminar and the seminar leaders, which was important, because the two seminar leaders were the same two individuals who were assigned the task of visiting the enterprises to help them convert their books.

The conversion process was conducted in two phases. During the first phase, two individuals visited eleven enterprises for three days each. It was found that companies tended to have the same difficulties, so future visits could be structured to anticipate them.

The two main difficulties were how to allocate costs and how to get volume to the break-even point. Participants did not have a problem understanding how to compute a break-even point. The problem was that their companies were operating below that point. They wanted to know how to expand sales and tap into new markets to achieve profitability.

The other problem was that companies had a tendency to allocate all costs into the cost of their inventory, including selling and administrative costs, which did not belong there. This made it difficult to make intelligent pricing decisions.

During the second phase of the conversion process, the two seminar leaders became team leaders. They started to work with eight Bosnian audit firms. One of the eight audit firms was selected to perform the conversion at each of the other enterprises. The team leaders guided them through the process. The reason for this approach was to give some Bosnian audit firms the training necessary to perform future audits. The various Bosnian private accounting associations could not do this because they lacked the expertise. The team leaders had the experience because they had created the training material for the initial seminars. They conducted the seminars and had performed more than ten conversions before training the audit firms to do it. At the conclusion of each conversion, the audit firm prepared a report.

The audit reports revealed some interesting facts. About 60 percent of the enterprises had intangible assets and had done the initial valuation properly. Of that group, about half amortized using the straight-line method. The other half did not amortize them. A small portion of the enterprises revalued intangibles if the price index increased by more than 10 percent a year since the last revaluation. Enterprises also tended to revalue their tangible assets if the price index increased by more than 10 percent annually since the last revaluation.

About 80 percent of the converted enterprises did not have research and development costs. Of those that did, the vast majority treated them as period costs. Enterprises did not have any goodwill or negative goodwill on their books. Almost all enterprises used the straight-line method to depreciate tangible assets. The rules for impairment of assets generally were not followed, although some enterprises wrote down assets before the December 31, 2000 implementation date for their impairment of assets standard. Only about 20 percent of the enterprises recognized contingent assets or liabilities. The other 80 percent did not have them or did not know what they were.

Practically none of the enterprises used the correct method to account for inventories. Although many enterprises adopted the lower of cost or market principle, they often did not apply it. Many accountants did not understand what net realizable value was. A small minority used an appropriate absorption costing system for their inventories. The vast majority of enterprises used a full costing system that loaded too many costs into their inventories. While such a system was perfectly acceptable under the old, central planning model, the new Bosnian rules for inventory, which are identical to the IFRS rules, do not permit such a practice. Correcting journal entries were made to eliminate this problem.

Nearly half of the enterprises had no method for dealing with doubtful receivables. Firms tend to write off doubtful accounts only after some court action because the tax law frowns on writing them off before a court action. About 20 percent of the enterprises did not know what an extraordinary item was. Other enterprises do not have extraordinary items. There was a tendency to include extraordinary items with other items of income and expense.

More than half of the enterprises did not have any leases. Of those that did, there was a tendency not to recognize financing leases because of a lack of understanding of the present value of money concept. Accountants did not know how to calculate the value of a financing lease, which is understandable, since the accounting materials they had in their university program did not include this topic. The treatment of borrowing costs was also a problem, since accountants were not familiar with the concept.

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Chapter 8

ACCOUNTING CERTIFICATION IN CENTRAL ASIA AND THE FORMER SOVIET UNION

Abstract

Although most countries have their own national accounting and auditing certifications, there are a number of internationally recognized accounting certifications. These certifications are especially valuable in transition and developing economies, where the quality of the national certification is low. The most popular international certification is offered by the Association of Chartered Certified Accountants (ACCA). Until a few years ago, this certification was the only truly international certification. However, in recent years a few other certifications have started to become internationally recognized. This chapter discusses the reasons for the popularity of international certifications, the reasons why resistance to them has been encountered, and reports on the status of the various internationally recognized accounting certifications in the former Soviet republics of Russia, Ukraine and Central Asia.

INTRODUCTION

The vast majority of countries have some kind of accounting certification. Some countries offer several different certifications. Some countries in the former Soviet bloc offer separate certification for accountants and auditors. Some countries offer several levels of certification (McGee 1999a).

Most certifications are national in nature. Because of that, it is not always possible for accountants in one country to obtain employment in another country at an equal level. From an international trade perspective, one may say that there are barriers to the movement of human capital.

There are several reasons why one country may not fully recognize a certification from another country. One reason is because the accounting and tax rules vary from one country to another, so the material being tested by one certification body may be substantially different from that tested by certification bodies in other countries. Another reason for the hesitancy to recognize foreign accounting certifications is due to lack of familiarity with the certification content, rules and requirements of the many countries that certify accountants and auditors. Lack of familiarity does not foster trust and confidence, even though the quality of the foreign certificate may be acceptable.

A third reason for resistance to the recognition of foreign certification is the perceived or real lack of quality or credibility of some of these certifications. The quality of some national certifications is suspect, especially in transition and developing economies. In Russia, for example, some of the local accounting associations go to the countryside selling their own certifications (McGee and Preobragenskaya 2004).

The fourth reason for resistance to the acceptance of foreign certification credentials is inertia. Bureaucrats of any nation prefer the status quo (Friedman & Friedman 1984). Change of any sort is automatically resisted. Resistance is perhaps stronger than average for accounting certification, since implementing changes in accounting certification require the local bureaucrats to learn something new.

The fifth reason for resistance to the acceptance of any new certifications is protectionism. The old guard accounting establishment feels threatened by the possible introduction of new certifications (Pitts 2004), especially if practicing accountants would be required to take and pass the new certification exams. USAID accounting reform programs in several countries, as well as their EU Tacis counterpart projects, have encountered resistance from local accounting associations when new certifications models are first introduced into a new country.

A sixth reason for the nonrecognition of accounting and auditing certification is distrust or even hatred for the individuals who hold such certifications. The authors are aware of only one country where this reason for nonrecognition exists, but there may be others. Bosnia and Herzegovina is the country.

As a result of the Dayton Peace Accord of 1995, which ended the war there, this former Yugoslav republic was divided into two entities (Burg & Shoup 1999; Daalder 2000; Holbrooke 1998; Zimmerman 1999). The Muslim-Croat Federation, which consists of Bosnian Muslims and Roman Catholic Bosnian Croats, was to possess 51 percent of the real estate of Bosnia and Herzegovina. The other 49 percent went to the Orthodox Christian Bosnian Serbs. Their state within a state is now called Republika Srpska. The country of Bosnia and Herzegovina now consists of these two entities, which have at times gone out of their way to establish different laws and rules.

For example, one of the entities [the Muslim-Croat Federation] adopted the indirect method of accounting for cash flows. When word got out that one entity adopted the indirect method, the other entity [Republika Srpska] decided that only the direct method of accounting for cash flows would be appropriate for enterprises operating within its borders (Preobragenskaya & McGee 2004a). International Financial Reporting Standards (IFRS) allow both methods, and both entities within Bosnia and Herzegovina are in the process of adopting (IFRS) – at different speeds, incidentally.

This animosity carries over to many other areas of economic and social activity. Someone who graduates from one of the universities in the Muslim-Croat Federation part of the country is not recognized to be a university graduate in Republika Srpska. The certification process for accountants and auditors is somewhat different for accountants and auditors in Bosnia's two political entities and certifications from one entity are not automatically recognized by the other entity.

These six reasons that serve to impede the recognition of accountants beyond national (or regional) borders is a major impediment to the free movement of human capital. However, nonrecognition is not an insurmountable barrier. The market process is dealing with the nonrecognition problem, with some degree of success.

In Russia, for example, the government does not recognize *any* non-Russian certification. But the marketplace *does* recognize some non-Russian certifications. The fact that the Russian government does not recognize certifications like those offered by the ACCA, IMA and other private groups is almost irrelevant (Preobragenskaya and McGee 2004b). Employers in Russia are eager to hire individuals who have managed to pass one or more of these international certification exams and they are not at all concerned that the Russian government does not recognize such certifications. All that matters to Russian employers – which includes the Big-4 accounting firms – is the quality of the individual who holds the international certification. These certificate holders are perceived as being of high caliber because they were able to pass a certification exam that is known to be rigorous.

ACCA CERTIFICATIONS

The oldest and most widely recognized international accounting certification is that offered by the Association of Chartered Certified Accountants (ACCA), which is headquartered in the UK. The exam is given each June and December at regular or special exam centers in more than 200 locations in more than 140 countries worldwide. It is offered only in English, which has both positive and negative aspects. From the positive side, offering the exam only in English means that the same identical exam can be offered all over the world, so there is no perception that the quality or content of the exam varies by country. Offering an English-only exam also makes it truly international. Not offering the exam in other languages also keeps the cost of administration lower than could otherwise be the case.

However, there are some negative aspects of offering the exam only in English. The spread of the exam, which tests on IFRS, is greatly impeded by not offering it in other languages, since the majority of potential exam candidates in many countries cannot read English well enough to take the exam. The spread of the principles tested by the ACCA exams could spread faster, wider and deeper if the exam were made available in languages other than English. Various countries have asked the ACCA to offer its exams in other languages but those requests have been denied, with the minor exception of the Diploma in International Financial Reporting, which is now available in Russian. It will be interesting to see how popular this diploma program becomes, as word of its existence reaches the 15 former Soviet republics.

The number of candidates taking the exam is unknown. The ACCA declines to provide detailed information about enrollments for competitive reasons. However, correspondence with the ACCA was able to discover that there are well over 1,000 students registered for ACCA exams in Russia as of late 2003 and well over 7,000 registered in Central and Eastern Europe (Brown 2003). It has nearly 300,000 members in 160 countries. The ACCA has either regular or special exam locations in several locations in former Soviet cities as well as several locations in Central and Eastern Europe. The ACCA website lists exam locations in at least two different places and the lists are not identical. The exam locations in Table 1 include cities that were included in at least one of the lists.

Table 1
ACCA Exam Locations in the Former Soviet Union (CIS)

Country	City
Armenia	Yerevan
Azerbaijan	Baku
Belarus	none
Estonia	Tallinn
Georgia	none
Kazakhstan	Almaty
Kyrgyzstan	none
Latvia	Riga
Lithuania	Vilnius
Moldova	None
Russia	Moscow
	Novocherkassk
	Saint Petersburg
	Vladivostok
Tajikistan	none
Turkmenistan	none
Ukraine	Kyiv
Uzbekistan	Tashkent

As can be seen from Table 1, the ACCA now has exam locations in all of the large countries of the CIS and several of the small ones as well. The only country that has more than one location is Russia. The fact that the ACCA does not have exam centers in every country does not necessarily act as an impediment for students in those countries who want to take the exams, however. For example, students in parts of Kyrgyzstan can take the exam in Almaty, Kazakhstan, which is close to the Kyrgyz border. Students in Moldova and Belarus can take the exams in one of the bordering republics.

Although the pass rates on the ACCA exams for individual locations are not public information, informal conversations with ACCA officials over the years reveal that the pass rates vary widely, and for a number of reasons. One study (McGee 1999b), which disclosed eight reasons why the pass rates for the first ACCA exam offered in Armenia, in December 1998, were low, were because:

1. The first exams were given starting on December 7 and the exam preparation courses did not start until mid-or late September. Furthermore, students had to register for at least two exams. The prep course for the first exam was offered over six weeks and the prep course for the second exam was offered over a period of four to six weeks, depending on location. The optimal length for such courses is 14 or 15 weeks. Thus, exam candidates did not have sufficient time to prepare for the exams.
2. The books for the prep courses did not arrive until one or two weeks after the start of the course. The text for the second ACCA prep course was held up in Customs and the course almost had to be cancelled because Customs officials refused to release the books at first.
3. Under normal conditions the prep courses would have been review courses. However, the vast majority of the students taking the courses were totally unfamiliar with market-oriented accounting rules. Many of the students in the first classes were not even accountants and never had an accounting course of any kind. Thus, they had to learn new material rather than review material they had learned in the course of their university studies. The texts used in the review courses assumed that students already knew the material and therefore did not provide many examples to illustrate basic material.
4. The usual route for certification review courses is to take the prep course after graduating from some university. However, in the case of the first Armenian ACCA exam, 25 of the candidates were still undergraduate students.
5. Even the accounting students who took the "review" courses never had a western-style accounting course because those courses were just being introduced into Armenia.

6. There was really no such thing as an accounting major in Armenian universities at the time the first exams were given. One or two accounting courses were offered within the economics department, but that was all. Thus, even students who were familiar with Armenian/Russian accounting concepts were not adequately prepared to take an exam that was based on International Accounting Standards.
7. English was the third language for the students taking the exams. All Armenian students were fluent in Russian and Armenian but their English language skills were almost never at the same level as their skills in these other two languages.
8. Time management was a problem. Armenian students were not accustomed to taking a timed exam. Under the Soviet system they could take as much time as they wanted, but the ACCA exams were strictly three hours in length. The short review courses were not able to change the mentality of the students, who showed anxiety about being constrained by the three-hour limit.

The ACCA offers several certificate and diploma programs. Its various programs are described on its website [www.accaglobal.com]. Offerings include:

Professional scheme, which is the multi-level certification that is the most comprehensive

Certified Accounting technician scheme, which is an abbreviated version of the Professional scheme.

Diploma in Financial Management

Diploma in International Financial Reporting (available in English and Russian)

Diploma in Corporate Governance

Certificate in International Auditing

Certificate in International Financial Reporting

Certified Accounting Technician

The Certified Accounting Technician (CAT) scheme has adopted a new syllabus, which will be implemented starting with the June 2004 exams. The new syllabus includes 10 exams, of which students must take 9. There are three levels of certification. The specifics are summarized in Table 2.

Table 2
Syllabus Requirements
Certified Accounting Technician (ACCA)

Paper	Content	Assessment	Pass Mark
	Introductory		
T1	Recording Financial Transactions	2 hour computer based or written exam	55
T2	Information for Management Control	2 hour computer based or written exam	55
	Intermediate		
T3	Maintaining Financial Records	2 hour computer based or written exam	50
T4	Accounting for Costs	2 hour computer based or written exam	50
	Advanced		
T5	Managing People and Systems	2 hour written exam	40
T6	Drafting Financial Statements	3 hour written exam	40
T7	Planning, Control and Performance Management	3 hour written exam	40
	Two Options From		
T8	Implementing Audit Procedures	3 hour written exam	40
T9	Preparing Taxation Computations	3 hour written exam	40
T10	Managing Finances	3 hour written exam	40

Professional Scheme

The Professional Scheme is the most comprehensive certification program the ACCA offers. Certification is at three levels. Almost all exams are written at present, although there are plans to put more exams on computer. Exams are 3 hours long. Some exams are optional. Sixteen exams are offered but only 14 exams need to be passed to achieve level 3 certification. If certain conditions are met, candidates can take tax and law exams based on their own country's rules rather than the ACCA exams in these subjects, which are based on British law. Table 3 summarizes the requirements for each level of certification.

Table 3
Syllabus Requirements
Professional Scheme (ACCA)

Paper	Content
	Part 1
1.1	Preparing Financial Statements
1.2	Financial Information for Management
1.3	Managing People
	Part 2
2.1	Information Systems
2.2	Corporate and Business Law
2.3	Business Taxation
2.4	Financial Management and Control
2.5	Financial Reporting
2.6	Audit and Internal Review
	Part 3
	Any Two Papers from
3.1	Audit and Assurance Services
3.2	Advanced Taxation
3.3	Performance Management
3.4	Business Information Management
	All Three Papers
3.5	Strategic Business Planning and Development
3.6	Advanced Corporate Reporting
3.7	Strategic Financial Management

Some exams from Parts 1 and 2 can be waived if certain conditions are met.

Pass rates for the Professional Scheme exams are published on the ACCA website. Pass rates for the most recent exams are given in Table 4.

Table 4
Pass Rates (%)
ACCA Professional Scheme Exams

Paper	Dec. 2003	June 2003	Dec. 2002	June 2002	Dec. 2001
Paper 1.1	44	48	47	55	52
Paper 1.2	57	46	47	46	45
Paper 1.3	48	59	41	42	39
Paper 2.1	63	50	50	49	52
Paper 2.2	52	50	52	49	48
Paper 2.3	48	47	50	57	54
Paper 2.4	39	39	56	39	41
Paper 2.5	50	48	51	44	53
Paper 2.6	42	52	53	47	58
Paper 3.1	44	40	40	44	38
Paper 3.2	42	39	38	42	38

Paper 3.3	45	41	47	47	40
Paper 3.4	54	54	53	50	52
Paper 3.5	55	53	53	51	54
Paper 3.6	53	53	55	56	53
Paper 3.7	49	44	43	49	45

CMA/CFM CERTIFICATIONS

The Institute of Management Accountants (IMA) in New Jersey, USA offers the Certified Management Accountant (CMA) and Certified Financial Manager (CFM) exams. Originally aimed at accountants in the USA, the exams have spread worldwide, although the largest share of exam candidates still come from the United States.

The CMA exam is undergoing major changes as of July 1, 2004. Those who register for the exam before then will still be able to take the old format exam through December 31, 2007. Gleim Publications [www.gleim.com] seems to think the old exam format is easier to pass than the new one will be. Its website provides the following comparison (Table 5).

Table 5
Comparison of Old and New CMA Exam Topics

Part	**Old Exam** (3 hours, 110 multiple choice question each part)	**New Exam**
1	**Economics, Finance and Management** Microeconomics Macroeconomics International Business Environment U.S. Business Environment Corporate Financial Management Organization Management and Communication	**Business Analysis** (3hrs, 110 multiple choice) Business Economics Global Business Internal Controls Quantitative Methods Financial Statement Analysis
2	**Financial Reporting Analysis** Financial Accounting Environment Preparation of Financial Statements Analysis of Financial Statements	**Management Accounting & Reporting** (4hrs, 140 multiple choice) Budget Preparation Cost Management Information Management Performance Measurement External Financial Reporting
3	**Management Reporting, Analysis and Behavioral Issues** Cost Measurement Planning	**Strategic Management** (3hrs, 110 multiple choice) Strategic Planning Strategic Marketing

	Control and Performance Evaluation Behavioral Issues	Corporate Finance Decision Analysis Investment Decisions
4	**Decision Analysis, Information Systems, Management Controls** Decision Theory and Analysis Investment Decision Analysis Quantitative Methods Information Systems Management Controls	**Business Applications** (3 hrs, 4-7 essays) All topics from parts 1, 2 and 3, plus: Organization Management Organization Communication Behavioral Issues Ethical Considerations

Unlike the ACCA exams, which are mostly paper based and are offered only in June and December, the CMA and CFM exams are offered on demand on computer and can be taken anywhere in the world where proper approved computer facilities are available. Parts 1, 3 and 4 of the CMA exam are identical to parts 1, 3 and 4 of the CFM exam. The only difference between the CMA and CFM exams is part 2. Whereas the CMA exam tests on financial reporting, the CFM part 2 tests on corporate financial management.

The CMA and CFM exams are becoming increasingly popular in the CIS, Eastern and Central Europe, in spite of the IMA's lack of marketing for these exams. Conversations with IMA officials seemed to indicate that spreading the exam worldwide was not a top priority and other budgetary items took priority. Table 6 summarizes exam results for candidates who took one or more parts of the CMA and/of CFM exams in the various former Soviet republics between April 6, 2003 and April 6, 2004.

Table 6
CMA/CFM Exam Results for
the CIS, Eastern and Central Europe
April 6, 2003 – April 6, 2004

Country	Parts Taken	Parts Passed	Pass Rate (%)
Armenia			
Azerbaijan			
Belarus			
Estonia	1	1	100.00
Georgia			
Kazakhstan	87	46	52.87
Kyrgyzstan			
Latvia			
Lithuania			
Moldova			
Russia	342	172	50.29
Tajikistan			
Turkmenistan			
Ukraine	15	11	73.33

Uzbekistan			
Totals	445	230	51.69

The results from Table 6 clearly indicate that there is much room for growth. Russia is by far the largest taker of CMA and CFM exams, but only 342 exam parts were taken during the one-year period under study. Since the exams have four parts, that means that fewer than 100 individual-equivalents took the exams. If one considers the fact that each exam part may be taken multiple times within a 12-month period, this individual-equivalent statistic shrinks even further.

It is interesting to note that Kazakhstan is the second largest consumer of CMA and CFM exams. Perhaps the reason for Kazakhstan's relative eagerness to take the CMA and CFM exams compared to much more populous countries like Ukraine is because Hock Accountancy Training, a privately owned entrepreneurial provider of CMA and CFM review courses has offices in Moscow and Almaty, the capital of Kazakhstan. It has an aggressive and effective marketing program that announces to the local accounting community that such exams exist. It is thus creating demand for exam preparation courses. Hock recently opened an office in Kyiv. It will be interesting to see the exam statistics for Ukraine a year or two down the road, after Ukrainian accountants become aware that it is possible for them to take the CMA and CFM exams in their country. If the ACCA can have 1,000 students registered in Russia and more than 7,000 registered throughout Central and Eastern Europe, it is reasonable to expect that the statistics for the CMA and CFM exams will grow over time.

The CMA and CFM exams have several advantages over the ACCA exams, at least from a student's perspective. For one, students need to pass just 4 exams to earn the full certification, whereas one must pass 14 exams to earn the full ACCA designation. Pass rates between the two are basically the same, so presumably they are the same degree of difficulty. Another advantage of the CMA exam is that students who pass all four parts can earn a second certification (the CFM) by passing just one more exam. A third advantage is that the CMA and CFM are offered on demand, whereas the ACCA exams are offered just twice a year, making it possible for CMA and CFM students to complete all exam requirements much sooner, since they can retake the exams several times on one year. One advantage the ACCA designation has over the CMA and CFM is that the ACCA has been around for a long time, its certification is recognized worldwide, and it is prestigious. Another advantage of the ACCA exams is that the exams may be taken without the use of a computer. Although the skills required to take a computer exam are not all that great, it is a factor to consider.

The CMA and CFM credentials are relatively new to the CIS and they are aimed more toward corporate accountants, whereas the ACCA exams are aimed more toward public accountants.

CAP AND CIPA CERTIFICATIONS

Overview

The International Council of Certified Accountants and Auditors (ICCAA) was formed in late 2001 with the assistance of the United States Agency for International Development (USAID) and others to offer internationally recognized accounting certification exams. Its target market includes the countries of the former Soviet Union, although its main focus at the moment is on the five Central Asian republics of Kazakhstan, Kyrgyzstan, .Tajikistan, Turkmenistan and Uzbekistan. It also has a presence in Ukraine, Russia and Moldova.

Several reasons were given for the need for these certifications. For one, none of the existing certifications in the Russian zone have much credibility. In some countries, certification can be sold outright. In other cases, the exams are not sufficiently challenging to foster much credibility. Foreign investors are not impressed to see financial statements that are certified by accountants or auditors who possess a local certification. Thus, there is a very real need for a certification that is perceived to be of high quality. The only truly international accounting certifications, such as the ACCA, CMA and CFM, are only offered in the English language, which greatly limits their accessibility within the Russian zone. The ability to attract foreign capital could be enhanced if a credible certification existed within the Russian zone that was widely accepted across borders. Such certification would be more credible and more valuable than a conglomeration of national certifications of questionable value.

The CAP and CIPA exams are given in the Russian language and are modeled after the Canadian Certified General Accountant (CGA) designation [www.cga-canada.org]. The content of the exams complies with the International Federation of Accountants (IFAC) International Education Guidelines and UNCTAD's Global Curriculum for Professional Education of Professional Accountants, as do the ACCA exams. According to Sholpan Assangaliyeva, Executive Director of ICCAA and holder of the American CPA, the CIPA exam "is sufficiently high and not less difficult in some cases than the CPA exam." The content is different in some cases but in the case of the auditing exam the content is the same as the American CPA (Assangaliyeva 2004a).

Certification is on two levels. The first level is designated Certified Accounting Practitioner (CAP). This designation is earned by passing three exams – Financial Accounting 1, Management Accounting 1 and Tax & Law. One must also have one year experience and computer literacy. CAP exams are offered quarterly.

The second level certification is called Certified International Professional Accountant (CIPA) and is earned by passing four additional exams – in Financial Accounting 2, Management Accounting 2, Finance and Audit. CIPA exams are offered semi-annually. As of mid-April, 2004, more than 1,500 candidates have passed all parts of the CAP exam and have been awarded certificates; 104 individuals have passed all parts of the CIPA exam (Kenney 2004a). Table 7 shows the number of CAP holders by country.

Table 7
Number of CAP Holders by Country
April 2004

Country	Number of CAPs
Kazakhstan	519
Kyrgyzstan	324
Russia	6
Tajikistan	71
Turkmenistan	20
Uzbekistan	158
Ukraine	440
Total	1,538

Source: www.cipaen.org

The exam is growing in popularity. Attendance for the March 2004 exams was at record levels in Kyrgyzstan, Tajikistan and Uzbekistan. In Uzbekistan 1,002 candidates took the March 2004 CAP exams, compared to 564 in June 2003. More than 30,000 candidates took one or more exams between May 2002 and March 2004. The first exams were offered for free. Exam fees and registration fees were introduced in Kazakhstan, Moldova and Ukraine starting in August 2003. Turnout – the number registered for the exam versus the number actually taking the exam -- increased significantly after fees were introduced, from 61.7 percent to 84.7 percent, in Kazakhstan, for example (Kenney 2004b).

The CAP exam results for March 2004 are summarized in Table 8. As can be seen, the largest number of exam candidates came from Kazakhstan (1,386), followed by Uzbekistan (1,002), Ukraine (910), Kyrgyzstan (882), Tajikistan (464), Moldova (139) and Turkmenistan (64). Noticeably missing is Russia, which has the largest potential market for international certification exams offered in the Russian language. More on that later.

Table 8
CAP Passes for the
March 12-14, 2004 Exams

Country	Financial Accounting 1	Tax & Law	Management Accounting 1	Total	% of Total
Kazakhstan	503	479	404	1,386	28.6
Kyrgyzstan	451	292	139	882	18.2
Moldova	39	67	33	139	2.9
Tajikistan	162	152	150	464	9.6
Turkmenistan	24	25	15	64	1.3
Ukraine	323	294	293	910	18.8
Uzbekistan	556	248	198	1,002	20.7
Totals	2,508	1,557	1,232	4,847	100.0

Source: Kenney 2004b

The number of individuals taking the CAP exams far exceeds those taking the CIPA exams, which might be expected, given that fact that the exams are relatively new and that the CAP exams must be passed before the CIPA exams may be attempted. Table 9 shows a comparison of the CAP and CIPA exams taken in the fourth quarter of 2002 and 2003 in all countries where the exams were given. The popularity of both exams has increased, by an average of 8.6 percent.

Table 9
Comparison of CAP and CIPA Exams Taken
Q4 – 2002 and 2003

Exam	2002 Q4	2003 Q4	Increase
CAP	5598	6086	8.7%
CIPA	659	711	7.9%
Total	6257	6797	8.6%

Source: Kenney 2004b

Table 10 shows the number of exams taken in the five Central Asian republics between September 2002 and August 2003. About 90 percent of the exams taken were the CAP exams. The pass rates for the lower lever (CAP) exams were much higher (45.8%) than the pass rates for the higher level CIPA exams (8.4%). There seem to be at least two reasons for that. For one, the CAP exams test more basic material, which would make those exams easier to pass. The other reason is because candidates need attain a grade of only 50 percent to pass the CAP exams, whereas the CIPA exams require a score of 75 (Kenney 2004c).

Table 10
Exams Taken and Pass Rates
Five Central Asian Republics
September 2002 to August 2003

Exam	Exams Written	Turnout Ratio	Pass Rates
CAP (90%)	13,880	63.1%	45.8%
CIPA (10%)	1,528	51.4%	8.4%
Total (100%)	15,408	61.7%	42.4%

Source: Kenney 2004b

Table 11 shows a breakdown by country of the CAP and CIPA exams taken between September 2002 and August 2003. As can be seen, the largest number of candidates taking the exam during the period under study came from Kazakhstan, with 42.1 percent of the total. Ukraine is a distant second with 19.4 percent. Turkmenistan was in last place, with 1.3 percent. Moldova is not included because exams did not start there until after August 2003. Russia is not included because regular exams did not start there until after August, 2003, although some potential trainers took a few exams as part of a pilot project.

Table 11
Exams – by Country
September 2002 to August 2003

Country	Exams Taken	% of Total
Kazakhstan	8,049	42.1
Ukraine	3,707	19.4
Kyrgyzstan	3,119	16.3
Uzbekistan	2,734	14.3
Tajikistan	1,258	6.6
Turkmenistan	248	1.3
Total	19,115	100.0

Source: Kenney 2004b

Pass rates have been increasing for both the CAP and CIPA exams, as shown in Table 12, which includes statistics for all countries where the exams were given. The CAP pass rates are comparable to the pass rates for other international exams, such as the CMA, CFM and ACCA exams, although the CIPA pass rates are much lower.

Table 12
Pass Rate Comparison
CAP and CIPA Exams
November 21-24, 2003

	November Exams Written	November Pass Rate	Comparison 2002-03 1st Year Rates
CAP (87%)	4,974	54.5%	45.8%
CIPA (13%)	711	14.2%	8.4%
Totals	5,685	50.9%	42.1%

Source: Kenney 2004b

Ukraine

Separate exam statistics are available for Ukraine, broken down by subject. Table 13 shows the number of candidates and pass rates for the CAP and CIPA exams from May 2002 to November 2003.

Table 13
Level of Activity and Pass Rates
CAP and CIPA Exams
Ukraine
May 2002 – November 2003

	May 2002	Sept. 2002	Nov. 2002	March 2003	Aug. 2003	Nov. 2003
CAP Exams						
Examinees	435	551	1409	839	645	1034
Pass Rate	57%	40%	39%	48%	53%	65%
CIPA Exams						
Examinees	47		228		77	116
Pass Rates	34%		0%		19%	16%
Total All Exams						
Examinees	482	551	1637	839	722	1150
Pass Rate	55%	40%	33%	48%	50%	60%

Source: Mino (2004)

As was true of pass rates in general, the CAP pass rates for Ukraine were higher than the pass rates for the CIPA exams. The zero percent pass rate on the November 2002 CIPA exams could not get any lower.

Statistics for the individual exam parts for the Ukraine exams are also available. Table 14 provides a breakdown by exam and date. Some boxes are blank because not every exam was given in every examination period. Scores were remarkably low for some exams and for some exam dates. The November 2002 exams appear to be a disaster for Financial Accounting 2 and Audit, since not a single person passed either of those two exams. No one passed the next Financial Accounting 2 exam either. The low pass rates were attributed to poor preparation, and perhaps poor training provided by the training providers. The issue of poor training and preparation was addressed by giving a workshop for the trainers during summer 2003. Pass rates have since improved (Kenney 2004c).

Table 14
Level of Activity and Pass Rates
Individual Exam Summary
CAP and CIPA Exams
Ukraine
May 2002 – November 2003

	May 2002	Sept. 2002	Nov. 2002	March 2003	Aug. 2003	Nov. 2003
Financial Accounting1						
Examinees	102	194	525	263	219	362
Pass Rate	36%	27%	37%	27%	44%	57%
Tax & Law						
Examinees	238	263	561	396	236	326
Pass Rates	71%	51%	33%	74%	76%	77%
Management Accounting 1						
Examinees	95	94	323	180	190	346
Pass Rate	43%	35%	52%	24%	35%	62%
Financial Accounting2						
Examinees	42		129		23	39
Pass Rate	29%		0%		0%	21%
Audit						
Examinees	5		99		15	21
Pass Rates	80%		0%		13%	14%
Management Accounting 2						
Examinees					27	32
Pass Rate					48%	13%
Finance						
Examinees					12	24
Pass Rate					0%	13%

Source: Mino (2004)

Table 14 also shows a major jump in the number of candidates sitting for the November 2002 exam. Two reasons were given for the jump in enrollment. For one, fall exams seem to be more popular than exams offered at other times of the year. But the more important reason for the jump is probably because the project announced that it would start charging fees for the exams beginning in 2003, which led many candidates to sign up for the November 2002 exam, which was free (Kenney 2004c). A survey that was taken of potential exam candidates revealed that cost was a very important factor in determining whether to take the exams, so free exams were much more attractive than exams that involved a fee, even if the fee were only a few dollars (Filshin and Karabekova 2004).

Russia

The CAP and CIPA exams are the only truly international accounting certification exams offered in the Russian language. They test on International Financial Reporting Standards rather than national standards, which makes certificate holders more marketable, not only in every Russian speaking country but also to a certain extent in numerous other countries. The exam process is not corrupt, which also greatly enhances the credibility, acceptability and prestige of the designations. But one glaring question seems to pop out when one examines the above statistics – Russia has the greatest population of any of the former Soviet republics, yet the statistics on the exam in Russia are practically nonexistent. Why is that?

The answer is quite simple. USAID intended to start the exams in Central Asia and Ukraine and work out the bugs in the system before exporting it to Russia (Kinney 2004c). The CIPA program did not start in Russia until November, 2002, and even then it started only as a pilot program. Funded by USAID, the project had the following objectives:

- Identify potential trainers of accountancy courses (about 25 persons);
- Purchase complete sets of educational materials and distribute to potential trainers;
- Conduct examinations of potential trainers;
- Conduct pedagogical training of successful examinees and identify acceptable trainers;
- Administer training of accountants through accepted trainers;
- Conduct examinations of accountants.

The first CIPA exam (actually CAP) was given in Moscow at the end of November 2002. Fifteen potential trainers took the Financial Accounting 1 exam and 10 took the Management Accounting 1 exam. Two additional exams were given to potential trainers in March and June, 2003. As a result of these exams, 10 candidates earned the CAP designation (Petrova 2004)

Twelve individuals were selected to be trainers and the USAID project helped them organize and deliver some CIPA training courses in preparation for future exams. The first exams for non-trainers were given in November 2003. The results were as follows:

- Financial Accounting 1 – 42 candidates
- Management Accounting 1 – 27 candidates
- Tax & Law – 26 candidates
- Financial Accounting 2 – 5 candidates

- Management Accounting – 4 candidates
- Audit – 2 candidates
- Finance – 4 candidates

As a result of these exams, 13 additional individuals earned the CAP designation, raising the total number of CAPs in Russia to 23 as of the end of 2003 (Petrova 2004).

There are some additional reasons why the number of candidates in Russia taking the CAP and CIPA exams has been minimal. Russia has its own certification program based on Russian standards. More than 170,000 Russian accountants hold the Russian certification. Some members of the "old guard" believe the existing Russian certification exams should be taken rather than the new exams based on IFRS. The new ACCA Russian language diploma in IFRS is serving the needs of individuals who desire to be certified with a credential that verifies their IFRS competency, which reduces the need for another Russian language exam that tests IFRS (Assangaliyeva 2004b). The fact that IFRS have not yet been fully and completely adopted by Russia also plays a role, since demand for IFRS specialists is not as high as would otherwise be the case.

The USAID pilot program is now completed. A new USAID accounting reform project has started in Russia with the objective of promoting the CIPA in Russia. However, it is too early to tell whether this new project will be successful or whether the market demand for the CAP and CIPA designations is sufficient to warrant continued marketing efforts. However, if the success of the program in Central Asia is any indication, the Russian program can expect a groundswell of support, since there is no other international accounting certification available in the Russian language. Local accounting organizations are understandably hesitant to promote an unknown accounting certification, both because it is new and relatively unheard of and because any change in the status quo will chip away at the existing power base of the old guard.

Other Former Soviet Republics

There is evidence that interest in the CAP and CIPA exams is spreading to other former Soviet republics. Representatives from accounting associations in Armenia, Georgia and Azerbaijan have expressed an interest in joining the ICCAA, the organization that sponsors the exams. Georgia requested that the exams be given in the Georgian language but their request was rejected (Assangaliyeva 2004a). Some of the candidates who took the exam in Ukraine were from Moldova (Assangaliyeva 2004b), since Moldova did not offer the exam until recently. Since Moldova is now part of the certification program, the number of people taking the exam in Moldova will likely increase.

Three former Soviet republics that do not seem to be at all interested in the new Russian language certifications are Estonia, Latvia and Lithuania. There may be several reasons for this lack of interest. For one, only about half the population in these countries consists of ethnic Russians. When Stalin forcibly shipped trainloads of Russians to these countries in 1940 with the express aim of destroying the local cultures and "Sovietizing" these three republics, it caused a great deal of resentment that lingers to this day. As a result, a large percentage of the ethnic Estonians, Latvians and Lithuanians view Russians and anything Russian in negative terms. Thus, the attraction of a Russian language certification is generally not very strong, even though the residents of these countries are fluent in the Russian language.

Another reason for the relative lack of interest in a Russian language certification may be because these republics are among the ten new members of the European Union (EU). They are facing West rather than East and Russian is not one of the official languages of the EU. If anyone in these republics is considering earning an accounting certification, it is more likely to be a certification in one of the EU languages than in Russian.

CERTIFICATION PREPARATION COMPANIES

Various USAID (United States Agency for International Development) and EU Tacis projects have provided exam preparation training in a number of countries since the 1970s, but these providers are not entrepreneurial, nor are these facilities sustainable. When USAID or Tacis closes a project, these training facilities also close down. There has been an effort to turn over such training to various local accounting associations, but the results in this regard have been mixed. Turning over a training program to another bureaucratic organization is not the best way to carry on the work.

Interest in preparing for the various international certification exams has triggered a market response. Entrepreneurs have emerged to provide training courses for students who want help preparing for the exams. The largest entrepreneurial provider of English language accounting certification training in Russia is Hock Accountancy Training [www.hocktraining.com], which is headquartered in Moscow, with branch locations in Almaty (Kazakhstan), Kiev (Ukraine) and Hong Kong. It also offers classes in other locations, such as St. Petersburg, if demand warrants it. It offers classroom and distance learning instruction for the American CPA exam as well as the ACCA, CMA, CFM and CIA exams. It also provides materials and instruction for the Russian language ACCA Diploma in International Financial Reporting (Hock 2004).

Hock reports that 52 percent of Hock students who took the November 2003 CPA exam passed all four parts on their first attempt. This statistic is rather impressive when one considers that the exam has to be taken in English, which is the second or third language for the individuals taking the exams. But in the case of the American CPA exam there is also another factor to consider. The American CPA exam is not offered in Russia or Ukraine. It is only offered in the United States, which means that anyone in Russia, Ukraine or elsewhere who wants to take the exam must arrange to fly to the USA to take the exam. Registering for the exam must be done through the mail, complete with money transfer, which is not always easy in some parts of the CIS. The expense is also more than many potential candidates from that part of the world can afford. The pressure to pass is also quite intense, since they may not be able to make more than one trip to the USA.

Hock's CMA/CFM pass rate is about 63 percent. Its CIA pass rate, based on a much smaller sample, is about 50 percent. The CMA exam is the one that has the largest number of candidates and it also has the fastest growth rate, in terms of students enrolling in the prep courses.

Its CPA review program is composed mostly of Big-4 accounting firm employees, although there are a growing number of smaller accounting firms as well. The CMA, CFM and CIA exam students are almost entirely industry accountants or finance people. They come from Russian companies (large and small) and multi-national companies. Classes are taught by a combination of locals and expats. Almost all of their teachers are full-time Hock employees, with backgrounds in either academia or practice.

CONCLUDING COMMENTS

There is a definite need for internationally recognized certification in the CIS as well as in other parts of Central and Eastern Europe. The national certifications that presently exist are not very credible in the eyes of the international investing community. The requirements for national certification vary from country to country and international investors have neither the time nor the inclination to learn which national certifications are of sufficiently high quality to earn their trust and respect. Thus, companies in the former Soviet bloc that hire nationally certified auditors to audit their books are placing themselves at a competitive disadvantage in the worldwide capital market because of the perception that their financial statements are not credible. One way around this problem is to retain the services of a Big-4 accounting firm to conduct the audit, but this option can be expensive, since the Big-4 charge much higher fees than do national or local firms.

A high quality certification credential is needed even in cases where the goal is not to attract foreign capital. Enterprises in transition economies need help and guidance in converting their accounting systems from the old Soviet model to one that is more in tune with a market economy. The present national certification models are not attuned to this new demand. Firms need accountants and financial managers who are educated in the new system. One way to identify who these people are is through international certification that is based on IFRS. The Russian language CAP and CIPA and the various

English language accounting certifications are starting to make their mark in the financial reporting arena. However, the CAP and CIPA programs are just beginning and the English language programs are greatly constrained because only a minority of accountants know the language well enough to take and pass these exams.

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PART THREE

CORPORATE GOVERNANCE

Chapter 9

CORPORATE GOVERNANCE IN TRANSITION ECONOMIES: THE THEORY AND PRACTICE OF CORPORATE GOVERNANCE IN EASTERN EUROPE

Abstract

Corporate governance issues are especially important in transition economies, since these countries do not have the long-established financial institution infrastructure to deal with corporate governance issues. Before the fall of the Berlin Wall and the collapse of the Soviet Union, there was no need to discuss corporate governance issues because all enterprises were owned by the state and there were no shareholders. All that has changed since 1989. This paper discusses how transition economies are dealing with corporate governance issues and the extra obstacles they have to overcome due to a lack of established financial institution infrastructure. Several case studies from Eastern Europe are examined.

INTRODUCTION

Corporate governance has become an important topic in transition economies in recent years. Directors, owners and corporate managers have started to realize that there are benefits that can accrue from having a good corporate governance structure. Good corporate governance helps to increase share price and makes it easier to obtain capital. International investors are hesitant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles. Transparency, independent directors and a separate audit committee are especially important. Some international investors will not seriously consider investing in a company that does not have these things.

Several organizations have popped up in recent years to help adopt and implement good corporate governance principles. The Organisation for Economic Cooperation and Development, the World Bank, the International Finance Corporation, the U.S. Commerce and State Departments and numerous other organizations have been encouraging governments and firms in Eastern Europe to adopt and implement corporate codes of conduct and good corporate governance principles.

The Center for International Private Enterprise [2002] lists some of the main attributes of good corporate governance. These include:

- Reduction of risk
- Stimulation of performance
- Improved access to capital markets
- Enhancement of marketability of goods and services
- Improved leadership
- Demonstration of transparency and social accountability

This list is by no means exhaustive. However, it does summarize some of the most important benefits of good corporate governance. All countries, whether developed or developing face similar issues when it comes to corporate governance. However, transition economies face additional hurdles because their corporate boards lack the institutional memory and experience that boards in developed market economies have. They also have particular challenges that the more developed economies do not face to the same extent. Some of these extra challenges include:

- Establishing a rule-based (as opposed to a relationship-based) system of governance;
- Combating vested interests;
- Dismantling pyramid ownership structures that allow insiders to control and, at times, siphon off assets from publicly owned firms based on very little direct equity ownership and thus few consequences;
- Severing links such as cross shareholdings between banks and corporations;
- Establishing property rights systems that clearly and easily identify true owners even if the state is the owner; (When the state is an owner, it is important to indicate which state branch or department enjoys ownership and the accompanying rights and responsibilities.);
- De-politicizing decision-making and establishing firewalls between the government and management in corporatized companies where the state is a dominant or majority shareholder;
- Protecting and enforcing minority shareholders' rights;
- Preventing asset stripping after mass privatization;
- Finding active owners and skilled managers amid diffuse ownership structures; and
- Cultivating technical and professional know-how [CIPE 2002].

REVIEW OF THE LITERATURE

Hundreds of articles and dozens of books have been written about corporate governance in the last few years alone. One book that should be mentioned is *Corporate Governance* by Monks and Minow (2004). This book is required reading for the ACCA Diploma in Corporate Governance program. Davis Global Advisors publishes an annual *Leading Corporate Governance Indicators*, which measures corporate governance compliance using a variety of indicators.

The Cadbury Report (1992) published the findings of the Committee on Financial Aspects of Corporate Governance. The Greenbury Report (1995) discusses directors' remuneration. The Hampel Committee Report (1998) addresses some of the same issues as the Cadbury and Greenbury reports. It has separate sections on the principles of corporate governance, the role of directors, directors' remuneration, the role of shareholders, accountability and audit and issued conclusions and recommendations. The *Encyclopedia of Corporate Governance* is a good reference tool for obtaining information on corporate governance. It is available online. The OECD's *Principles of Corporate Governance* (1999) has been used as a benchmark for a number of corporate governance codes in transition economies. OECD has also published a *Survey of Corporate Governance Developments in OECD Countries* (2003). The European Corporate Governance Institute maintains many links to codes of corporate conduct for many countries on its website.

Several academic journals are devoted either exclusively or partially to corporate governance issues. The following four journals are devoted exclusively to corporate governance issues:

Corporate Governance: An International Review
Corporate Governance: International Journal of Business in Society
Journal of Management and Governance
Corporate Ownership and Control

Governance is an international monthly newsletter devoted exclusively to corporate governance issues. *Economics of Governance* also publishes articles on corporate governance, in addition to articles on governance in the nonprofit and governmental sectors.

Several websites are also devoted to corporate governance issues and contain many articles, research papers and reports on a wide variety of corporate governance issues. These include:

British Accounting Association Corporate Governance Special Interest Group
Corporate Monitoring
European Corporate Governance Institute
Global Corporate Governance Forum

International Corporate Governance Network
Organisation for Economic Cooperation and Development
World Bank

Within the field of corporate governance literature is a subfield of corporate governance in transition economies. The OECD has published a *White Paper on Corporate Governance in South Eastern Europe* (2003) that is used for guidance by enterprises in that part of the world. This *White Paper* contains sections on shareholder rights and equitable treatment, the role of stakeholders, transparency and disclosure, the responsibilities of the board, and implementation and enforcement. Much of what is contained in this *White Paper* is applicable to corporate governance in Russia as well, although the *White Paper* is not specifically addressed to Russian enterprises. The OECD and World Bank websites have numerous publications on corporate governance in other East European countries as well.

The OECD website section on corporate governance is subdivided by country. There is a link for Russia that contains studies, papers and announcements pertaining to Russia. One important paper is the OECD's *White Paper on Corporate Governance in Russia* (2002), which contains recommendations for improving corporate governance in Russia. The Russian Corporate Governance Roundtable website also contains documents and announcements pertaining to corporate governance in Russia. The International Finance Corporation, which is affiliated with the World Bank, has a Russia Corporate Governance Project. Its website provides up to date information about several aspects of corporate governance in Russia. The Global Corporate Governance Forum website provides links to more than 60 organizations that are involved in corporate governance issues.

Several Russian organizations also have websites and publication on corporate governance. The Russian Institute of Directors website contains news items and well as publications. Some of its publications and links include a *Code of Corporate Governance* (2002), several Foreign Best Practices Codes and several corporate codes of conduct. They also publish surveys and provide training for corporate directors in Russia. The Independent Directors Association also has a website that provides current information and various documents on corporate governance, mostly pertaining to directors. It also publishes a newsletter, which is available on its website. The Institute of Corporate Law and Corporate Governance also has a website that contains publications about corporate governance in Russia. One of its studies is *Managing Corporate Governance Risks in Russia* (2002). It also provides corporate governance ratings of Russian firms.

Detailed or even brief descriptions of all the papers that have been written on corporate governance in general, corporate governance in transition economies or corporate governance in Russia would take us far afield of the limited focus of the present paper. Citing the sources above is intended to give other researchers some good leads that will aid them in their own research. However, a few papers are worthy of special mention.

A rich body of literature about corporate governance in Russia has evolved and grows larger with each passing year. Judge, Naoumova and Kutzevol (2003) conducted survey research of Russian managers in December 2002 that found a negative correlation between leadership and firm performance where the same person served as CEO and board chair. This finding is especially curious given the fact that Russian federal legislation has made it illegal since 1996 for the same person to serve as both CEO and board chair at the same time. They also found that the correlation between the proportion of inside directors serving on the board and firm performance becomes increasingly negative the more vigorously a firm pursues a retrenchment strategy. But there was no significant correlation between the proportion of inside directors and firm performance when the firm was not in retrenchment mode, which seems to support the view that inside directors generally fulfill their fiduciary duties to the owners except when their jobs are threatened. Their study complements an earlier study by Wagner, Stimpert and Fubara (1998), which found that very high and very low levels of insider representation on the board had an effect on board performance, whereas moderate levels of representation did not.

Puffer and McCarthy (2003) discuss the substantial progress made in corporate governance in Russia in recent years and track the emergence of corporate governance in Russia through four stages – commercialization, privatization, nomenklatura and statization -- beginning in the mid-1980s. They place special emphasis on problems on nondisclosure and nontransparency that have made Russia one of the riskiest countries for investment. In an earlier work (2002) they examine the question of whether the Russian corporate governance model will evolve into something that looks like the U.S. model or whether it will look more like the European model. They conclude that it will evolve into something that is uniquely Russian, taking into account Russian values, culture and tradition.

Buck (2003) discusses corporate governance in Russia from a historical perspective and the hostile attitude that is taken toward Western and outside investors. He also discusses the persistently strong State influence in Russian corporate governance. Roth and Kostova (2003) tested data from 1,723 firms in 22 countries in Central and Eastern Europe and the Newly Independent States and conclude that cultural factors must be considered when explaining corporate governance in transition economies.

Filatotchev et al (2003) discuss the effect that privatization has had on corporate governance in Eastern and Central European countries. They suggest that excessive management control and ignorance of the governance process is causing problems that could be reduced by increasing the influence of outside directors. Their arguments are supported by case studies.

Peng, Buck and Filatotchev (2003) conducted a survey of 314 privatized Russian firms and tested two hypotheses of agency theory that outside directors and new managers correlate positively to firm performance. They found little support for the hypotheses, a finding that goes against much of the prior research and thinking on this relationship. Their findings question whether this issue must be viewed from other perspectives.

Robertson, Gilley and Street (2003) collected data from 112 U.S. and 74 Russian respondents and looked for patterns of ethical conduct. McCarthy and Puffer (2003) focus on large Russian companies and provide a framework for analyzing corporate governance in transition economies where the corporate governance process is still evolving. They draw on agency theory, stakeholder theory and the cultural embeddedness model in their analysis.

Muravyev (2001) challenges the view that good corporate governance does not exist in Russia and shows through an empirical study that Russian executives can be fired for poor performance. He also challenges the view that the state is a passive shareholder in Russian enterprises and presents evidence of how the ownership of a corporation influences managerial succession.

Filatotchev, Buck and Zhukov (2000) examined enterprises in Russia, Ukraine and Belarus and looked at the relationship between downsizing and outside, noninstitutional shareholding. They found that downsizing is positively correlated with outside, noninstitutional shareholding but that the firm's ability to downsize is negatively correlated with the degree of management shareholding. In other words, when management is entrenched and has a sufficiently large block of voting shares, it can block downsizing in an effort to protect jobs.

GUIDELINES FOR EMERGING ECONOMIES

Numerous articles, documents and reports have been published in recent years that provide some policy guidelines for good corporate governance. Such documents are especially valuable for transition economies, since the subject of corporate governance is new for them and even their top government and private sector leaders have little or no experience governing market oriented private firms that have a public constituency. One of the better documents in this area was published by the Institute of International Finance. Its *Policies for Corporate Governance and Transparency in Emerging Markets* [2002] provides a set of guidelines that corporate officers and directors can use when establishing or revising their own company's corporate governance rules. Here are some of the main suggestions.

Minority Shareholder Protection

The company should have a formal policy that defines voter rights and which corporate actions require shareholder approval. There should also be a mechanism that allows minority shareholders to voice their objections to majority decisions. Minority shareholders should have the legal right to vote on all important matters, including mergers and the sale of substantial assets.

Firms should be encouraged to allow proxy voting and proxy systems should be available to all shareholders, foreign and domestic.

Multiple voting classes should be eliminated where they exist. The number of nonvoting and supervoting shares should be reduced or eliminated and all new issues should have a "one share, one vote" policy.

Cumulative voting should be permitted. Shareholder approval of takeovers, mergers and buyouts should be required. Any anti-takeover measures such as poison pills, golden parachutes and issuances of bonds with special rights in the event of a takeover should have to be approved by shareholders. Spinoffs should also require a majority vote of all shareholders.

Dilution of ownership or voting rights should require a majority vote of all shareholders, at the very least. The IIF recommends a supermajority vote as a "Best Practice."

In the event of a takeover or delisting, all shareholders should be offered the same terms.

Shareholder approval should be required before a company can sell additional shares to existing majority shareholders after some threshold. Any capital increases should first be offered to any existing shareholders. Significant share buybacks should require shareholder approval.

Shareholders should be notified a sufficient time in advance of shareholder meetings. The "Best Practice" is to send a notice of the meeting and agenda at least one month prior to the meeting. Reasonable efforts should be taken to prevent vote fraud and to allow for a recount in the event an election is contested. Minority shareholders should be able to call special meetings and petition the board with some minimum share threshold.

Foreign and domestic shareholders should be treated equally. A policy should be established to clearly define who retains the right to vote when shares are traded close to the meeting date. Quorum rules should not be set too low or too high. The IIF recommends around 30 percent, which should include some independent minority shareholders.

Structure and Responsibilities of the Board

The company should define independence, disclose the biographies of board members and make a statement on independence. The IIF recommends that as a Best Practice a board member cannot (a) have been an employee of the firm in the past 3 years, (b) have a current business relationship with the firm, (c) be employed as an executive of another firm in which any of the company executives serve on that firm's compensation committee, and (d) be an immediate family member of an executive officer of the firm or any of its affiliates.

At least one-third of the board should be non-executive, a majority of whom should be independent. The Best Practice calls for a majority of independent directors.

The board should meet every quarter for large companies. The audit committee should meet every six months. Minutes of meetings should become part of the public record. The Best Practice would be to apply this rule to all companies.

The quorum requirement should be specified by the firm and should consist of executive, nonexecutive and independent nonexecutive members. Best Practice calls for representation by both executive and independent directors.

Nominations to the board should be made by a committee that is chaired by an independent nonexecutive. There should be a mechanism in place that would allow minority shareholders to put forth the names of potential directors at annual general meetings and extraordinary general meetings.

For large firms, directors should need to be re-elected every three years. The Best Practice rule would apply the three-year requirement to firms of any size.

For large companies, the compensation and nomination committees should be chaired by an independent nonexecutive director. The Best Practice would be to extend this requirement to firms of any size.

The board should formally evaluate directors before their election, in the case of large firms. The Best Practice is to extend this requirement to firms of any size.

The board should disclose immediately any information that affect the share price, including major asset sales or pledges. Procedures should be established for releasing information. Best Practice calls for releasing information on the company website at through the stock exchange.

Remuneration for all directors and senior executives should be disclosed in the annual report. All major stock option plans should be disclosed and subjected to shareholder approval.

The company's articles of association or bylaws should clearly state the responsibilities of directors and managers. This document should be accessible to all shareholders.

The chairman or CEO should publish a statement of corporate strategy in the annual report.

Any actual or potential conflict of interest involving a board member or senior executive should be disclosed. Board members should abstain from voting in cases where they have a conflict of interest. The audit or ethics committee is required to review conflict of interest situations.

The integrity of the internal control and risk management system should be a function of the audit committee, according to the Best Practice guideline.

The company should have an investor relations program. Best Practice requires the CFO or CEO to assume this responsibility as part of the job.

The company should make a policy statement concerning environmental and social responsibility issues.

Accounting and Auditing

The company should disclose which accounting principles it is using. It should comply with local practice and file consolidated annual statements where appropriate. Companies should file annual audited reports and semi-annual unaudited reports. Best Practice calls for filing quarterly unaudited reports.

Audits should be conducted by an independent public accountant. Best Practice calls for adherence to the standards developed by the International Forum on Accountancy Development.

Off balance sheet transactions (e.g. operating leases and contingent liabilities) should be disclosed.

The audit committee should issue a statement on risk factors. For large companies, the audit committee should be chaired by an independent director. Best Practice calls for the audit committee chair to be an independent director regardless of company size. The chair must have a financial background. A minimum of one week should be allocated for any committee review of an audit. Communication between the internal and external auditor should be without having executives present.

Any departures from accounting standards must be explained in the annual report.

Transparency of Ownership and Control

Best Practice calls for significant ownership (20-50%, including cross-holdings) to be deemed as control.

For buyout offers to minority shareholders, Best Practice calls for ownership exceeding 35% to be considered as triggering a buyout offer in which all shareholders are treated equally.

Companies should disclose directors' and senior executives' shareholdings and all insider dealings by directors and senior executives should be disclosed within 3 days of execution.

Best Practice calls for shareholders with minimally significant ownership (3-10%) of outstanding shared to disclose their holdings.

There should be independence between industry and government. There should be rules outlining acceptable employee and management conduct.

This Institute of International Finance document is not the only comprehensive set of guidelines on corporate governance practices. The Organization for Economic Cooperation and Development (OECD) [www.oecd.org] has several comprehensive documents as well. Private groups have also issued comprehensive guidance documents. Gregory [2000] has published a major study that compares various sets of guidelines.

Merely having rules and guidelines is not enough to ensure success, however. Culture, institutions and organizational structure also play an important role. Roth and Kostova [2003] conducted a major study of 1,723 firms in 22 countries in Central and Eastern Europe and the Newly Independent States and that a firm's adopting a new governance structure will be helped or hindered based on these factors.

CROATIA

The World Bank and International Monetary Fund (IMF) have performed a number of joint studies on corporate governance as part of their larger project on Reports on the Observance of Standards and Codes (ROSC), which are designed to strengthen the international financial architecture. One such study involved the Republic of Croatia [World Bank & IMF 2001]. Table 1 presents a summary of their findings.

<u>Code:</u>

(a) Observed means that all essential criteria are generally met without any significant deficiencies.

(b) Largely Observed means that only minor shortcomings are observed, which do not raise any questions about the authorities' ability and intent to achieve full observance within a prescribed period of time.

(c) Materially Not Observed means that, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.

(d) Not Observed means that no substantive progress toward observance has been achieved (based on the IMF criteria for ROSCs).

Table 1
Summary of Findings
Compliance with Corporate Governance Guidelines
Republic of Croatia

	Observed	Largely Observed	Materially Not Observed	Not Observed
Section I: The Rights of Shareholders				
A. Basic Shareholder Rights				
Secure methods of ownership registration		X		
Share transfer			X	
Access to information			X	
Participation and voting at annual general meeting (AGM)		X		
Election of supervisory board		X		
Share in the profit		X		
B. The Right to Participate in Decisions on Fundamental Corporate Changes				
Amendments to the statutes		X		
Authorization of additional shares			X	
Extraordinary transactions (resulting in the sale of the company)			X	
C. The Right to be Adequately Informed about, Participate and Vote in General Shareholder Meetings				
Sufficient and timely information about AGM	X			
Opportunity to ask question and place items on agenda			X	
Vote in person or in absentia		X		
D. Disclosure of Capital Structure and Arrangements Enabling Control Disproportionate to Equity Ownership		X		
E. Efficient and Transparent Functioning of Market for Corporate Control				
Clearly articulated and disclosed rules and procedures, transparent prices and fair conditions		X		
No use of anti-takeover devices to shield management from accountability		X		
Requirements to weigh costs/benefits of exercising voting rights			X	
Section II: Equitable Treatment of Shareholders				
A. Equal Treatment of Shareholders within Same Class				
Same voting rights for shareholders within each		X		

class. Ability to obtain information about voting rights attached to all classes before share acquisition. Changes in voting rights subject to shareholder approval.				
Vote by custodians or nominees in agreement with beneficial owner				X
AGM processes and procedures allow for equitable treatment. Avoidance of undue difficulties and expenses in relation to voting.			X	
B. Prohibition of Insider Trading and Self-dealing		X		
C. Disclosure by Directors and Managers of Material Interests in Transactions or Matters Affecting the Company		X		
Section III: Role of Stakeholders in Corporate Governance				
A. Respect of Legal Stakeholder Rights		X		
B. Redress for Violation of Rights			X	
C. Performance-enhancing Mechanisms for Stakeholder Participation			X	
D. Access to Relevant Information			X	
Section IV: Disclosure and Transparency				
A. Disclosure of Material Information				
Financial and operating results			X	
Company objectives			X	
Major share ownership and voting rights			X	
(Supervisory) board members, key executives and their remuneration			X	
Material foreseeable risk factors			X	
Material issues regarding employees and other stakeholders			X	
Governance structures and policies			X	
B. Preparation of Information, Audit and Disclosure in Accordance with High Standards of Accounting, Disclosure and Audit			X	
C. Annual Audit by Independent Auditor			X	
D. Channels for Disseminating Information Allow for Fair, Timely, and Cost-efficient Access to Information by Users			X	
Section V: Responsibilities of the (Supervisory) Board				
A. Act on an Informed Basis, in Good Faith, with Due Diligence and Care, in the Best Interest of the Company and Shareholders		X		
B. Fair Treatment of Each Class of		X		

Shareholders				
C. Compliance with Law and Taking into Account Shareholder Interests		X		
D. Key Functions				
Corporate strategy, risk policy, budgets, business plans, performance objectives, implementation and performance surveillance, major capital expenditures, acquisitions, divestitures			X	
Selection, monitoring, replacement of key management			X	
Key executive and (supervisory) board remuneration, (supervisory) board nomination			X	
Monitoring of conflict of interest of management, (supervisory) board members, and shareholders, including misuse of corporate assets and abuse in related party transactions			X	
Ensuring integrity of accounting and financial reporting systems, including independent audit, systems of control, compliance with law			X	
Monitoring governance practices and making necessary changes			X	
Overseeing disclosure and communication			X	
E. Objective Judgment on Corporate Affairs				
Assignment of non-executive (supervisory) board members to tasks of potential conflict of interest (e.g. financial reporting, remuneration)			X	
Devote sufficient time to their responsibilities			X	
F. Access to Accurate, Relevant and Timely Information			X	

If one were to sum up in a single sentence the state of corporate governance in Croatia based solely on this study, it could reasonably be said that corporate governance is not as bad as it could be but that there is much room for improvement. If one were to quantify the present set of data based on the frequency of each of the four categories, one would find the following frequency distribution:

Table 2
Frequency of Each Category
Compliance with Corporate Governance Principles
Republic of Croatia

	#	%
Observed	1	2.1
Largely observed	16	33.3
Materially not observed	30	62.5
Not observed	1	2.1
Totals	48	100.0%

It should be kept in mind that this study was published in September 2001, based on data that was, in some cases, already becoming stale due to the rapid changes taking place in corporate governance in Croatia. As Croatia becomes integrated into the EU, corporate governance practices are bound to improve. It is unthinkable that they would become worse with the march of time.

HUNGARY

The World Bank and the IMF have done similar joint studies on corporate governance for several other countries in Central and Eastern Europe as well as elsewhere. In 2003 they published a similar study on Hungary [World Bank & IMF 2003]. Table 3 summarizes the results of the corporate governance portion of that study.

Table 3
Summary of Findings
Compliance with Corporate Governance Guidelines
Hungary

Principle	Observed	Largely Observed	Partially Observed	Materially Not Observed	Not Observed	Comments
I. The Rights of Shareholders						
Basic shareholder rights			X			Inconsistency between law and practice in updating registry from KELER. Some voting disallowed as a result.
Rights to participate in fundamental decisions	X					Some authority for capital increases can be

						delegated to board
Shareholders Annual General Meeting (AGM) rights			X			Some reports of companies setting meetings that are difficult to attend.
Disproportionate control disclosure		X				Shareholders required to disclose at 5%+ levels; companies disclose ownership in annual reports.
Control arrangements should be allowed to function		X				Strong takeover rules with squeeze-out provisions
Cost/benefit to voting				X		Institutional investors tend to use exit over voice
II. Equitable Treatment of Shareholders						
All shareholders should be treated equally		X				Voting caps can be employed; multiple voting rights, golden shares and veto shares complicate voting rights.
Prohibit insider trading	X					Strong definitions of insiders and inside information
Board/managers disclose interests			X			Limited disclosure of related party transactions under Hungarian accounting regulation
III. Role of Stakeholders in Corporate Governance						
Stakeholder rights respected		X				1/3 of supervisory board seats reserved for employees
Redress for violation of rights		X				
Performance enhancement		X				Employees can own shares and options
Access to information		X				Based on public disclosure
IV. Disclosure and Transparency						
Disclosure standards		X				No disclosure of material risk factors
Standards of accounting			X			Most listed companies

and audit						use IAS; All companies must meet new EU standards (IAS in 2005)
Annual independent audit			X			Most listed companies use Big-4 (and International Standards on Auditing); Review/oversight body created in 2002.
Fair and timely dissemination	X					
V. Responsibilities of the Board						
Acts with due diligence, care			X			Two-tier board (one tier optional), but few active supervisory boards; supervisory role poorly defined.
Treat all shareholders fairly		X				Fair treatment principle often violated in practice; No barriers to preferential treatment.
Ensure compliance with law		X				Board required to comply with all legal requirements.
The board should fulfill certain key functions				X		Board and management nomination and remuneration left to AGM, effectively to management board; Unclear liability for nondisclosure of information.
The board should be able to exercise objective judgment			X			Two-tier board means supervisory board is non-executive
Access to information	X					Law grants access to information and special expertise.

The World Bank/IMF study for Hungary is not strictly comparable to their study of Croatia, for a number of reasons. For one, the questions asked were slightly different. Also, the categories were not identical – 4 in the Croatian study and 5 in the Hungarian study. Furthermore, the Hungarian study was conducted two years after the Croatian study, so the Hungarians had progressed further down the road to reform than the Croatians. However, some observations can be made. Table 4 shows the breakdown for each category.

Table 4
Frequency of Each Category
Compliance with Corporate Governance Principles
Hungary

	#	%
Observed	4	17.4
Largely observed	10	43.5
Partially observed	7	30.4
Materially not observed	2	8.7
Not observed	0	0.0
Totals	23	100.0%

As can be seen, more than 60 percent of the items fall into one of the top two categories and none fall into the lowest category. Of course, by developed market economy standards, there is much room for improvement. But if we are to compare Table 2 results to those of Table 4, we could say that Hungary in 2003 was doing better, in terms of compliance with corporate governance principles, than was Croatia in 2001.

RUSSIA

The Russian portion of this study included interviews with experts in the field. Interviews with the following organizations were conducted:

Deloitte & Touche, Moscow office [www.deloitte.ru]
KPMG, Moscow office [www.kpmg.ru]
KPMG, St. Petersburg office [www.kpmg.ru]
PricewaterhouseCoopers, Moscow office [www.pwcglobal.com/ru]
Ajour, a Russian auditing and consulting firm, Moscow [www.ajour.ru]
PKF (MKD), a Russian audit and consulting firm, St. Petersburg office [www.mcd-pkf.com]
Independent Directors Association, Moscow [www.independentdirector.ru]

This portion of the paper incorporates the information gathered during those interviews. The information gathered from these interviews was combined with information that was already published and available. While much of the information gathered during the course of the interviews confirmed what the existing literature already said, much new information was gathered that filled in the gaps in the existing literature and extended and updated prior studies in several important ways.

Corporate Governance Activity in Russia

Corporate governance is in its formative stages in Russia. Like other economies transitioning from a centrally planned economy to a market economy, Russia is going through rapid changes. Transparency in financial reporting is a relatively new concept. The Russian culture and mentality feel more comfortable with secrecy and prefer not to disclose anything they do not have to disclose.

A survey conducted by PricewaterhouseCoopers of transparency in 35 countries ranked Russia number 34, just ahead of China (Haigh 2001). With such a lack of transparency it is little wonder why Russian firms find it so difficult to raise foreign capital. Russia is attempting to overcome this problem by instituting good corporate governance principles such as the appointment of independent directors, establishing audit committees and insisting on more financial disclosure.

Change in the Russian attitude toward transparency and full disclosure is taking place mostly because of the need for foreign capital. Foreign investors hesitate to invest in a company that does not disclose all important financial information. Russian companies found they had to compete for capital in international financial markets and that was the impetus for change.

Some major changes have already taken place, although there is still much work to do. A few private sector organizations have been formed to assist Russian companies upgrade their corporate governance structure to meet international standards. The Russian Institute of Directors and the Independent Directors Association are both engaged in educating Russian directors and monitoring Russian corporations. The International Finance Corporation (IFC), a World Bank funded organization, is devoting substantial resources into its Russia Corporate Governance Project. The Organisation for Economic Cooperation and Development is sponsoring conferences, publishing White Papers and conducting research to help Russian companies upgrade their corporate structures as well. The United States Agency for International Development (USAID) and other organizations have also supported corporate governance initiatives. The International Trade Administration and the IFC developed a charter of basic principles.

Each of the Big-4 accounting firms – Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers -- are also actively engaged in educating corporate directors and top management about the need for good corporate governance. The education process is part of their regular client service. All four firms have newsletters or other kind of educational documents that they distribute to their clients to educate them and keep them up to date on various accounting and corporate governance issues.

The Independent Directors Association (IDA) was formed in 1998, shortly after Russia's financial default. Its stated mission is to establish a community of independent directors. Foreign and Russian investors who used intermediaries to buy shares found their property was disappearing. Brokers and dealers had to do something but they didn't know what to do. One option was to sue, using the class action approach but this option did not exist in Russia. Also, lawsuits are not an efficient way of recovering property in Russia. The Independent Directors Association was developed as a vehicle to protect investors. It is a coordination center.

IDA pushed for the election of independent directors to represent minority shareholders. It advocated unanimous voting on corporate boards so that even one dissenting vote could prevent a measure from passing. The large Russian corporations balked at this provision, since they thought such a provision would result in having their corporation run by minority shareholders. Gasprom, a state owned monopoly, was especially vigorous in its opposition to this provision.

The IDA has also been pushing for Russian corporate boards to have subcommittees to perform various functions. Having subcommittees like a compensation committee or an audit committee is a new concept for many Russian companies but one they are not opposed to. The IDA has been pushing to have the audit committee composed exclusively of independent directors. There is some external pressure for Russian companies to have independent directors, especially on the audit committee. The New York Stock Exchange has given nonresident companies two years to comply with NYSE rules as a condition of having their stock listed on its exchange. One of its requirements is to have independent directors on the audit committee. One important factor investors look at when determining whether to invest in a Russian company is whether the company has independent directors. If it does not, the company is much less attractive as a potential investment.

As a coordination vehicle, the IDA acts as a facilitator. It brings interested parties together and disseminates information. At the time of the interview, it had 30 investment banks and hedge funds as members. As of September 2003 it opened up membership to corporations as well. It also has contacts with each of the Big-4 accounting firms as well as smaller accounting firms and representatives of the various Russian stock exchanges. It has also formed a relationship with the National Association of Corporate Directors in the United States. The IDA also gives awards each year for the company with the best financial statements. The award looks at disclosure and transparency, not the bottom line or financial ratios.

The New York Stock Exchange and the London exchange are the two main targets for Russian companies in need of foreign capital. The IDA has established a relationship with both of these exchanges as well as Standard & Poors. Whether Russian companies issue financial statements using U.S. Generally Accepted Accounting Principles (GAAP) or International Accounting Standards (IAS) depends on which of the two exchanges they are targeting. Companies that want to raise capital in the United States tend to prepare GAAP statements, whereas those that want to raise capital in London tend to issue IAS statements.

In the last few years there has been a shift away from GAAP statements toward IAS statements. The reason given in the interviews was that in a post-Enron world, U.S. accounting standards are seen as being of lower quality or less reliability than International Accounting Standards. Since the Russian Finance Ministry has ordered Russian companies to adopt IAS effective January 1, 2004 (one year before the EU), this trend away from GAAP statements is likely to continue. However, GAAP statements may not disappear altogether from Russian company financial reports. Russian companies that are affiliates of a U.S. company is still likely to prepare financial statements based on U.S. GAAP, since it is more likely to try to raise capital at one of the New York stock exchanges than the London exchange.

Standard & Poor's initiated a pilot project out of its London office to measure the extent to which Russian companies complied with certain corporate governance attributes. It chose five Russian companies and scored them based on a variety of factors. The four key components the S&P study scored were:

- Ownership structure;
- Relations with shareholders and shareholder rights provisions;
- Financial transparency and information disclosure; and
- The structure of the board of directors. (Feinberg 2000)

It used the following 16 corporate governance criteria to arrive at the scores for each company:

1. Ownership structure and influence;
2. Transparency of ownership;
3. Concentration and influence of ownership;
4. Financial stakeholder relations;
5. Regularity of, ease of, access to, and information on shareholder meetings;
6. Voting and shareholder meeting procedures;
7. Ownership rights (registration and transferability, equality of ownership rights);
8. Financial transparency and information disclosure;
9. Type of public disclosure standards adopted;
10. Timing of, and access to, public disclosure;
11. Independence and standing of auditor;
12. Board and management structure and process;
13. Board structure and composition;
14. Role and effectiveness of board;
15. Role and independence of outside directors; and
16. Board and executive compensation, evaluation and succession policies. (Anon. 2000/2001)

The Standard and Poor's study came about partly because of the McKinsey & Co. Investor Opinion Study of June 2000, which concluded that:

> "Three quarters of investors say board practices are at least as important to them as financial performance when they are evaluating companies for investment, especially in emerging markets ... Over 80% of investors say they would be prepared to pay more for the shares of well-governed companies than those of poorly governed companies." (Anon. 2000/2001)

The methodology it used could also be applied to companies in other countries, making it possible to compare a Russian company to a company in a developed market economy. The pilot project proved to be so successful that S&P plans to expand it to rate companies worldwide based on their adherence to corporate governance principles.

Weaknesses in Corporate Governance

Russia has a well earned reputation for poor corporate governance. As of 2001, the largest Russian companies still hid their assets and cash flow from minority shareholders. Gazprom, Russia's largest company, ignores the legal requirement of an independent audit. Lukoil, Russia's largest oil company, routinely issues its financial statements months beyond promised deadlines, and when it finally did issue some financial statements, they were unaudited statements covering just a six-month period rather than the full year statements that investors were expecting. (Anon. 2001a).

Various private groups have issued codes of corporate governance that set out principles to be followed by boards and corporate officers. These codes provide guidance and attempt to raise the ethical quality of Russian executives to that of Western company executives. The Russian Duma has passed laws tightening up corporate governance requirements. But laws and voluntary (or even mandatory) codes of corporate conduct are not enough. Merely making rules and laws will not necessarily result in good actions by board members. Rules are useless without ethics. One of the positive aspects of the Code of Corporate Conduct that was prepared under the direction of the Federal Commission for the Securities Market (FCSM) is that ethics are stressed. The Code is imbued with ethics (Metzger et al. 2002).

Merely passing laws is not enough, either. A study by Pistor, Raiser and Gelfer (2000) concluded that the effectiveness of legal institutions is much more important than having good laws on the books. Transplanting Western laws into transition economies and having extensive legal reforms are not sufficient to strengthen corporate governance, although such things are necessary. Even passing Russian laws is not always effective at changing corporate governance practices. Judge, Naoumova and Kutzevol (2003) point out that a number of Russian companies have the same person installed as board chair and CEO, a practice that has been illegal in Russia since 1996.

However, there is some evidence that good practices are taking hold in Russian corporations. A study by Muravyev (2001) found that it is possible to get rid of ineffective managers. His study examined 419 medium-size and large Russian enterprises having between 100 and 5,000 employees in six manufacturing industries. He looked at the replacement of general directors over an 18-month period. His study found that about 18 percent of top management was replaced during the period and that about 40 percent of all new directors were outsiders. About 65 percent of them were fired for poor performance while 35 percent left for other reasons. Table 5 shows top executive turnover for the period under study.

Table 5
Top Executive Turnover in Sampled Companies
January 1999 – May 2000

	Number of Firms	%
Total responses	413	100
Did not change general director	337	82
Changed general director	76	18
Changed general director for outsider	30	7
Changed general director for insider	46	11

Source: Muravyev (2001)

Muravyev (2001) also found that the ownership structure strongly influences management turnover. As might be expected, turnover is less in firms where insiders have a controlling interest. Table 6 shows the relationship of insider ownership to management turnover.

Table 6
Insider Ownership and Replacement of General Directors
(end-1999)

Insider Share %	Number of Firms	Firms Changing General Director	% of Total Firms
From 0 to 25	68	23	34
From 25 to 50	79	25	32
From 50 to 75	62	9	15
From 75 to 100	153	11	7
Total	362	68	19

Source: Muravyev (2001)

Muravyev (2001) also found that managers tended to be replaced more frequently at weaker performing firms and that there was a higher probability of replacement where outsider had more influence. He concludes that corporate governance of large and medium-size firms is not completely inefficient in Russia.

Filatotchev, Buck and Zhukov (2000) conducted a study that supports some of the Muravyev findings. They found a positive correlation between the proportion of outside shareholding and the ability to downsize and found that the ability to downsize was reduced as the percentage of shares owned by insiders increased, a finding that is consistent with the management entrenchment theory.

Protecting Shareholders

Shareholders in every country are in need of protection, but especially so in Russia and other transition economies that have not yet established a strong rule of law and corporate legal principles that protect shareholders, especially minority shareholders. Until a few years ago, minority shareholders were not only totally ignored but actually abused by the Russian companies they owned shares in. It was a common practice for Russian companies to manipulate shareholder registries or even erase their names from the corporate registry (Metzger et al. 2002) and funnel money into an intricate web of shell companies, thus depriving minority shareholders of cash flow. Management would sell off assets to entities they controlled indirectly, depriving minority shareholders of value (Iskyan 2002). Such practices became less severe after the Russian Duma enacted legislation to protect minority shareholders, but it would be premature to say that such practices have stopped altogether. The rule of law is still weak in Russia. It is difficult to protect property rights in a country where property rights did not exist for three generations.

The Independent Director Code

As was previously mentioned, a number of corporate governance codes have been developed in the last few years, both by international organizations and by Russian organizations. The Independent Director Code is one of them. This code was developed by the Independent Directors Association jointly with the Russian Institute of Directors in partnership with Moscow Interbank Currency Exchange, the International Finance Corporation and the Good Governance Program of the International Trade Administration of the U.S. Department of Commerce.

Russian Code of Corporate Conduct

The Russian Institute of Directors (RID] issued the final version of its Corporate Governance Code in April 2002. Although Russian law deals with many aspects of corporate governance, the laws that are on the books were considered to be inadequate to deal with certain issues that are not of a legal nature. Furthermore, it was recognized that the law should not try to address all issues relating to corporate governance, since some things legitimately lie outside of the law, such as private contract and management issues. Also, the legal system is not designed to respond to rapidly changing conditions. Thus, the need was felt for a corporate governance code to provide the needed guidance.

The Code contains a list of recommendations for best practices and incorporates many of the recommendations included in various OECD publications. Chapter 1 states that corporate governance should be based on respect for the rights and lawful interests of all participants and mentions trust as a primary ingredient of good corporate management. In the past, shareholders at some Russian companies have found it difficult or impossible to exercise their rights. The Code states that shareholders should be provided with the means of registering their shares and they should also be given the opportunity to quickly dispose of them. Shareholders should be notified of shareholder meetings and should be able to attend. They should be able to easily vote their shares. Sec. 1.4 states that shareholders should have the right to receive regular and timely information about the company. This can be accomplished by:

- providing shareholders with comprehensive information on each item of the agenda in preparation for a general shareholders meeting;
- providing information that is sufficient for evaluating the results of operations, such as an annual report; and
- establishing the position of corporate secretary, whose job it will be to ensure that shareholders have access to information about the company.

Such provisions may seem bland and obvious to readers from developed market economies, but the reason why such provisions were included in the very first chapter of the Code was because of the widespread abuse of shareholders in regard to exercising shareholder rights and having access to corporate information.

Chapter 2 addresses the rules and procedures that should exist regarding the general shareholders meeting. Procedures for holding a shareholders meeting must be put in place and shareholders must be treated fairly and given the opportunity to participate in such meetings. At least 30 days notice should be given before every meeting, even though the law requires that only 20 days notice be given. The notice should contain sufficient information to allow shareholders to make informed decisions regarding the issues and to decide whether, and to what extent they shall participate. Agenda items should be stated clearly so that there is no misinterpretation as to their meaning. Meetings should be held at times and places that are convenient for shareholders. There are rules about quorums and what to do if a company has a large number of small shareholders.

Chapter 3 addresses issues relating to the duties of the board of directors. The Board is supposed to provide efficient supervision of the company's financial and business operations, safeguard and protect the rights of shareholders and help resolve corporate conflicts. There are three categories of director – executive, non-executive and independent. An independent director is one who:

- has not been an officer or employee of the corporation for at least three years;
- is not an officer of another company in which any company officer is a member of the appointments and remuneration committee of the board;
- is not affiliated with the company's managing organization;
- is not bound by certain contractual obligations with the company;
- is not a major business partner of the company; and
- is not a representative of the government.

There are also provisions prohibiting the gainful use of insider information, provisions discussing the duties of the audit committee and the ethics committee and the liability of board members.

Chapter 4 discusses executive bodies of the company, which are charged with managing the company's current affairs, making them responsible for attaining the company's objectives and goals and implementing the company's strategies and policies. Chapter 5 outlines the duties and responsibilities of the corporate secretary. The secretary is responsible for preparing and holding the shareholders' meeting as well as for a wide range of other activities involving shareholders.

Chapter 6 is about major corporate actions that result in fundamental corporate changes, such as a change in the rights of shareholders, reorganizations, acquisitions and liquidation. Chapter 7 addresses issues relating to disclosure about the company. The enterprise's policy should guarantee low cost and unhampered access to information. A great deal is said about the forms that disclosure should take. There are discussions about the information that should be included in the annual and quarterly reports and about the necessity to disclose all relevant information to shareholders in a timely manner. The annual report should include:

- the company's position in the industry;
- attainment of the firm's strategic objectives;
- annual results, both actual and planned;
- prospects for the company's development, which includes discussions of sales, productivity, market share, income generation, profitability and the debt/equity ratio;
- major risk factors;
- relations with competitors; and
- review of the company's most significant transactions during the prior year.

Chapter 8 discusses supervision of company's financial and business operations. There are sections on the organization of activity of the audit committee, the actual audit and the need for an independent, certified audit. Chapter 9 discusses dividends and dividend policy and suggests that the company implement a transparent and easily understood mechanism for determining the amount of dividends to be paid and the payment strategy. Chapter 10 discusses the resolution of corporate conflicts.

The interviews revealed that corporate codes of conduct are becoming increasingly popular. One might think that adopting a corporate code of conduct would be a major positive step, which it well may be. However, the interviews also revealed that many corporations either do not have a corporate code of conduct or, if they do have one, tend to ignore it. Adopting such codes is sometimes seen as a public relations gimmick, something to be brought out and displayed to the financial community, but not something that can be referred to and used to manage or guide the corporation. If this is true, it means that much must be done before substantive change can be achieved.

Corporate Governance Survey

In September 2003 the Russian Institute of Directors (RID 2003) published the results of a survey conducted by the Federal Commission for the Securities Market of the Russian Federation (FCSM), the Institute of the Securities Market and Management (ISMM), and the Tacis project, "Capital Market Investment Advisory Services" (INVAS). The survey consisted of a questionnaire returned by more than 60 of Russia's largest joint stock companies. A number of interesting facts were uncovered.

Most corporate boards in developed market economies have subcommittees that are assigned certain tasks. Some of the most common board subcommittees are for audit, nominations and remuneration. The survey found that Russian companies still do not have such subcommittees, as a general rule. Only one Russian company has a permanent committee on strategic development, for example.

The large Russian firms have an acceptable mix of executive directors and non-executive directors, many of which are truly independent directors. The ratio of executive to external directors was about 30:70, which is in line with the Russian Federation law on joint stock companies as well as with western best practices recommendations. More than half of the companies (52%) have independent directors on the board. The ratio of dependent to independent directors is about 80:20. Independent directors account for less than 30% of all external directors. Most codes of best practices call for a majority of external directors to be independent, which means that the concept of having a strong representation of independent directors has not yet taken root in Russia's corporate mentality.

Assessing board and management effectiveness should be part of every company's policy. Yet less than 2 percent of the large Russian corporations have any formal process for assessing board effectiveness. About 11 percent of the companies have developed a process but have not yet implemented it, while 87 percent have no formal assessment procedures at all. Interestingly enough, the vast majority of the companies that responded to the survey regard their corporate governance as good (81%) to excellent (11%).

More than three out of four corporate boards have between 6 and 10 members. Table 7 shows the breakdown by size.

Table 7
Size of Corporate Boards

Members	%
1 to 5	4
6 to 10	77
11 to 15	15
16 or more	4

More than two out of three board members devote between one and five days a month to board activities. Table 8 shows the breakdown in terms of time spent on board activities.

Table 8
Time Spent on Board Activities

Days per Month	%
1 to 5	68
6 to 10	26
11 to 15	0
More than 15	6

An important function of every corporate board is strategic planning. Although top management also plays a role, it is important for the board to also be involved in strategic planning. The survey found that all boards are involved in strategic planning, although some boards play a more active role than others. Table 9 provides a summary on the degree of board involvement in strategic planning.

Table 9
Board Involvement in Strategic Planning

	%
Board members take an active part in development of the company strategy; plan strategy is officially approved by the board.	36
Board initiates and manages development of plan and strategy and officially approves	33
Board contributes to strategy development during discussions at meetings and formally approves it.	16
The plan is developed by the management; board approves it.	15
Board is not involved in the development of the plan; it participates in consultations on ad-hoc basis.	0

Risk management is not something that corporations are overly concerned with, according to the survey. Only 11 percent of the boards take part in the development of risk management policy. In the vast majority of cases it lets management take care of this responsibility. Table 10 shows the amount of board involvement in risk management. For some unexplained reason the sum is more than 100 percent.

Table 10
Board Involvement in Risk Management

	%
Board takes part in development of risk management policy	11
Board contributes to development of risk management policy by discussing risk issues at one or several meetings.	28
Basic approaches to risk management are developed by company management; the board formally approves them.	11
Board is not formally involved in risk management policy development; board takes part in consultations on ad-hoc questions.	51

Disclosure remains a big problem for Russian companies. There is a tendency not to disclose information, for a variety of reasons. During Soviet times, disclosure was minimal because there was no one to disclose anything to and all enterprises were owned by the state. Also, government and government officials were distrusted and government employees preferred not to disclose any more information than what the government bureaucracy demanded. With the advent of the market economy after three generations of communist rule, secrecy is deeply imbedded into the Russian mentality. Also, Russian managers are afraid that disclosing anything about the business with increase their taxes or provide their competitors with information they can use to reduce their company's market share. Not surprisingly, the survey showed that most corporate boards do not show much of a predisposition for disclosing corporate information, in spite of pressure from the OECD, various corporate codes and other organizations to provide more disclosure. Table 11 provides some details regarding disclosure involvement by corporate boards.

Table 11
Board Role in Overseeing Disclosure and Communications

	%
Board assists regular contacts with shareholders and other concerned parties	13
Board approves all press releases and other official statements on most important issues	2
Board provides general control of information disclosures and communication with shareholders	44
Board discusses related ad-hoc issues	27
Board formally approves information policy, which is developed and implemented by the company	15

Companies were asked some questions about director compensation. Director compensation is a sensitive issue in Russia, so the questionnaire did not ask specific questions about level of compensation, but it did ask about the various forms of compensation board members receive. Table 12 shows the results of the survey.

Table 12
Forms of Director Compensation

Forms of Compensation	%
Compensation of expenses related to fulfilling director functions	53
Fixed compensation	58
Bonuses	9
Participation in profits	9
Stock options	0
Other	12

It is interesting that stock options are not used to compensate directors at any of the large Russian enterprises that responded to the survey. Stock options are a common form of compensation in western firms. Compensation for executives followed a similar pattern, with no firms using stock options as a form of compensation. Table 13 shows the breakdown of executive compensation by category.

Table 13
Forms of Executive Compensation

Forms of Compensation	%
Fixed compensation (salary)	71
Bonuses	66
Participation in profits	13
Stock options	0
Other	5

Participants were asked to assign scores to a series of questions involving problems of corporate board activity. Scores ranged from 1 to 5, with 5 being the most important Table 14 shows the average scores for each category.

Table 14
Most Important Problems in Board Activities

	Average Score
Effective participation of board in corporate strategy development	4.1
Effective control of board over the strategy implementation	4.0
Establishing relations with shareholders, investors and authorities	3.9
Effective control over the activities of the executive body	3.7
Provision of integrity of accounting and financial reporting systems	3.5
Effective management recruitment policy provisions	3.4
Provision of effective board member nominating policy	3.3
Development and provision of an effective internal control system	3.2
Introduction of effective senior management compensation policy	3.2
Provision of external auditor independence	3.1
Provision of law maintenance	3.1
Increase effectiveness of the current board staff	3.1
Development of an effective risk monitoring and management system	3.0
Provision of an effective information disclosure system	3.0
Carrying out regular senior management evaluation procedures	3.0
Introduction of effective board members compensation policy	2.8
Carrying out regular board activity evaluation procedures	2.8

The most important problem according to the respondents was to have effective board participation in the development of corporate strategy. Of almost equal importance was the effective control of the board over strategy implementation. Establishing relations with shareholders, investors and authorities was also very important. Among the least important problems were introducing an effective board member compensation policy and carrying out regular board activity evaluation procedures.

Respondents were also asked to assess the importance of various skills that are essential for board member effectiveness. The most important skill was strategic planning, followed by decision making methods and procedures, corporate law, negotiation skills, financial analysis, business planning and business plan evaluation, investor relations and company restructuring. Table 15 shows the breakdown ranked by importance.

Table 15
Importance of Various Skills

	Average Score
Strategic planning	4.7
Decision making methods and procedures	4.3
Corporate law	4.3
Negotiation skills	4.3
Financial analysis	4.3
Company restructuring	4.2
Investor relations	4.2
Business planning and business plan evaluation	4.2
Conflict management	4.1
Risk management	4.0
Marketing	4.0
Board activity management	3.9
Top management recruitment strategies	3.9
Macroeconomic analysis	3.9
Project management	3.9
Personnel motivation	3.8
Board relations and corporate ethics	3.7
Mergers and acquisitions	3.7
Public relations	3.5

Board and executive management effectiveness is a very important element of good corporate governance. Companies should have detailed procedures to determine the extent of management and board effectiveness. The survey revealed that the vast majority of companies do not have any formal procedures to evaluate effectiveness. Table 16 provides a summary of company policies in this regard by category for board effectiveness. Table 17 does the same thing for management effectiveness.

Table 16
Assessment of Board Effectiveness

	%
The company has assessment criteria, employs formal assessment procedures of board member activities	2
The company has developed (or is developing) board activity assessment procedures but they are not employed	11
The company has no formal procedures	87

Table 17
Assessment of Management Effectiveness

	%
The company has assessment criteria, employs formal assessment procedures of top management activities	26
The company has developed (or is developing) top management activity assessment procedures but they are not employed	12
The company has no formal procedures	62

Interestingly enough, the vast majority of respondents think they have good to excellent corporate governance. Table 18 shows the breakdown by category.

Table 18
Self-Assessment of Own Corporate Governance Practices by Companies

	%
Excellent	11
Good in general but needs improvement	81
Unsatisfactory	4
Difficult to say	4

Obviously, the perception of the Russian respondents is different than the perception of observers from developed market economies. Whereas observers from developed market economies would be quick to say that there is much room for improvement, or even that Russian corporate governance is in a state of crisis, the Russians themselves do not see that corporate governance for their company poses much of a problem. Perhaps that is a good thing, since seeing their corporation through the eyes of someone from the west might make them depressed. But on the other hand, if there is a widespread perception that only minor changes need to be made to their corporation's corporate governance structure, it is quite possible that progress will be slow because they see the situation as not requiring emergency assistance.

Having said that, it should also be mentioned that all of the respondents thought that corporate governance needs to be improved in Russia. Table 19 gives the statistical breakdown.

Table 19
Necessity of Improving
Corporate Governance in Russia

	%
Vitally important	80
Important	20
Not important	0

CONCLUDING COMMENTS

The evidence clearly shows that much work still needs to be done in the area of corporate governance in Central and Eastern Europe. However, corporate governance standards are improving and it is expected that the trend will continue, especially in the countries that are becoming integrated into the EU. The EU integration process will serve as a source of constant and steady pressure to improve corporate governance. Even for those countries that are not yet being integrated into the EU will continue to experience pressure to reform their corporate governance practices, not from EU pressure directly, but rather from competition with the EU and elsewhere for foreign direct investment.

Russia presents a special case, but not a case that is all that much different from those of other transition economies. Russian financial statements still suffer from a lack of transparency. It is difficult to overcome generations of Russian culture and the Russian mentality, which prefers secrecy to disclosure. But the trend is toward more transparency, more independent directors and financial statements that have a degree of international credibility.

Poor corporate governance policies cause the shares of Russian firms to sell for $54 billion less than they would if their companies had good corporate governance policies, according to James Fenkner of Troika Dialog, Russia's largest brokerage firm (Anon. 2001a). Bernard Black, using data from Troika, conducted a study to determine whether corporate governance matters, in terms of share price. He found that it made a huge difference (Black 2001). Likewise, Russian companies that improved their corporate governance practices by adopting and implementing the Corporate Governance Code saw their share prices increase (Miller 2002).

However, much still needs to be done. It is difficult to superimpose a corporate code of conduct on the Russian culture, especially if the code is drawn up by foreigners. Codes of conduct and the corporate governance policies they espouse will only take a firm hold in Russia when a significant number of Russian directors and managers actually believe that having and utilizing such codes is the right thing to do. The survey showed that Russian companies are on the right track, although much remains to be done.

What has been said of Russia could also be said about the other countries of Eastern Europe to a greater or lesser extent. Countries that are in the transition process from central planning to a market economy all face the same problems but they each have their own approach to solving the problems they encounter.

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PART FOUR

TAXATION & PUBLIC FINANCE

Chapter 10

A COMPARATIVE STUDY OF TAXATION IN RUSSIA AND OTHER CIS, EAST EUROPEAN AND OECD COUNTRIES

Abstract

This chapter discusses the current state of taxation and public finance in the Russian Federation and compares some aspects of Russian public finance to other CIS and Eastern European countries and to selected OECD countries. The chapter begins with a discussion of the present tax system and structure in Russia, then places the Russian system in perspective by comparing certain aspects of the Russian system to those of other countries. Comparisons of tax burden as a percentage of GDP are made with other former Soviet republics as well as selected OECD countries. A ranking is done to determine where Russia fits on a relative scale. Percentage breakdowns are also given by major tax category. Several comparisons are also made using the Tax Misery Index statistics. Interestingly, Russia does not fare too badly compared to some other countries in terms of tax burden and tax misery, although there is room for improvement.

TAXATION IN RUSSIA

Introduction

Collecting revenue needed to pay for state functions was relatively easy under the old Soviet regime. The government owned everything and it was able to collect from its various production units. In the old days more than 90 percent of state budget revenues were collected from state enterprises (Easter 2002: n.9, citing Tolkushkin, 2001). The turnover tax and the profits tax on state enterprises were the two main sources of revenue. During the later stages of the Soviet regime the amount of revenue extracted from state enterprise profit taxes declined, so much so that the Soviet government had to increase the turnover tax to compensate for the shortfall in enterprise taxes. When that strategy failed, the government resorted to borrowing to pay government expenses, which led to an inflationary spiral (Easter 2003).

This whole system changed when Russia started shifting away from a centrally planned economy and toward a decentralized market economy. A whole new infrastructure had to be built from scratch and developed into an efficient tax collecting machine. The present Russian system started its evolutionary (or revolutionary) process in 1991, when the first tax reforms were introduced. Tax reforms continue to be introduced. In fact, so many tax reform initiatives and suggestions have been introduced in recent years that it has caused a degree on instability. Taxpayers and investors like to know what the rules of the game are, and they do not like the rules to change often (McGee 2004). Thus, introducing frequent changes into the system destabilizes it. That is what happened in Russia in the early stages of the conversion process from a centrally planned economy to a market economy. As the Russian tax system matures and evolves it is expected that the rate or frequency of change will decline. That will be good news for investors and businesses, since the degree of instability and uncertainty will be reduced.

In the early days, four distinct philosophical groups emerged within the Russian government and in the private sector. They all wanted to influence tax policy and they wanted to influence it in different ways. Similar groups or factions exist in developed market economies as well, to varying degrees.

One group took a liberal market position. They wanted the tax system to stimulate economic growth. A second group, representing the interests of the post-communist industrial and financial elite, wanted the tax system to actively promote industrial development. They differed from the first group, in that they were interventionist in their thinking, whereas the first group favored a more hands-off policy.

The third group could be labeled fiscal federalists. They represented the interests of the regions and viewed the tax system as a means to increase regional political autonomy and power. The fourth group could be labeled fiscal populists. This group consisted mostly of left-wing political parties that had their base in the legislature. They viewed tax policy as a tool for redistribution of wealth and advocated high tax rates for the large existing corporations as well as on the emerging private sector (Easter 2003). Enthoven et al. (1998) state that the first group, the liberals, the group that favors economic growth, has the upper hand, although they also say that the growth policy advocated by the liberals would allow Russia to begin an industrial policy program, which better describes the second group.

None of these approaches to tax policy are new. They have all been discussed extensively in the literature by numerous authors over the years, including Bird (1992), Breton (1998), Buchanan (1967), Buchanan and Flowers (1975), Cullis and Jones (1998), McGee (2004, 1993) and Musgrave (1976, 1959).

In late 1991, the Russian government began its shock program of tax reform. It more or less modeled its new tax system after the advanced tax systems of the developed economies. It scrapped its turnover tax and replaced it with a value added tax (VAT). It instituted excise taxes on business and income taxes on individuals while retaining the profits tax on enterprises (Easter 2003).

Tax Rates

Tax rates in Russia change so frequently that it is difficult to keep up to date. The Russian government knows this, and is trying to address this issue by having less frequent changes. The tax rates in Table 1 are based on the most current information the authors were able to find and were taken from several sources (KPMG 2003; PricewaterhouseCoopers, n.d.; Ernst & Young, 2003).

Table 1
Tax Rates in Russia

Profits Tax	24% maximum (was 35%), allocated 5% to the federal budget, 17% to the regional budget and 2% to the local budget.
VAT	18% (2004); 20% (2003). A 10% rate applies to certain items such as books, periodicals, medical goods, children's clothes and food.
Unified Social (Payroll) Tax	Regressive scale from 35.6% down to 2% assessed to the employer. Assessed for the Pension Fund, the Social Insurance Fund and the Medical Insurance Fund.
Individual Income Tax	13% flat tax for residents; 30% for non-residents.
Import Duties	20-30%
Property Tax	Assessed by regions on tangibles, intangibles, inventory and prepaid expenses. . Cannot exceed 2% of the taxable base.
Sales Tax	Local tax, not to exceed 5%.
Tax on use of words "Russia," "Russian Federation"	Russian firms that use these words or derivatives of these words as part of their names generally pay a tax equal to 0.5% of gross sales.

The tendency in the past has been to look at the form of a transaction rather than the substance, which has led to a great deal of tax abuse (or planning opportunities, depending on whether you are a tax official or a taxpayer). The trend is now shifting more toward substance rather than form (PricewaterhouseCoopers, n.d.).

It is surprising to many commentators that Russia and several other former Soviet republics and East European countries have adopted a flat tax, since the United States has been trying to adopt such a tax for several decades, so far unsuccessfully. Alvin Rabushka, one of the leading advocates of the flat tax in the United States (Rabushka and Ryan, 1982; Hall and Rabushka, 1985), has written several articles praising this Russian move, and hoping that the United States will finally catch on and adopt the Russian tax system (Rabushka, 2002a, b, c). Steve Forbes (2003) points out that Russia, Estonia, Latvia, Slovakia and Ukraine have adopted the flat tax, and says it is about time the United States does so, too. Advocates of the flat tax see it as eliminating much of the complication of the present tax code while creating incentives that spur economic growth. Opponents of the flat tax concept want a progressive system that would place a heavier burden on the rich, who supposedly have more ability to pay (McCaffery 2002). Opponents of the ability to pay concept see soak the rich schemes as a negative sum game from the utilitarian perspective (Blum and Kalven, 1953) as well as an unfair punishment for the most productive people in society (de Jouvenel 1952, 1990).

Collection

Changing from a centrally planned system, where the government owns everything, to a market economy, where power and economic resources are dispersed, creates transition problems in many areas, and collecting tax revenue is one of them. There was basically no infrastructure in place to deal with revenue collection in the private sector because there was no private sector, so a collection mechanism had to be put in place, tweaked as the finance ministry moved down the learning curve and refined as conditions changed. One especially interesting change involved the attempt to computerize the tax system and use bar codes to make tax returns machine readable. Such an idea seems perfectly reasonable to a technocrat or bureaucrat and was not expected to meet with any opposition. But such was not the case.

Portions of the Russian Orthodox Church objected. A large segment of the Russian population (as well as the populations of many other countries) regards the national tax collection agency as a kind of Antichrist to begin with. But trying to incorporate bar codes into the tax collection system was too much for some Russian Orthodox members to take.

Their opposition stems from the Bible's Book of Revelations, which states that, as the end of the world draws near, "the Beast" will force people to have a mark placed on their foreheads and right hands. Those who do not have the beast's mark will not be able to buy or sell. The Beast's number in the Book of Revelations is 666, which is similar to the stripes of binary code at the beginning, middle and end of bar codes (Anon. 2001a). This similarity has been noticed by Christian fundamentalists in the United States as well, who are actively attacking the U.S. government's proposal to implant a binary chip into the bodies of U.S. citizens as a means of controlling illegal immigration.

The furor against this proposal died down somewhat when leaders of the Russian Orthodox Church established a theological commission to look into the matter. The commission found no basis in the allegation that the use of bar codes would bring about the end of the world any sooner or even that all bar codes contain the binary code for 666. The theological commission issued a seven-page document asking employers to be understanding if some employees declined the tax numbers they were assigned. It also firmly rebuked the zealots who were pushing the idea that everyone must reject the bar code assigned to them lest they risk eternal damnation.

The Russian tax police are not known for their compassion or willingness to listen to a taxpayer's problems. They are often viewed as evil because of their mafia-like collection methods, which at times involve machine guns, baseball bats and ski masks (Anon. 2001a). A number of Russian tax collectors have been killed in the line of duty. Bribery and corruption are rampant.

The founders of Russia's tax police include a major general and eleven colonels from the KGB and eight colonels from the MVD. Mid-level employees include more than a thousand KGB and MVD officers and 3490 Ministry of Defense officers (Easter 2002:n. 87). Thus there is the perception as well as the reality that the tax police are a tough bunch.

There is the widespread perception among taxpayers in Russian speaking countries that they do not owe the government anything because the government doesn't do anything for them. Or because it does more to them than for them (McGee, 1999). Nearly half of the taxes owed in Russia never get paid (Anon. 1998a).

Boris Yeltsin launched a television ad campaign to persuade the public that they had a civic duty to pay their taxes. Some of the ads took the form of cartoons that targeted the children of tax delinquents. Other ads were launched to inform the Russian public that assets confiscated by the tax authorities could be purchased in an old warehouse the tax police has set up at very low prices. The ads were made as much to educate (and terrify) Russian taxpayers as to raise revenue from the sale of the confiscated assets. Some of the ads also appealed to guilt by showing scenes of pensioners who could not be paid because the government could not collect the taxes to pay them. The International Monetary Fund has withheld payment on several loans it made to the Russian government because of its inability to collect taxes (Myre 1996).

In 1998, tax chief Boris Fyodorov announced that he would target Russia's rich and famous. The move was aimed not so much at collecting taxes from these targets as to send a message to all Russians who consider evading taxes. He targeted the rich and famous because of the publicity he would get. Only 4 million of Russia's 150 million population paid income taxes in 1997 and this policy of going after high profile individuals was expected to encourage ordinary Russians to start paying taxes. Some commentators doubted that the policy would have its intended effect, since tax evasion is burned so deeply into the Russian psyche. One tax specialist pointed out that the richest people in Russia are in the government and suggested that the tax police go after top government officials first (Baker 1998).

Targeting the rich and famous carries with it some negative externalities. When the tax police arrested Mikhail Khodorkovsky, Russia's richest man and chief of Yukos, Russia's largest oil company, it was thought that his arrest would send chills through the Russian stock market, causing it to plunge, and sending negative messages to foreign investors, who would be more hesitant to risk their assets by investing in Russia. His arrest was thought to be politically motivated. He had been giving financial support to several opposition political parties that were structuring themselves to challenge President Putin during the next election. At least one commentator has referred to his arrest as a political contract hit (Anon. 2003a).

Another part of the problem with collection stems from the fact that Russian tax laws are often deliberately unclear (Akhitirov 2003). There is ample opportunity to interpret the law in such a way that minimizes tax liability. There are also a number of political reasons for constraining collection efforts (Easter 2002).

Tax Reform

Numerous proposals have been made for tax reform. Shleifer and Treisman (2000) point out that overgrazing of overlapping tax bases, tax sharing, divided control over tax collectors and confiscatory tax rates all combined to provide disincentives for paying taxes. They recommend that one way of reducing tax collection problems would be to separate the tax bases assigned to the various levels of government to the extent possible and separate the tax collection agencies. Separating tax bases could be achieved by assigning all revenues collected from the VAT to government X and all corporate income tax collected to government Y.

Another part of their tax reform plan would be to have separate tax collection agencies at the local, regional and national levels of government. Regional governments would assess rates and do the collections for the corporate profits tax and the corporate property tax within their region and get to keep whatever they collected. For corporations that were in more than one region, the proceeds would be dividing between or among the regions affected. The federal government would collect and keep all revenues from the VAT, excise taxes and taxes raised by international trade. Federal law would define tax bases so they do not overlap.

Their proposal would divide responsibility for the various taxes as follows, as summarized in Table 2:

Table 2
Allocation of the Tax Function in Russia

	Rate Set by	Revenue Owned by
Export and import duties	Federal	Federal
VAT	Federal	Federal
Excises	Federal	Federal
Corporate profit tax	Regional	Regional
Corporate property tax	Regional	Regional
Tax on natural resources	Federal law	Regional
Taxes on small firms	Local	Local
Personal income tax	Local	Local
Personal property tax	Local	Local

Source: Shleifer & Treisman (2000): 158.

Adopting this approach would reduce the aggregate tax burden, which results when overlapping political jurisdictions tap into the same tax base. Federal government revenue would rise because the VAT is easier to collect than the income tax.

A COMPARATIVE STUDY

The discussion above summarizes the current state of taxation and public finance in the Russian Federation. However useful such a summary might be, it is incomplete without comparing some aspects of the Russian system with those of other relevant tax jurisdictions. When potential investors look at a country to determine whether that country presents good opportunities for investment, they do not look merely at one country while ignoring all the other countries in the world. They compare and contrast various factors that are of interest from an investment standpoint before they make an investment decision.

Some of the relevant factors include relative tax rates, relative overall fiscal burden, the extent of regulation, corruption, the rule of law, the extent of property rights, government stability, the banking system, the degree of inflation, ethnic conflict within the country and the region, trade policy, restrictions on capital flows and numerous other factors. Examining all of these factors in depth is beyond the scope of the present study.

This study examines some factors relating to public finance in the Russian Federation, some other former Soviet republics and some more advanced OECD countries. It was thought that including some other former

Soviet republics would be relevant because they must compete with Russia for foreign investment and because their public finance systems were identical to Russia's before the break-up of the Soviet Union. Some of the more advanced OECD countries were included to provide some measure or worldwide comparison, since the international capital market is worldwide in nature. Companies in transition and developing countries must compete for capital with countries in more developed countries, so excluding some of the more advanced countries would make this study less relevant. The present study restricts itself to comparing some relevant factors in the area of public finance.

Some questions are not addressed in this chapter, such as the optimal level of taxation. Mitra and Stern (2003; 2002a,b) think the optimal level of taxation in transition economies should be between 22 and 31 percent of GDP, depending on their level of development. Other authors (McGee 2004) think that the optimal level of taxation should be as close to zero as possible, the rationale being that the private sector can do just about anything more efficiently than government, thus making any government expenditures relatively inefficient and therefore suboptimum.

This chapter also will not go into great depth about the various components of the tax systems in each country, as this would take us too far afield of the main discussion. Mitra and Stern (2002b) and Alam and Sundberg (2002) have already covered some of these points, so there is no need to repeat them here, although future researchers might consider replicating and updating their studies.

Potential investors are concerned with the safety and the after-tax rate of return on their investments, which makes them biased in favor of a low tax burden. That being the case, we will take a look at some statistical data in an attempt to determine where Russia stands compared to some other countries in terms of relative and total tax burden without getting into a detailed discussion of what tax burden might be optimal from the viewpoint of various affected parties.

Tax Burden

Table 3 shows the total tax burden as a percentage of Gross Domestic Product (GDP) for Russia, other former Soviet republics and selected OECD countries. Since revenues are often different than expenditures, and since borrowing to finance government expenditures increases fiscal burden, data on both revenues and expenditures are provided. Data for both 1990 and 2000 are included so that changes in fiscal burden over the ten-year period can be determined.

Table 3
Tax Burden as % of GDP

	Current Revenue		Total Expenditures	
	1990	**2000**	**1990**	**2000**
Former Soviet Republics				
Armenia	Na	Na	Na	Na
Azerbaijan	Na	17.6	Na	22.6
Belarus	30.9	28.7	37.3	28.9
Estonia	26.2	30.1	23.7	31.4
Georgia	Na	10.5	Na	12.4
Kazakhstan	Na	11.3	Na	14.3
Kyrgyz Republic	Na	14.2	Na	18.0
Latvia	Na	28.6	Na	31.6
Lithuania	31.9	24.6	28.9	27.6
Moldova	Na	24.5	Na	29.6
Russian Federation	Na	24.6	Na	22.9
Tajikistan	Na	10.5	Na	11.3
Turkmenistan	Na	Na	Na	Na
Ukraine	Na	26.8	Na	28.3
Uzbekistan	Na	Na	Na	Na
Selected OECD Countries				
Austria	34.0	37.3	37.6	40.4
Belgium	42.7	43.6	47.9	45.6
Finland	30.6	32.0	30.3	33.4
France	39.7	Na	41.8	Na
Germany	25.6	31.3	26.3	32.7
Ireland	33.6	Na	37.7	Na
Portugal	31.3	34.2	37.6	38.5
Spain	29.3	Na	32.6	Na
United Kingdom	36.0	36.0	37.5	36.0
United States	18.9	21.5	22.7	19.2

Source: World Bank, 2003 World Development Indicators, Table 4.11: Central Government Finances.

Comparing the figures in the revenue columns for 1990 and 2000 does not result in determining any clear-cut trend. Revenue as a percentage of GDP increased over the ten-year period for Estonia, Austria, Belgium, Finland, Germany, Portugal and the United States and decreased for Belarus and Lithuania. However, since statistics were not available for so many countries in the sample, it cannot be concluded that the government sector, as measured by revenue as a percent of GDP, clearly expanded, on average, during the ten-year period.

One criticism that could be made of the data in Table 3 is that it includes only central government data. Statistics for regional and local government are excluded. Another criticism that could be made is that the statistics for the CIS countries are probably not as accurate or reliable as those for the more developed countries, since a larger portion of the economies of CIS countries are in the unofficial sector, and thus not reported. However, the available statistics do provide some measure that makes it possible to compare and contrast the relative tax burdens of the different countries, imperfect though the comparison might be.

Table 4
Tax Burden as % of GDP
Ranked by Revenue (2000)

Rank	Country	% of GDP
1	Belgium	43.6
2	Austria	37.3
3	United Kingdom	36.0
4	Portugal	34.2
5	Finland	32.0
6	Germany	31.3
7	Estonia	30.1
8	Latvia	28.8
9	Belarus	28.7
10	Ukraine	26.8
11	Russian Federation	24.6
11	Lithuania	24.6
13	Moldova	24.5
14	United States	21.5
15	Azerbaijan	17.6
16	Kyrgyz Republic	14.2
17	Kazakhstan	11.3
18	Georgia	10.5
18	Tajikistan	10.5

Table 4 ranks the countries where data is available from highest to lowest in terms of revenue as a percentage of GDP for the more recent period (2000). As can be seen from the ranking, the countries near the top of the list tend to be the more developed countries, whereas the countries near the bottom tend to be developing countries. However, the United States has one of the lowest tax burdens, but is listed alongside the developing countries.

Holding the view that the countries with the smallest percentages are the best places to invest might lead to suboptimal investment decisions, however, since there are many more factors to consider than just the relative size of the government sector (and the tax burden imposed). Likewise, it seems illogical to conclude that the best places to invest are the places that have the highest tax burdens, since rational investors prefer to invest in sectors that provide the largest after-tax returns. It also would not be logical to conclude that high tax burdens are responsible for making the developed countries relatively rich, since expenditures in the public sector are less efficient than expenditures in the private sector.

It also would not be logical to advocate increasing the relative size of the state in the CIS countries at the bottom of the list, since these are the countries that are least able to bear an increase in the drain of funds from the private to the public sector. Adopting a policy that would increase the relative size of the state in countries like Tajikistan and Georgia would serve only to exacerbate the many problems these countries already have. If anything at all can be concluded from analyzing these statistics it would be that the relative tax burden is only one of many factors that investors consider when making their investment decisions. The relatively developed countries can afford a higher tax burden because the underlying structure of their economies is sufficiently strong and resilient to carry a higher burden. Transition economies do not have the luxury of supporting a large state because the relatively small and weak private sector is already starved of funds.

Potential investors are concerned about all taxes in the countries where they do business, but they are more concerned with the taxes their companies have to pay than with the taxes the general citizenry has to pay. Thus, they are more concerned with corporate income taxes and value added taxes (VAT) than individual income taxes. Social security and payroll taxes are also a concern, especially when it is the employer rather than the employer that has to pay.

Mitra and Stern (2003) provided some statistics on the relative tax burdens, by category, as a percentage of GDP. Their figures use the average burden for 1999-2000 for the CIS and Eastern European countries and the five most recent available years for the OECD countries. Some of the numbers from Table 5 were taken from the Mitra and Stern (2003) study, which came from various IMF, OECD and World Bank sources. Other numbers were calculated by the authors using IMF and World Bank sources. Countries are ranked in terms of total tax burden and include Russia and other former Soviet republics, some transition economies in Eastern and Central Europe and some developed OECD countries. The tax revenue column excludes grants and other revenue. Minor forms of revenue are not included as separate categories. In some cases, totals were given but not individual components. For example, in the case of Belarus, figures for VAT and excise taxes were not given separately but the total (19.7%) was given.

The top number in each row represents the percent taken for a particular tax as a percentage of GDP. The second set of figures represents the percent of tax taken by category. For example, in the case of Russia, taxes in total take 30.3% of total GDP and individual income taxes take 2.7% of GDP, which amounts to 8.9% of the total tax bite. The largest source of tax revenue in Russia is social security and payroll taxes, at 8.1% of GDP and 26.7% of total tax revenue.

Table 5
Tax Structure of Selected Countries
Tax as % of GDP

Rank	**Country**	**Total Revenue**	**Individual Income Tax**	**Corporate Income Tax**	**Social Security & Payroll Taxes**	**VAT**	**Excise Taxes**	**Other**
1	Sweden	50.5 100%	1.9(a) 3.8%	2.9(a) 5.7%	16.3 32.3%	7.1 14.1%	3.8 7.5%	18.5 36.6%
2	Denmark	49.2 100%	25.7 52.2%	2.2 4.5%	1.8 3.7%	9.6 19.5%	3.8 7.7%	6.1 12.4%
3	Belgium	45.0 100%	13.8 30.7	2.8 6.2%	14.8 32.9%	9.6 21.3%	3.8 8.4%	0.2 0.4%
4	Netherlands	43.4 100%	8.4 19.4%	3.6 8.3%	18.0 41.5%	6.6 15.2%	2.8 6.4%	4.0 9.2%
5	Austria	43.2 100%	13.1 30.3%		16.8 38.9%	12.3 28.5%		1.0 2.3%
6	Italy	42.8 100%	11.4 26.6%	2.7 6.3%	13.4 31.3%	5.7 13.3%	2.7 6.3%	6.9 16.1%
6	Luxembourg	42.8 100%	11.1 25.9%	5.0 11.7%	11.1 25.9%	6.0 14.0%	4.6 10.7%	5.0 11.7%
8	France	42.2 100%	6.3 14.9%	1.7 4.0%	18.0 42.7%	7.7 18.2%	2.7 6.4%	5.8 13.7%
9	Norway	41.1 100%	11.0 26.8%	3.6 8.8%	9.1 22.1%	8.8 21.4%	5.4 13.1%	3.2 7.8%
10	Belarus	40.8 100%	0.0	7.9 19.4%	10.0 24.5%	19.7 48.3%		3.2 7.8%
11	Slovenia	40.3 100%	6.4 15.9%	1.2 3.0%	13.6 33.7%	15.4 38.2%	0.3 0.7%	3.4 8.4%
12	Croatia	39.3 100%	2.9 7.4%	1.4 3.6%	13.4 34.1%	13.9 35.4%	4.3 10.9%	3.4 8.7%
13	Finland	38.3 100%	7.6(a) 19.8%	1.6(a) 4.2%	4.1 10.7%	8.2 21.4%	4.6 12.0%	12.2 31.9%
14	Germany	37.8	9.6	0.5	15.2	3.6	3.0	5.9

		100%	25.4%	1.3%	40.2%	9.5%	7.9%	15.6%
15	Czech Republic	37.2 100%	5.2 14.0%	3.8 10.2%	14.9 40.1%	7.6 20.4%	3.9 10.5%	1.8 4.8%
16	Hungary	36.1 100%	7.0 19.4%	2.3 6.4%	10.0 27.7%	8.6 23.8%	4.1 11.4%	4.1 11.4%
16	Estonia	36.1 100%	8.3 23.0%	1.6 4.4%	12.2 33.8%	9.1 25.2%	3.5 9.7%	1.4 3.9%
18	UK	34.7 100%	9.7 28.0%	3.9 11.2%	6.2 17.9%	6.7 19.3%	3.9 11.2%	4.3 12.4%
19	Slovak Republic	34.0 100%	5.2 15.3%	2.9 8.5%	12.7 37.4%	7.6 22.4%	3.2 9.4%	2.4 7.1%
19	Switzerland	34.0 100%	10.5 30.9%	0.8 2.4%	12.5 36.8%	3.5 10.3%	1.8 5.3%	4.9 14.4%
21	Portugal	33.3 100%	5.9 17.7%	2.9 8.7%	8.7 26.1%	7.4 22.2%	4.7 14.1%	3.7 11.1%
21	Spain	33.3 100%	8.0 24.0%	1.9 5.7%	12.0 36.0%	4.3 12.9%	2.7 8.1%	4.4 13.2%
23	Latvia	32.7 100%	6.1 18.7%	2.1 6.4%	11.2 34.3%	8.0 24.5%	3.1 9.5%	2.2 6.7%
24	Poland	32.6 100%	5.5 16.9%	2.5 7.7%	9.9 30.4%	8.0 24.5%	3.9 12.0%	2.8 8.6%
25	Macedonia	32.4 100%	4.8 14.8%	1.2 3.7%	10.8 33.3%	6.1 18.8%	5.2 16.0%	4.3 13.3%
26	Ireland	31.9 100%	10.5 32.9%	3.1 9.7%	5.2 16.3%	6.2 19.4%	5.0 15.7%	1.9 6.0%
27	Ukraine	30.6 100%	3.5 11.4%	4.9 16.0%	9.3 30.4%	6.6 21.6%	1.4 4.6%	4.9 16.0%
28	Bulgaria	30.5 100%	4.5 14.8%	3.1 10.2%	7.9 25.9%	9.0 29.5%	3.6 11.8%	2.4 7.9%
28	Romania	30.5 100%	3.4 11.1%	3.0 9.8%	10.9 35.7%	6.3 20.7%	2.8 9.2%	4.1 13.4%
30	Russian Federation	30.3 100%	2.7 8.9%	5.7 18.8%	8.1 26.7%	6.5 21.4%	2.3 7.6%	5.0 16.5%
31	Lithuania	29.4 100%	8.2 27.9%	0.8 2.7%	7.0 23.8%	7.9 26.9%	3.6 12.2%	1.9 6.5%
32	Uzbekistan	28.0 100%	3.9 13.9%	4.0 14.3%	0.0	7.4 26.4%	7.9 28.2%	4.8 17.1%
33	United States	27.6 100%	10.8 39.1%	2.1 7.6%	6.6 23.9%	0.0	0.6 2.2%	7.5 27.2%
34	Greece	22.5 100%	3.8 16.9%	2.2 9.8%	0.5 2.2%	7.6 33.8%	4.7 20.9%	3.7 16.4%
35	Moldova	22.3 100%	1.5 6.7%	1.6 7.2%	5.6 25.1%	7.2 32.3%	3.4 15.2%	3.0 13.5%
36	Turkmen-istan	20.8 100%	2.6 12.5%	3.2 15.4%	5.0 24.0%	7.3 35.1%	2.2 10.6%	0.5 2.4%
37	Armenia	18.5 100%	1.7 9.2%	2.1 11.4%	2.4 13.0%	6.7 36.2%	2.4 13.0%	3.2 17.3%
38	Kazakhstan	18.1 100%	6.6 36.5%		3.8 21.0%	6.9 38.1%		0.8 4.4%
39	Albania	18.0 100%	0.8 4.4%	1.6 8.9%	3.7 20.6%	6.5 36.1%	1.6 8.9%	3.8 21.1%
40	Kyrgyz Republic	16.6 100%	1.2 7.2%	1.1 6.6%	4.2 25.3%	4.9 29.5%	2.5 15.1%	2.7 16.3%

41	Azerbaijan	14.4 100%	2.2 15.3%	2.3 16.0%	2.4 16.7%	4.2 29.2%	0.6 4.2%	2.7 18.7%
42	Georgia	14.1 100%	1.9 13.5%	1.2 8.5%	2.4 17.0%	4.7 33.3%	1.8 12.8%	2.1 14.9%
43	Tajikistan	12.9 100%	1.2 9.3%	1.0 7.8%	1.3 10.1%	5.8 45.0%	0.6 4.6%	3.0 23.2%

(a) Central government only

Of the 43 countries included in the survey summarized in Table 5, Russia ranks 30th in terms of taxes as a percentage of GDP. Many of the countries ranked above Russia (#1-29) are either OECD countries or countries in Eastern Europe. Only 4 of the former Soviet republics – Belarus (10), Estonia (16), Latvia (23) and Ukraine (27) ranked higher than Russia in terms of taxes as a percentage of GDP. Ten former Soviet republics ranked lower than Russia. In fact, the only non-former Soviet countries ranking lower than Russia were the United States (33), Greece (34) and Albania (39).

If Russia's main competitors for foreign direct investment consisted only of the former Soviet republics and if the size of the tax bite as a percentage of GDP were the main factor international investors look at when determining where to invest, Russia would be at a distinct competitive disadvantage, since 10 of the 15 former Soviet republics have governments that take less of a tax bite out of the economy than does Russia and only four take a higher percentage. However, if the pool of potential competitors for FDI were expanded to include all 43 countries represented in Table 5, then Russia would appear to be a better than average destination for FDI, since 29 countries take a bigger tax bite out of their economies than does Russia, while only 13 take a smaller bite, and many of the countries that rank lower than Russia (#31-43) are countries that are not considered to be desirable investments for other reasons, according to the various annual surveys conducted by the Heritage Foundation and the Wall Street Journal (*Index of Economic Freedom*).

Another question to be asked is whether the structure of the tax system in Russia is similar to that of: (1) the other former Soviet republics, or (2) the tax systems of the more economically developed OECD countries, or (3) the countries of Eastern Europe. The data from Table 5 can be rearranged and consolidated to answer these questions.

Table 6 rearranges and combines the data from Table 5 into three categories – former Soviet republics, countries from Eastern Europe that were not Soviet republics, and OECD countries that were not part of the former communist bloc. The figures from Table 5 are consolidated in Table 6 by combining the percentages from the individual and corporate tax columns into a single figure and combining the VAT and excise tax percentages into a single percentage. The percentages for social security and payroll taxes continue to be listed as a separate category. In the cases of Sweden and Finland, the income tax data represent only the share taken at the national level, which causes a bit of distortion, since the income tax figures for the other countries in the sample represent income taxes taken at every level of government. To reduce the gravity of this distortion, the assumption was made that 80 percent of the taxes in the "Other" category represent sub-national income taxes. Averages for the three categories are then computed and compared to determine how Russia's tax structure compares to the tax structure of the other former Soviet republics and also to those of the countries in the other two categories.

Table 6
Tax Structure

Rank	Country	Income Taxes	Social Security & Payroll Taxes	VAT & Excise Taxes	Other Taxes
Former Soviet Republics					
10	Belarus	19.4	24.5	48.3	7.8
16	Estonia	27.4	33.8	34.9	3.9
23	Latvia	25.1	34.3	34.0	6.7
27	Ukraine	27.4	30.4	26.2	16.0
30	Russia	27.7	26.7	29.0	16.5
31	Lithuania	30.6	23.8	39.1	6.5
32	Uzbekistan	28.2	0.0	54.6	17.1
35	Moldova	13.9	25.1	47.5	13.5
36	Turkmenistan	27.9	24.0	45.7	2.4
37	Armenia	20.6	13.0	49.2	17.3
38	Kazakhstan	36.5	21.0	38.1	4.4
40	Kyrgyz Republic	13.8	25.3	44.6	16.3
41	Azerbaijan	31.3	16.7	33.4	18.7
42	Georgia	22.0	17.0	46.1	14.9
43	Tajikistan	17.1	10.1	49.6	23.2
32	Average	24.6	21.7	41.4	12.3
Other East European Countries					
11	Slovenia	18.9	33.7	38.9	8.4
12	Croatia	11.0	34.1	46.3	8.7
15	Czech Republic	24.2	40.1	30.9	4.8

16	Hungary	25.8	27.7	35.2	11.4
19	Slovak Republic	23.8	37.4	31.8	7.1
24	Poland	24.6	30.4	36.5	8.6
25	Macedonia	18.5	33.3	34.8	13.3
28	Bulgaria	25.0	25.9	41.3	7.9
28	Romania	20.9	35.7	29.9	13.4
39	Albania	13.3	20.6	45.0	21.1
22	Average	20.6	31.9	37.1	10.5
	OECD Countries				
1	Sweden	38.8	32.3	21.6	7.3
2	Denmark	56.7	3.7	27.2	12.4
3	Belgium	36.9	32.9	29.7	0.4
4	Netherlands	27.7	41.5	21.6	9.2
5	Austria	30.3	38.9	28.5	2.3
6	Italy	32.9	31.3	19.6	16.1
6	Luxembourg	37.6	25.9	24.7	11.7
8	France	18.9	42.7	24.6	13.7
9	Norway	35.6	22.1	34.5	7.8
13	Finland	54.6	10.7	33.4	1.2
14	Germany	26.7	40.2	17.4	15.6
18	UK	39.2	17.9	30.5	12.4
19	Switzerland	33.3	36.8	15.6	14.4
21	Portugal	26.4	26.1	36.3	11.1
21	Spain	29.7	36.0	21.0	13.2
26	Ireland	42.6	16.3	35.1	6.0
33	USA	46.7	23.9	2.2	27.2
34	Greece	26.7	2.2	54.7	16.4
14	Average	35.6	26.7	26.6	11.0

Table 7 shows summary data for each category. The former Soviet republics tend to rely most heavily on VAT and excise taxes for revenue (41.4%) and least on social security and payroll taxes (21.7%). Other East European countries also rely more on VAT and excise taxes (37.1%) than on other types of taxes, but their reliance is not quite so heavy. The other East European countries rely least on income taxes (20.6%), whereas OECD countries rely most on income taxes for their revenue (35.6%), with the other two categories equally divided, 26.7% from social security and payroll taxes and 26.6% from VAT and excise taxes. The Russian public finance system most closely resembles that of the average OECD country. It relies on social security and payroll taxes for 26.7% of its total revenue, which is the same exact percentage as the average OECD country. Russia gets 29.0% of its revenue from VAT and excise taxes, compared to 26.6% for the average OECD country.

Table 7
Country Comparison
Average Percentages

	Income Taxes	Social Security & Payroll Taxes	VAT & Excise Taxes	Other Taxes
Former Soviet Republics	24.6	21.7	41.4	12.3
Other East European Countries	20.6	31.9	37.1	10.5
OECD Countries	35.6	26.7	26.6	11.0
Russia	27.7	26.7	29.0	16.5

Measuring Tax Misery

Another measure of the relative tax burden is to calculate the amount of tax a corporate executive has to pay to work in a particular country. A related calculation is the amount of tax a corporate executive and the executive's employer must pay in total for an executive to work in a particular country. Forbes magazine does periodic studies on this topic and publishes what it calls the *Forbes Global Tax Misery Index*. Its index is computed by adding the top tax rate for six categories of taxes. Table 8 shows the net cost to an employer of paying 100,000 Euros to an employee working in Russia in 2003.

Table 8
Tax Misery Index
Net Cost to Employer of Paying
100,000 Euros to an Employee
Russia 2003

	Euros
Gross salary	100,000
Employee's Social Security	0
Income tax	13,000
Net to employee	87,000
Net % to employee after income tax and social security tax	87%
Marginal income tax rate	13%

Employer social security	4,719
Total cost to employer as a percentage of gross (before corporate tax benefit)	104.72%
Top corporate income tax rate	24%
Total cost to employer as a percentage of gross (after corporate tax benefit) [(100,000 + 4,719) x (1 – 0.24)]	79,586 (79.59%)

Table 9 shows that Tax Misery Index for Russia and some other countries. Russia is in the bottom half of the selected countries.

Table 9
Tax Misery Index
Selected Countries 2003

	Total cost to employer as a percentage of gross (after corporate tax benefit)
Lithuania	111.35
Ireland	96.91
France	95.11
Czech Republic	93.15
Latvia	93.07
Belgium	89.11
Finland	87.61
Portugal	82.91
Germany	81.80
Russia	79.59
Austria	77.93
United Kingdom	77.68
Spain	71.33
USA	69.19

Table 10 presents another view of tax misery. It combines the highest rates for six taxes in selected countries, including Russia (Anderson 2003ab). The taxes included in the study are the corporate income tax, the personal income tax, the wealth tax, the employer and employee share of the social security tax and the VAT. Russia compares rather favorably with a relatively low score. Furthermore, its score has decreased in recent years. Its 2003 score is about half that of France but twice that of Hong Kong. It has the lowest score of all the former Soviet republics and East European countries included in the survey.

Table 10
Tax Misery Index
Summary of Top Tax Rates

Rank (2003)	Country	2000	2002	2003
1	France	193.1	181.2	179.4
2	Belgium	171.1	164.2	153.1
3	Sweden	150.5	149.3	149.8
4	Italy	153.9	147.5	145.0
4	China	Na	154.5	145.0
6	Austria	146.6	144.0	144.0
7	Norway	Na	Na	139.7
8	Greece	146.2	136.9	136.9
9	Slovak Republic	Na	Na	136.8
10	Finland	137.5	133.5	135.5
10	Spain	138.7	138.5	135.5
12	Czech Republic	Na	Na	132.5
13	Slovenia	Na	Na	132.2
14	Netherlands	142.8	130.8	129.9
15	Hungary	Na	Na	129.0
16	Portugal	125.8	124.8	126.8
17	Brazil	Na	Na	126.3
18	Poland	Na	Na	125.1
19	Japan	123.6	117.3	124.9
20	Denmark	125.0	123.0	123.0
21	Mexico	Na	Na	120.2
22	Israel	Na	Na	119.6
23	Argentina	Na	Na	118.0
24	USA (New York)	119.2	118.0	116.7
25	Germany	143.0	115.1	116.6
26	Estonia	Na	Na	112.0
27	Luxembourg	126.2	111.5	111.4
28	United Kingdom	109.7	109.3	111.3
29	Switzerland (Zurich)	Na	Na	108.7
30	Malta	Na	Na	105.0
31	Latvia	Na	Na	103.1
32	USA (Illinois)	Na	102.7	102.7
33	South Korea	Na	102.5	99.8
33	Canada	Na	99.8	99.8

	(Ontario)			
35	Lithuania	Na	Na	97.0
36	USA (Texas)	Na	99.7	94.6
37	Russia	124.5	92.6	92.6
38	Ireland	109.5	93.0	90.3
39	Australia	Na	88.5	90.0
40	Malaysia	Na	Na	89.0
41	USA	90.0	88.9	88.9
42	Singapore	Na	93.5	87.0
43	USA (2003 Bush Reform)	Na	Na	85.3
44	South Africa	Na	Na	85.0
45	Thailand	Na	Na	83.0
46	Taiwan	Na	Na	81.7
47	Indonesia	Na	80.7	80.7
48	India	Na	79.3	79.3
49	Cyprus	Na	Na	74.3
50	Hong Kong	Na	41.0	43.0

CONCLUDING COMMENTS

Russia has been going through rapid systemic economic changes for more than a decade. One of the major structural changes has been the shift of its system of public finance to accommodate its emerging market economy. The transition is far from complete. Russia's tax authorities still have a difficult time raising the revenue they need to provide government services. However, as the system becomes more stable and less complex and as tax rates continue to decline, economic growth will follow, or at least that is what the liberal economists predict. Russia's tax structure has evolved into one that resembles that of the EU and OECD countries, although Russia's economy continues to be much different. Comparisons to relative tax rates and tax burdens reveals that Russia is in better condition than many other countries of the former Soviet Union and Eastern Europe, although there is some room for improvement. It will be interesting to see how Russia's system of public finance evolves over the next few years and whether the economists' prediction of economic growth is accurate.

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Chapter 11

THE ETHICS OF TAX EVASION: A SURVEY OF ROMANIAN BUSINESS STUDENTS AND FACULTY*

ABSTRACT

This chapter examines the issue of the ethics of tax evasion. It begins with a review of the literature and proceeds to discuss the three main views on the issue that have emerged over the last 500 years. The chapter then reports on the results of a survey taken of Romanian business students and faculty.

INTRODUCTION

The research for this chapter began in 1993 when I first started investigating the ethics of tax evasion. My first article on the topic was published the following year (McGee 1994a). During the course of that research I was surprised to learn that, although some studies on tax evasion had been published in the economics and public finance literature, not much had been published on the topic from a philosophical perspective, with the exception of a doctoral thesis written by Martin Crowe in 1944.

A few years passed before I returned to the subject. I wanted to delve deeper into the issue but was dismayed that nothing new had been published on the topic from a philosophical perspective, so I decided to solicit manuscripts for a journal I edited, the *Journal of Accounting, Ethics & Public Policy*. As a result of that solicitation I was able to bring into print a number of articles that examined the issue from a variety of religious and secular perspectives. Most of those articles were reprinted in an edited book (McGee 1998a). Since the publication of that book a few other articles have addressed the issue of tax evasion from an ethical perspective. Those articles are discussed in the next section.

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The ethics of tax evasion can be examined from a number of perspectives. There are several subissues to be explored. Some of these are of a religious nature while others are more secular and philosophical. One approach is to examine the relationship of the individual to the state. Another is the relationship between the individual and the taxpaying community or some subset thereof. A third is the relationship of the individual to God.

The literature that exists on this subject is almost entirely theoretical or economic in nature. With the exception of a few surveys or studies that use surrogate numbers, not much empirical work has been done. Those studies that have been done cite mostly public finance literature or literature from psychology. The political science, philosophical or religious literature seldom, if ever, appears in empirical studies, perhaps because the individuals conducting the study do not have a background in these fields, or perhaps because they are not interested in philosophical, religious or ethical aspects of the issue.

Nylén (1998) did a survey soliciting the views of Swedish chief executive officers (CEOs) on the ethics of tax evasion. McGee (1998e) commented on this study. A study by Reckers, Sanders and Roark (1994) presented participants with a case study and asked them whether they would be willing to evade taxes. Englebrecht et al (1998) did a number crunching study involving 199 subjects who replied to 29 ethical orientation questions, some of which had to do with tax evasion. Latinobarómetro conducts annual opinion surveys in more than a dozen Latin American countries but only one question addresses the issue of tax evasion. Not many surveys have been done that solicit the views of taxpayers or opinion leaders on ethical aspects of tax evasion. Thus, there is room for more study on this aspect of the issue. The present study is one of a series of empirical studies aimed at partially filling this gap in the literature.

REVIEW OF THE LITERATURE

Although many studies have been done on tax compliance, very few have examined compliance, or rather noncompliance, primarily from the perspective of ethics. Most studies on tax evasion look at the issue from a public finance or economics perspective, although ethical issues may be mentioned briefly, in passing. The most comprehensive twentieth century work on the ethics of tax evasion was a doctoral thesis written by Martin Crowe (1944), titled *The Moral Obligation of Paying Just Taxes*. This thesis reviewed the theological and philosophical debate that had been going on, mostly within the Catholic Church, over the previous 500 years. Some of the debate took place in the Latin language. Crowe introduced this debate to an English language readership. A more recent doctoral dissertation on the topic was written by Torgler (2003), who discussed tax evasion from the perspective of public finance but also touched on some psychological and philosophical aspects of the issue.

Walter Block (1989; 1993) sought in vain to find a justification for taxation in the public finance literature. He examined a number of textbooks but found all justifications for taxation to be inadequate. Leiker (1998) speculates on how Rousseau would have viewed the ethics of tax evasion. Alfonso Morales (1998) examined the views of Mexican immigrant street vendors and found that their loyalty to their families exceeded their loyalty to the government. McGraw and Scholz (1991) examined tax compliance from the perspective of self interest. Armstrong and Robison (1998) discuss tax evasion and tax avoidance from the perspective of an accounting practitioner and use Rawls' concept of two kinds of rules to analyze how accountants view the issue. Oliva (1998) looked at the issue from the perspective of a tax practitioner and commented on the schism that exists between a tax practitioner's ethical and legal obligations.

There have been a few studies that focus on tax evasion in a particular country. Ethics are sometimes discussed but, more often than not, the focus of the discussion is on government corruption and the reasons why the citizenry does not feel any moral duty to pay taxes to such a government. Ballas and Tsoukas (1998) discuss the situation in Greece. Smatrakalev (1998) discusses the Bulgarian case. Vaguine (1998) discusses Russia, as do Preobragenskaya and McGee (2004) to a lesser extent. A study of tax evasion in Armenia (McGee 1999e) found the two main reasons for evasion to be the lack of a mechanism in place to collect taxes and the widespread opinion that the government does not deserve a portion of a worker's income.

A number of articles have been written from various religious perspectives. Cohn (1998) and Tamari (1998) discuss the Jewish literature on tax evasion, and on ethics in general. Much of this literature is in Hebrew or a language other than English. McGee (1998d, 1999a) comments on these two articles from a secular perspective.

A few articles have been written on the ethics of tax evasion from various Christian viewpoints. Gronbacher (1998) addresses the issue from the perspectives of Catholic social thought and classical liberalism. Schansberg (1998) looks at the Biblical literature for guidance. Pennock (1998) discusses just war theory in connection with the moral obligation to pay just taxes, and not to pay unjust or immoral taxes. Smith and Kimball (1998) provide a Mormon perspective. McGee (1998c, 1999a) comments on the various Christian views from a secular perspective.

The Christian Bible discusses tax evasion and the duty of the citizenry to support the government in several places. Schansberg (1998) and McGee (1994, 1998a) discuss the biblical literature on this point. When Jesus is asked whether people should pay taxes to Caesar, Jesus replied that we should give to Caesar the things that are Caesar's and give God the things that are God's [Matthew 22:17, 21]. But Jesus did not elaborate on the point. He did not say that we are only obligated to give government 10 percent or 5 percent or any particular percent of our income.

There are passages in the Bible that seemingly take an absolutist position. Romans 13, 1-2 supports the Divine Right of Kings, which basically holds that whoever is in charge of government is there with God's approval and anyone who disputes that fact or who fails to obey is subject to damnation. It is a sin against God to break any law. Thus, Mao, Stalin and Hitler must all be obeyed, even though they were the three biggest monsters of the twentieth century, because they are there with God's approval.

A few other religious views are also addressed in the literature. Murtuza and Ghazanfar (1998) discuss the ethics of tax evasion from the Muslim perspective. McGee (1998b, 1999a) comments on their article and also discusses the ethics of tax evasion under Islam citing Islamic business ethics literature (1997). DeMoville (1998) discusses the Baha'i perspective and cites the relevant literature to buttress his arguments. McGee (1999a) commented on the DeMoville article.

A few studies have applied utilitarian ethics and rights theory to particular taxes or particular arguments found to justify certain tax policies in the public finance literature. Tax policies examined in the literature include an examination of whether the ability to pay principle is ethically bankrupt (McGee 1998f) and the related argument of whether discriminatory tax rates are ethically justifiable (McGee 1998g). Both of these arguments seemingly violate the Kantian prescription that individuals should always be treated as ends in themselves, not as a means to an end (Kant 1952abc, 1983). The "paying your fair share" argument is also examined (McGee 1999c). McGee (2004) also addresses these issues in a book that discusses the various philosophies of taxation.

If one begins with the premise that people should get something in return for their taxes, the argument could be made that there is nothing unethical about evading the estate tax (McGee 1999b), since the government cannot possibly provide any services to the dead. It is interesting to speculate what Kant would say on this issue, since Kant favors a strong rule of law, yet views the use of individuals as means rather than ends to be unethical. Yet the estate tax does precisely that, since it sees dead people as a source of tax revenue and cannot promise them anything in return for their "contributions."

The Social Security tax might be attacked on utilitarian grounds, since it is a very poor investment compared to the alternatives (McGee 1999g). The capital gains tax might be criticized on efficiency grounds, since some studies have found that the distortion to the economy that results – what economists call negative externalities – sometimes more than offsets the amount of taxes that are actually collected (McGee 1999f). If a particular tax actually reduces welfare in society, the argument could be made that evading the tax, and thus reducing the amount of welfare reduction that would otherwise occur, might actually be an ethical act, from a utilitarian perspective. Evading a tariff would be one example (McGee 1999d), since tariffs are generally viewed by economists as a negative sum game, a tax measure that is not so much intended to raise revenue as to prevent foreign competition, which feathers the nest of domestic producers at the expense of the general public (McGee 1994b, 2003).

The present study has been replicated and will be replicated several more times using different groups of respondents. A survey of international business professors found that some arguments justifying tax evasion are stronger than others but none of the arguments were very strong, since most of the professors who responded to the survey were strongly against tax evasion. This survey also found that women were significantly more opposed to tax evasion than were the men (McGee 2005). A survey of business and law students in Guatemala reached a similar result. However, the law students felt less strongly about condemning tax evasion on ethical grounds than did the business students and female students were more opposed to tax evasion than were male students (McGee and Lingle 2005). A survey of German business students also found that respondents were strongly against tax evasion, although some arguments were stronger than others. A comparison of male to female responses was inconclusive, in the sense that it could not be clearly determined which group of respondents was more opposed to tax evasion (McGee, Nickerson & Fees, 2005).

THREE VIEWS ON THE ETHICS OF TAX EVASION

Over the centuries, three basic views have emerged on the ethics of tax evasion.

View One

View One takes the position that tax evasion is always, or almost always unethical. There are basically three underlying rationales for this belief. One reason is the belief that individuals have a duty to the state to pay whatever taxes the state demands. This view is especially prevalent in democracies, where there is a strong belief that individuals should conform to majority rule.

The second rationale for an ethical duty to pay taxes is because the individual has a duty to other members of the community. This view holds that individuals should not be freeloaders by taking advantage of the services the state provides while not contributing to the payment of those services. A corollary of this belief is the view that if tax dodgers do not pay their fair share, then law abiding taxpayers must pay more than their fair share.

The third rationale is that we owe a duty to God to pay taxes, or, stated differently, God has commanded us to pay our taxes. This view holds no water among atheists, of course, but the view is strongly held in some religious circles.

View Two

View Two might be labeled the anarchist view. This view holds that there is never any duty to pay taxes because the state is illegitimate, a mere thief that has no moral authority to take anything from anyone. The state is no more than a mafia that, under democracy, has its leaders chosen by the people.

The anarchist literature does not address the ethics of tax evasion directly but rather discusses the relationship of the individual to the state. The issue of tax evasion is merely one aspect of that relationship.

There is no such thing as a social contract according to this position. Where there is no explicit agreement to pay taxes there also is no duty. All taxation necessarily involves the taking of property by force or the threat of force, without the owner's permission. Thus, it meets the definition of theft. Stated as an equation, TAXATION = THEFT. A corollary equation is that FAIR SHARE = 0.

View Three

View Three holds that tax evasion may be ethical under some circumstances and unethical under other circumstances. This view is the prevalent view, both in the literature and according to the present survey.

A Closer Examination of View One

One strand of this view is that individuals owe a duty to the state to pay whatever taxes the state demands. There is no such thing as taxes that are too high because the people determine the level of taxes. In a democracy, this view is justified under the consent theory. The peoples' representatives are designated to work out the details of democracy because the people are too busy earning a living and dealing with their own problems to actively participate in government. It is an application of the division of labor theory. The legislators, chief government executives and the government bureaucracy are the specialists. They know best how to run things because they devote their whole working life to the task, and are thus more knowledgeable than the private citizenry can be because private citizens have neither the time nor the inclination to devote to acquiring the expertise and apply their knowledge to the running of government.

There are several criticisms that could be made of this viewpoint. One obvious weakness in this argument is that just because someone lives in a democracy does not mean that the government represents the interests of all the people, or that the government works for the general welfare. Many instances could be cited where the government works for special interests and against the interests of the general public. Trade policy is only one of many examples that may be cited (McGee 1994b, 2003).

The Public Choice School of Economics has examined hundreds of cases where government officials work either for themselves or for some special interest to the detriment of the general public (Tullock 1970, 1983, 1989; Rowley, Tollison & Tullock 1988; van den Broeck 1988; Gwartney & Wagner 1988). All corporate welfare policies fit within this category, as do many other government programs. So it cannot be said categorically that the government represents the will of the people, or even that it usually represents the will of the people. All that can be said is that the government represents the will of some of the people some of the time. Does that justify the moral duty to always pay whatever taxes the government demands?

The argument could be made that, in a democracy, if you don't like the government you have, you have the power to throw out the rascals at the ballot box and replace them with people who better represent your viewpoints and interests. This view is prevalent in democracies, but a close analysis reveals that this possibility is often not realistic. The reason why America has red (Republican) states and blue (Democratic) states is because "the people" cannot agree on the kind of individuals they want running their government. Even in states that usually vote Republican there is a large minority of democrats who do not agree with the outcome, and vice versa.

One might also point out the rather inconvenient fact that one vote really does not count. The probability that a U.S. Senate or House race will be determined by just one vote is statistically improbable, and even if some member of Congress were to win by a single vote, there really is not much difference between the Democrats and Republicans anymore. It used to be said that, as a general rule, Democrats want to increase federal spending by 8 percent a year, whereas Republicans want to increase it by a mere 3 percent, which means there was a 5 percent difference between the two parties. But even that can no longer be said. President George W. Bush, a supposedly conservative Republican, managed to increase federal spending during his first term more than twice as fast as President Clinton did in his first term. The bottom line is that if you don't like the government you have, you really cannot throw them out and replace them with someone you like better. You are thus left with the option of either putting up with the government you have or move, if you can.

Another argument that has been used to justify the ethical obligation of paying all taxes is what may be called the "vote with your feet" argument. If you don't like the government you live under, move. Go somewhere else. This argument has a certain amount of plausibility. But there are some problems with it. For example, what if you live in a country that does not allow exit? The former Soviet Union is only one of several examples that could be cited. North Korea and Cuba are current examples.

Even if it is theoretically possible to move to another country, it may not be practically possible or feasible. Many people prefer to live close to family and friends, which acts as a barrier to free movement. In some countries it may be difficult to move because other countries don't want to take you or "your kind." If you are young, single and living in Eastern Europe, the possibility of emigrating to the United States is much lower than if you are Mexican or Canadian and already have 10 or 20 relatives living in the USA. U.S. immigration policy favors some groups over others. So do the immigration policies of many other countries.

If the articles by Cohn (1998) and Tamari (1998) are representative of the Jewish view, one may say that the Jewish view is near absolutist. Since Cohn is an Orthodox rabbi and Tamari is a well-known and highly respected Jewish scholar, one must at least concede that the viewpoints expressed in their articles at least represent some segment of Jewish thought on the issue. Some of the literature Cohn bases his position on goes back 3300 years. The literature Tamari cites also goes back hundreds of years.

According to Cohn (1998), the Jewish legal perspective on paying taxes has four components:

- There is a duty to follow the country's statutes.
- Laws prohibit lying.
- A Jewish person must not do anything that could discredit the religion.
- Since it is essential for a Jewish person to perform as many commandments and good deeds as possible, it is essential to stay out of jail, since the Jewish religion cannot be practiced properly in prison.

While these reasons for paying taxes may be used as general guidelines, Cohn seems to indicate that they are absolutes or near absolutes according to Jewish law. If they are indeed absolutes, all four rules are subject to criticism. For example, the case can be made that there may not always be a duty to follow all the laws of one's country. Martin Luther King, Gandhi and numerous other civil rights activists and war protesters would argue that there may at times be a moral obligation to break certain laws if they are evil laws and if the legislature is unlikely to change them any time soon.

One could counterargue that if you don't like the laws of the country where you are living you can move, but, as previously mentioned, that option may not always be attractive, or even possible. Also, what if you are already living in the greatest country on earth? To move to another country would be to move to a place that is not as acceptable as the place you now live.

If one were to play devil's advocate, one might ask whether Jews have an obligation to obey all the laws of the country, and to pay all the taxes they legally owe, if Hitler were the tax collector. I asked Cohn this question via e-mail but he did not reply.

Thus, while one may state that there is a general obligation to obey the laws of the government of the country where you live, philosophical problems arise when one attempts to make this general guideline an absolute.

The second reason Cohn offers for paying taxes – that laws prohibit lying – may also be an acceptable general rule, subject to exceptions. But there may be situations where lying is the only moral thing to do. For example, what if your neighbor comes running into your house, brandishing a gun or axe, and asks "Where is my wife? I'm going to kill her. Do you know where she is?" If his wife were like the average wife, who is probably less than perfect but probably not bad enough to consider killing, it would be safe to say that you can honestly lie and tell him you do not know where she is, even if you are actually hiding her in the basement.

One might use a similar example to justifiably lie to the government. What if, instead of a husband looking for a wife to kill, it were the Gestapo looking for Jews? Certainly there would be no moral duty to tell the Gestapo you are hiding a few Jews in your basement, even if lying would tend to tarnish respect for the rule of law.

Cohn's third reason, that one must not do anything that would discredit the religion, may be labeled as self-serving. This argument falls under the category of paying taxes because there is a duty to some segment of the community, the segment in this case being the Jewish community. Also, it is not always clear that the whole religion is seen in a bad light just because one member of the religion engages in activity that is considered dishonest. This argument would be stronger in an Orthodox or Hasidic community than it would be in a Reform Jewish community, where religion plays a lesser role in the life of the average participant.

Cohn's fourth reason, that one should not evade taxes because it would limit the ability to practice one's religion, is basically another way of saying that one must not disobey the laws because you might be punished. As such, it is a strong argument, but one that does not necessarily have anything to do with ethics.

Tamari (1968) cites some of the same reasons as Cohn for a duty to pay taxes. Tamari points out that the Jewish law states you must follow the laws of the country where you live. But he also points out that the Mishnah Torah states that there is no moral obligation to pay taxes where the king usurps power or where the king is arbitrary or capricious or discriminatory or where taxes are confiscatory.

But he also points out that the Jewish literature regards tax evasion as theft. The theft may be from other citizens, who have to pay more taxes if the tax evader pays less. Clark (n.d.), on the other hand, states that the Mishnah Torah regards tax evasion as theft from the king. Either way, tax evasion is considered to be theft according to the Jewish literature, at least most of the time.

Christian views are mixed on the issue, although there is a strand within Christianity that is closely akin to the Jewish view. The Mormon view basically agrees with the Jewish view that tax evasion is always unethical, although for different reasons than those advanced by Jewish scholars. In fact, the Mormon view may even be considered more absolutist than the Jewish view because the Mormon view seemingly does not allow for exceptions.

Smith and Kimball (1998) cite several passages from the Mormon literature that support the view that there is a duty to pay taxes. One such argument is that one must obey the laws of whatever government you live under. On passage cited from *The Pearl of Great Price* states that Mormons believe in being subject to kings, presidents, rulers, etc., in obeying, honoring and sustaining the law. The thirteenth *Article of Faith* states that Mormons believe in being honest which, according to Smith and Kimball, includes honesty in the payment of taxes. The *Encyclopedia of Mormonism* (1992) is also cited as standing for the position that church members are required to obey tax laws. It goes on to say that if a church member disagrees with a particular tax law he may attempt to change the law or challenge the law in court. Any member who refuses to file a tax return or to pay whatever income tax is required is in conflict with the teachings of the Church. Smith and Kimball cite secondary Mormon literature that takes the position that tax evasion is a form of theft, although their mention of this position does not state whether it is theft from the government or theft from the taxpaying community. They cite several other sources and conclude that tax evasion is against the teachings of the Church. Nowhere in their article do they mention any exceptions to this rule, leading one to reasonably conclude that there are no exceptions.

One may criticize their absolutist position on several grounds. For example, did the Mormons in nineteenth century New York State have an absolute ethical obligation to pay taxes to the very government that was running them out of the state, sometimes at gunpoint? What about the various governments that prohibit them from practicing their religion? A number of modern governments fall into this category. Ayn Rand might refer to this mentality – the belief that the individual is morally obliged to obey the government even as it is placing its jackboot on your throat – as an example of the "sanction of the victim," which she discusses in several of her works (Rand 1968; Binswanger 1986).

DeMoville (1968) presents the Baha'i view on the ethics of tax evasion. Although he mentions the civil disobedience of Henry David Thoreau, Martin Luther King and Gandhi, their views are not the views of the Baha'i faith. He cites several passages from the Baha'i literature to show that the Baha'i view is absolutist, much like the Mormon view. The reasoning is also similar to that of the Mormons. Individuals must be loyal, faithful and honest toward the government under which they live.

DeMoville quotes from a letter written by the grandson of the Baha'i faith's founder to the Baha'i community in Germany in 1934, which stated that members are under a sacred obligation to wholeheartedly obey the Nazi regime, at least as long as the regime does not trample on religious freedom. The letter goes on to say that, although individuals should be prepared to sacrifice their own interests to those of the government under which they live, they do not have to endure violations of their religious freedom. But the letter goes on to say that if some government such as that of Germany or Soviet Russia prevents the holding of meetings or the publication of religious literature, Baha'is have a duty to obey. Baha'is are morally obligated to obey their government in all administrative matters. The only time there is no duty to obey is regarding the area of belief. Compromise in this area is not permitted even under threat of death or expulsion.

The Baha'i position may seem abhorrent to liberal democrats in the West, who believe there are limits to what any government may legitimately do. Anyone who believes in freedom of speech, the press and religion certainly would not agree with the Baha'i position. But that does not automatically mean that it is an incorrect position, only that there is room for disagreement. Certainly, no one is forced to be or remain a member of the Baha'i faith, at least not after reaching the age of adulthood, although there may be a lot of peer group pressure not to cast off the religion or even to take a cafeteria approach to the religion's doctrine.

A Closer Examination of View Two

The second view, which I label the anarchist view for lack of a better term, begins with the premise that all government is illegitimate. Government is a mere thief, which confiscates assets, percentages of paychecks, etc., without the consent of the owners of the property. The definition of theft is the taking of property without the owner's consent. The fact that it is sometimes some government that does the taking does not alter this basic definition.

The counterargument is that governments that derive their authority from the consent of the governed are legitimate and are thus entitled to some kind of support, although the exact specifics of the amount and type of support may not be easy to agree upon. Some supporters of government would restrict the scope of government to defense functions such as the support of an army, a police force and some sort of court system. Others would go beyond this nightwatchman state to include welfare state functions and redistribution of income.

Archists (those who believe in some government legitimacy and are thus not anarchists) often put forth the argument that any kind of workable democracy is legitimate and that individuals who live under the protection of a democratic regime have some duty to obey the laws of the country in which they live. Democracy may not be perfect, and may even at times trample on minority rights, but some duty is owed in any event just because some segment of the community supports the regime.

Not all governments are democratically elected, of course, including the government of China, which has the largest population in the world. Thus, not all supporters of government can use the democratic argument. However, even a certain percentage of the Chinese population believes that there is some duty to obey government and its laws. Legitimacy of government is deeply ingrained in Chinese culture. The mere fact that the Chinese government is not a democracy does not alter this pervasive belief.

In the West, the social contract theory is often used to legitimize government. According to this theory, whether it is the version put forth by Locke (1679), Hobbes (1651) or Rousseau (1762), some segment of the population, at some point in history decided to give up some portion of their liberty in exchange for government protection. Governments were formed to protect basic rights like the right to life and property. For those who do not believe that such rights exist, there is another argument, that governments were formed for protection purposes, and that subjects owe some duty to pay for the protection offered by their government.

Anarchists would be quick to dispute this position. They would assert that there never was such a social contract, and even if some group of individuals did, at some point in history, gather around a fire to discuss the formation of government to protect them from external and internal aggression, it does not follow that the current generation is bound by such agreement. It is a well established principle of law that one person may not be bound by a contractual agreement entered into by another unless there is some sort of principal agent relationship.

Lysander Spooner (1870), the nineteenth century American lawyer and anarchist, provided one of the best arguments for this position. The U.S. Constitution, which was signed by a few people in the last quarter of the eighteenth century, had little legitimacy even on the dates of signing because the individuals who signed it represented only themselves. Even in the cases where the signers were elected by some constituency, they were only elected by some minority of eligible voters. Anyone who did not vote for them cannot be bound by any agreement they enter into. So at most, only a few individuals who were living and who were of the age of majority could be bound by the U.S. Constitution. Anyone not living at the time of the signing certainly cannot be bound. By the time Spooner wrote his pamphlet on this topic (1870), most, if not all of the signers of the U.S. Constitution were dead. Thus, even if one concedes that some laws that are passed by some individuals who represent some part of the eligible electorate are legitimate as of the date of signing, any such laws become null and void at some point, and are not binding on a major part of the populace even while the ink is still wet.

Thomas Jefferson, the third president of the United States and the author of the U.S. Declaration of Independence, was certainly no anarchist. Anarchists do not run for president, as a general rule. However, Jefferson, who died several decades before Spooner's 1870 pamphlet came into existence, agreed with a watered down form of Spooner's argument. In a letter to John Wayles Eppes in 1813, Jefferson states:

> "We may consider each generation as a distinct nation, with a right, by the will of its majority, to bind themselves, but none to bind the succeeding generation, more than the inhabitants of another country."

Nearly a quarter of a century earlier (1789), writing to James Madison from Paris, Jefferson said:

> "The question Whether one generation of men has a right to bind another, seems never to have been started either on this or our side of the water. Yet it is a question of such consequences as not only to merit decision, but place also, among the fundamental principles of every government ... no such obligation can be transmitted ... the earth belongs ... to the living ..."

Jefferson believed that laws have a natural expiration date as members of the generation who were of the age of majority when the law was passed start to die. For example, if half of the people who were 21 at the time a particular law was passed are dead 19 years later, the law becomes null and void after 19 years. If half of the adult population dies 22 years after a particular law was passed, then the law dies after 22 years. One generation cannot bind another generation.

The view that one generation cannot bind another was a common view before the American Revolution. English libertarian writers John Trenchard and Thomas Gordon, who were influential in forming intellectual opinion in pre-Revolutionary America, said the following in the early 1720s:

> "All men are born free; liberty is a gift which they receive from God himself; nor can they alienate the same by consent, though possibly they may forfeit it by crimes. No man ... can ... give away the lives and liberties, religion or acquired property of his posterity, who will be born as free as he himself was born, and can never be bound by his wicked and ridiculous bargain." [Trenchard & Gordon, 1965]

Archists would be quick to challenge this view of the legitimacy of laws. They would argue that laws, once passed, remain binding on all who live within the jurisdiction for as long as the law exists. Laws disappear only when repealed, unless there is a clause within the law that states that the law is good for only a certain period of time.

Another argument that archists might put forth would be to assert that governments are like corporations. They continue to exist independently of their owners. Just like corporations do not die when a shareholder dies, governments do not go out of existence when a citizen dies.

Governments are not quite like corporations, however. Governments are of necessity a monopoly within any particular jurisdiction. Governments must have a monopoly on force in order to be effective. Corporations, on the other hand, are voluntary associations. One can become a member by buying shares and one can exit by selling the shares. If one wants to cease being part of a particular government, one must move to another jurisdiction where some other government has a monopoly position.

Which argument carries the day? There is a certain amount of disagreement on this point. Although the vast majority of the population subscribes to some form of archism, majorities are not always right. But the interesting point from the perspective of determining when tax evasion is ethical and when it is not is the fact that some people who consider themselves to be archists – believers in the legitimacy of government – sometimes take an anarchist position when it comes to the ethics of tax evasion.

A Closer Examination of View Three

View three is the prevalent view. This view holds that tax evasion is ethical in some cases and unethical in others. Crowe (1944) spends 177 pages discussing when tax evasion is ethical and when it is not. He summarizes 500 years of theological and philosophical debate on the issue.

Angelus of Clavisio (1494) took the position that there is no ethical obligation to pay taxes if the government does not use the revenues collected to provide for the common good, at least as long as neither lying nor perjury are involved. Berardi (1898) took the position that there is probably no moral duty to pay a tax even if lying or perjury are involved, since the Prince merely dictates what is owed. Taxpayers never enter into a contract with the Prince, and thus are not bound to pay anything. Genicot (1927) states that partial evasion is justified on the grounds that the government does not have the right to the full amount and that it would be unfair to impose heavier taxes on conscientious men while wicked men usually pay less. Crolly (1877) takes the position that there is no duty to pay taxes unless evasion would result in violence.

Lehmkuhl (1902) takes the position that it is unethical to evade taxes when the result is that nonevaders have to pay more. In other words, there is some moral duty to other taxpayers even if there is no moral duty to the government. But Davis (1938) takes the position that it would be unfair to require honest taxpayers to take up the slack and pay higher taxes to make up for the evasions of others.

The Muslim view toward tax evasion seemingly falls under category three, that evasion is sometimes ethical (McGee, 1997, 1998b, 1999a). Ahmad (1995), citing Yusuf's *Economic Justice in Islam* (1971), lists the following practices that would be considered unethical in an Islamic state:

- It is immoral on the part of the state to use its power and privilege to make monopolistic gains or to tax the common people indirectly for replenishing the exchequer thereby.
- There is no room in Islam for custom barriers, restrictive tariffs or exchange control. The Islamic state, therefore, must not resort to them.
- It is illegitimate and unlawful for the state to tax directly or indirectly the general body of consumers and to give "protection" to the interests of a class of producers in the name of industrialization.
- Since it is the duty of the state to dispense justice free of charge, therefore, there must not be any court-fees, revenue stamps or fees of any kind for the transaction of any official business.
- There must not be any "income" tax as such. Besides curbing the initiative it assumes illegitimacy of the income of the rich. The state should levy, if need be, a proportional tax on the pattern of zakat on the accumulated wealth of the capable tax-payers.
- The state should not resort to indirect taxation. If the state has to tax, then, it should do so directly so that the taxes represent a conscious contribution of the people to the cause of public interest.
- That there is no justification for imposing death duty. Islamic laws of inheritance take care of the wealth left by the deceased.

If the view of this Islamic scholar (Yusuf 1971) accurately reflect the Muslim position on the moral obligation to pay taxes, then it would seemingly not be unethical for a Muslim to evade indirect taxes, which include excise taxes, customs duties and perhaps corporate income taxes. Muslims could also morally avoid paying tariffs and could engage in smuggling, provided the goods being smuggled are not against Islam, such as alcohol or cocaine. Evading income taxes also would not be immoral, although evading a property tax might be.

Ahmad (1995) states that there is no moral obligation to pay any tax that has the effect of increasing consumer prices. Sales taxes, excise taxes and tariffs fall into this category.

An argument can be made that there is nothing unethical about not paying all the taxes that are legally owed if you are a Jew living in Nazi Germany. There is no moral obligation to help pay for the canisters of poison gas that the government plans to use to kill you and your family. Likewise, there is no moral obligation to pay taxes if you are a Mormon living in New York State during the period of the nineteenth century when Mormons were being run out of New York at gunpoint. There is no ethical obligation for a member of the Baha'i faith to pay taxes to the Iranian government when the government is expending funds to kill Baha'is.

People who agree with any of these above-mentioned positions are not absolutists, since they believe that tax evasion is ethical in some cases.

But taking such a position only begins to answer the question. The next question that needs to be answered is, if tax evasion is ethically justified in certain circumstances, what are the limits? At what point does tax evasion become ethically justified? Schansberg (1998) raises this point, as do other scholars (Pennock 1998; Gronbacher 1998; McGee 1994, 2004).

What if your country is fighting a war that you consider to be unjust? Or what if you are a pacifist and consider all wars to be unjust? Pennock (1988) discusses some of these issues. If 22 percent of the federal budget is spent on national defense, are you morally justified in evading 22 percent of the tax you legally owe, or are you ethically justified in evading more than 22 percent, since all tax collections go into a common pot anyway and whatever taxes you pay might be used to further the war effort?

What if you live under a corrupt government, where a large portion of tax revenue goes to corrupt politicians and their friends and family? Are you any less justified in evading taxes if those corrupt friends and relatives use part of the proceeds to built roads and hospitals than if they send the funds to secret offshore accounts?

What if you are in a high tax bracket and the government takes more than 90 percent of your marginal income, while taking a much lower percentage from people who have lower incomes? In such cases you are being treated as a resource, as a means rather than an end, which violates Kantian ethics. If the government uses the tax system as a means of redistributing income rather than as a means of financing legitimate government functions, are you justified in evading taxes? What if the government's tax system has both the goal of raising revenue for legitimate government functions and also redistribution? Are you justified in evading only the portion that goes for redistribution? What if 80 percent of your neighbors view redistribution as a legitimate goal of government? Does that change your answer? Even though a strong case has been made that redistribution is inherently unethical (deJouvenel 1952), many people, perhaps a clear majority, disagree with this view.

Is there a duty to pay taxes if the government supports the Anglican Church, as is the case in England, if you are a Catholic? Or an atheist? What if the government subsidizes abortions and you think that abortion is murder? What if the government supports affirmation action programs (reverse discrimination programs) and you are a white male?

What if evading a tax actually benefits society? Is there an ethical duty to evade in such a case? If a tax actually does more harm that good, an argument based on utilitarian ethics could be made that evading the tax is a moral obligation since evasion would result in the greatest good for the greatest number. Evading tariffs is one such case where evasion might actually increase societal well-being, since tariffs are negative-sum games. They produce more losers than winners. Evading a tariff would thus prevent a negative-sum game from taking place.

The point is that, once it is conceded that tax evasion is sometimes ethical, there is no clear dividing line that people can agree on regarding when evasion is ethical and when it is not. One purpose of this study, the reason why a questionnaire was constructed, was to get a better picture of current thinking on these issues.

METHODOLOGY

After reviewing the Crowe thesis (1944), which summarized the 500 year theological and philosophical debate that has been going on regarding the ethics of tax evasion, and after becoming familiar with the scant recent philosophical literature on the topic, a survey was developed that incorporates all the major issues that have been discussed in the literature. The survey included 18 statements that reflect all three viewpoints on the issue. The survey was then translated into Romanian and distributed to graduate students and upper level undergraduate students at the Romanian-American University in Bucharest, Romania. Respondents were instructed to insert a number from 1 to 7 in the space provided to reflect the extent of their agreement or disagreement with each of the 18 statements. A score of one (1) represented strong agreement with the statement. A score of seven (7) represented strong disagreement with each statement.

THE SURVEY

The survey, which is included in the Appendix, consisted of 18 statements covering the three main viewpoints that have emerged over the last 500 years regarding the ethics of tax evasion. The survey was distributed to graduate students and upper division undergraduate students at the Romanian-American University in Bucharest, Romania in the spring of 2005. One hundred thirty-four (134) usable responses were received.

THE RESULTS

The survey was completed by 39 males, 93 females and 2 individuals of unknown gender. Table one summarizes the breakdown by gender.

Table 1
Responses by Gender

Male	39
Female	93
Unknown	2
Total	134

Table 2 reports the combined (male and female) scores for each of the 18 statements. Responses show that Romanian students fall into the third category – tax evasion is justified in some circumstances but not in others. Thus, their opinions are in agreement with the main view that has been reported in the theological and philosophical literature over the last 500 years.

However, their responses also show that, although tax evasion may be acceptable under certain conditions, some arguments justifying tax evasion are stronger than others. None of the response averages produced low scores, which indicates that even the strongest arguments justifying tax evasion are not very persuasive.

Table 2
Combined Scores
(1= strongly agree; 7 = strongly disagree)

Stmt. #	Statement	Scores
1	Tax evasion is ethical if tax rates are too high.	4.17
2	Tax evasion is ethical even if tax rates are not too high.	5.00
3	Tax evasion is ethical if the tax system is unfair.	3.87
4	Tax evasion is ethical if a large portion of the money collected is wasted.	4.38
5	Tax evasion is ethical even if most of the money collected is spent wisely.	4.80
6	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.	4.69
7	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.	4.72
8	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.	4.95
9	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.	4.86
10	Tax evasion is ethical if everyone is doing it.	5.24
11	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.	4.18
12	Tax evasion is ethical if the probability of getting caught is low.	5.16
13	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.	4.45
14	Tax evasion is ethical if I can't afford to pay.	4.16
15	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.	5.03
16	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935.	4.50
17	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.	4.07
18	Tax evasion is ethical if the government imprisons people for their political opinions.	4.32

Table 3 ranks the responses, from strongest argument to weakest argument supporting the position that tax evasion is ethical. The scores ranged from 3.87 (strongest argument favoring tax evasion) to 5.24 (weakest argument). Surprisingly, statement 16 -- Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935 – did not come in first. That statement was added specifically to test the limits of the issue. Surely, if tax evasion were ever ethically justified, it would be the case where Jews are asked to pay taxes to Hitler. To hold otherwise would be to argue that Jews have a moral obligation to help pay for the poison gas that will be used to exterminate them and their families.

Both of the scholars who wrote articles on tax evasion from the Jewish perspective (Cohn, 1998; Tamari, 1998) had taken the position that under Judaism there is never, or almost never, an ethical reason not to pay taxes. My own view was that statement 16 would be an exception to that general rule. I asked both of those Jewish scholars to give me their opinion on this point but neither of them returned my e-mails. Romanian respondents ranked this statement 9 out of 18, which means they did not think this reason was very compelling.

The most compelling arguments favoring the ethical evasion of taxes seemed to involve some concept of fairness. The strongest ethical argument for tax evasion was that "Tax evasion is ethical if the tax system is unfair." Fairness was deliberately not defined, for a variety of reasons. For one, it is difficult to define fairness when it comes to taxes because everyone has a different opinion about what fairness is. Some people think that the rich should pay more, while others think the rich are being exploited. Some people think that the income tax is fairer than the property tax while others think just the opposite.

Table 3
Ranking of Arguments
Ranked from Strongest to Weakest
Arguments Supporting Tax Evasion
(1= strongly agree; 7 = strongly disagree)

Rank	Argument	Score
1	Tax evasion is ethical if the tax system is unfair.	3.87
2	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.	4.07
3	Tax evasion is ethical if I can't afford to pay.	4.16
4	Tax evasion is ethical if tax rates are too high.	4.17
5	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.	4.18
6	Tax evasion is ethical if the government imprisons people for their political opinions.	4.32
7	Tax evasion is ethical if a large portion of the money collected is wasted.	4.38
8	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.	4.45
9	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935.	4.50
10	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.	4.69
11	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.	4.72
12	Tax evasion is ethical even if most of the money collected is spent wisely.	4.80
13	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.	4.86
14	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.	4.95
15	Tax evasion is ethical even if tax rates are not too high.	5.00
16	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.	5.03
17	. Tax evasion is ethical if the probability of getting caught is low.	5.16
18	Tax evasion is ethical if everyone is doing it.	5.24

Some of the responses seemed to be irrational. For example, the statement "Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me," ranked 13, which is a stronger moral argument favoring tax evasion than the statement "Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me," which ranked 14. One would think that the justification for tax evasion would be stronger if you don't get any benefits from the taxes you pay. Yet the response to these two statements revealed that just the opposite was the case.

Here are some of the responses that were given in the optional comment section of the survey:

- Tax evasion is sometimes determined by objective factors (corruption, lower life standards, "inhumanly" taxed low income). As long as tax evasion is not performed by companies that only look for a bigger profit and want to avoid current legislation, I believe that tax evasion can be ethical (taking into consideration the fact that there are really people out there who cannot pay taxes that are too high for their standard of living).
- In my opinion, tax evasion is unethical, because we do not fulfill our obligations as citizens of a certain country; along with our obligations come rights. If in a certain country the population does not receive the necessary services (for which it pays) then it is within its rights to use that money that the state is "entitled" to for its personal purposes. To sum up, there should be a relationship of respect between the state and the population where each of the parties should fulfill their obligations.
- In my opinion, tax evasion is directly proportional with the way in which public money is being spent. If this money is not used in a way in which the taxpayers feel clear effects translated into a better standard of living, then tax evasion will be conducted in an abusive way. Corruption and political incapacity, as well as taxes that are too high, make the population see tax evasion as a way out.
- Generally speaking, tax evasion can't be ethical. All the arguments shown above are just more examples of infantile excuses for practicing something forbidden by law [COMMENT: Most of the statements included in the survey were made by religious or secular scholars and have been seriously debated in the literature for hundreds of years.]
- Tax evasion cannot be considered ethical.
- Tax evasion is in almost all cases unethical. The main idea is that if you disapprove of your tax system you should do something to change it, express your opinion in public at least, instead of going behind it. If you can't change it and just can't adjust to the taxation system, you could always move to a more democratic country. [COMMENT: Some of the most democratic countries – Denmark, Norway, Sweden and Finland, for example – are also some of the highest tax countries, leading one to conclude that the more democratic a country is, the higher the taxes. Thus, the solution to being overtaxed might be to move to a less democratic country.]
- I think that tax evasion can only be justified if a person is not capable of paying his debts and if he thinks that a lot of the money he pays as

taxes are wasted or are used by some corrupt politicians. Also my opinion is that tax evasion cannot be justified by the people who are persecuted by their government only for their religion or race and if they think that the tax system is unfair and corrupt. I cannot agree with those who practice tax evasion for childish reasons.

- Tax evasion has been and still is being practiced in almost all ex-Soviet Union countries. The problem here seems to be the high bureaucracy that suffocates any business to have the expected profit. It's easier to bribe officials here than pay the tax officially. It will take many years and generations to create a clean economy.
- The ethics of tax evasion are very well understood and this is exactly why there are so many who practice tax evasion. Tax evasion – I would apply it with no regrets if I would have the chance (even though for the questions I have given the correct answers, according to the law). [COMMENT: This respondent gave 7s for all statements except statements 7, 14 and 17. For those statements she gave 1s. If her sentiments are widespread – giving legally correct responses to the survey while believing something entirely different – attitudes toward tax evasion might be entirely different than what the survey indicates. Perhaps another survey having different questions would yield different results.]
- Tax evasion is closely related to corruption and to the existence of a permissive legislative system.
- I think tax evasion is illegal no matter the circumstances. Once we agreed with the taxes we must pay them. I consider tax evasion unfair mostly in the case of rich people who own companies and have false, untrue balance sheets in order to avoid paying the taxes. If not even they pay, who can afford it, what can we say about the poor people who really don't have resources? [COMMENT: This respondent confuses what is legal with what is ethical. Although many people, even philosophers, seem to think that what is legal is also ethical and vice versa, such is not the case. The respondent also seems to think that just because some group of voters elect representatives who pass a tax law, that means that there is an ethical obligation to pay. If some legislature imposed heavier taxes on some disfavored ethnic group, it does not follow that the tax is moral and must be paid. Or does it?]
- For me it is not a problem of ethics because I think if you have to pay, you pay. [COMMENT: I wonder if his opinion would change once he starts paying taxes and has an opportunity not to pay. The tax collection system in Romania is underdeveloped. There are ample opportunities not to pay, especially if you own a small business.]
- The ethics of tax evasion is a concept that manifests itself relatively, according to the circumstances in which we talk about the utility of

tax evasion. I consider that tax evasion is ethical when the state authority employs measures that I morally disapprove of and are against the good of the people in general. Tax evasion is ethical if, for example, the taxes collected by the state are used for purposes that harm the population. If we are to consider faith (religious), we can say that it is out duty to help others as much as we can; however, we need to pay attention to the actions of the state.

- Basically, I consider tax evasion totally unethical. But I believe it is not to blame if the one who practices it is treated unfair or discriminated against by the law itself. "The law of survival" forces one to act this way.
- We live in the country and we must obey the law of the country whether we like it or not, and everyone says no one is above the law (Romanian proverb). [COMMENT: This view coincides with the Jewish, Mormon, Baha'i and some Christian views.]
- Tax evasion can be a serious problem in transition economies. It can be a problem because everybody knows about it but nobody wants to admit that it is widespread. In many cases tax evasion cannot be considered unethical in transition economies because the taxes are very high and the biggest part of the money is wasted on apparently attractive programs that are really attracting more money into the corrupt politicians' pockets. Tax evasion will be unethical only at the moment when that corruption will be very low and the money will be spent wisely.
- Tax evasion is never ethical because you have to put money into the system in order to take it. Tax evasion is ethical from some point of view because most of the people asked answer almost all of the time that the state is a thief and does not deserve our money that we work so hard for.
- I believe laws should be created in such a way that would make us consider it ethical to comply with them; to agree and to be able to respect them. I consider any breaking of the law to be unethical. [COMMENT: Martin Luther King, Gandhi and Thoreau would disagree with the last statement.]

If one were to summarize the comments in a single sentence, it would be that the views of the respondents are divergent, yet correspond to several of the main arguments that theologians and philosophers have been making in the literature for the last 500 years.

Table 4 compares the male and female scores. Male scores were higher for 12 of the 18 statements. However, in many cases the scores were not that far apart, so it cannot be said that the males were more opposed to tax evasion than were the females.

This result differs significantly from the findings of the international business academic (McGee, 2005) and Guatemalan student surveys (McGee and Lingle, 2005). In both of those studies, females were significantly more opposed to tax evasion than were males. In the international business academic study, females scored higher than the males on each of the 18 statements. In two cases, the female scores were more than one point higher. For one statement, the female score was more than two points higher than the male scores.

Table 4
Comparison of Male and Female Scores

Stmt. #	Male Students Average Score	Female Students Average Score	Score Larger By	
			Male	Female
1	4.49	4.06	0.43	
2	5.38	4.82	0.56	
3	3.72	3.94		0.22
4	4.34	4.33	0.01	
5	4.79	4.84		0.05
6	4.87	4.61	0.26	
7	4.85	4.71	0.14	
8	4.87	4.96		0.09
9	4.68	4.95		0.27
10	4.82	5.40		0.58
11	4.29	4.08	0.21	
12	5.26	5.10	0.16	
13	4.67	4.35	0.32	
14	4.13	4.17		0.04
15	5.08	5.01	0.07	
16	4.70	4.42	0.28	
17	4.44	3.91	0.53	
18	4.74	4.14	0.60	

Five male faculty also completed the survey. Although the sample size is too small to draw strong conclusions, the results are presented in Table 5 for the reader's benefit. Three of the five faculty respondents answered seven (7) for all 18 statements. The other two respondents answered seven (7) for at least ten of the 18 statements.

Table 5
Faculty Scores
(1= strongly agree; 7 = strongly disagree)

Stmt. #	Statement	Scores
1	Tax evasion is ethical if tax rates are too high.	7.00
2	Tax evasion is ethical even if tax rates are not too high.	7.00
3	Tax evasion is ethical if the tax system is unfair.	6.40
4	Tax evasion is ethical if a large portion of the money collected is wasted.	6.20
5	Tax evasion is ethical even if most of the money collected is spent wisely.	6.20
6	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.	7.00
7	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.	7.00
8	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.	7.00
9	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.	7.00
10	Tax evasion is ethical if everyone is doing it.	7.00
11	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.	5.60
12	Tax evasion is ethical if the probability of getting caught is low.	7.00
13	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.	5.60
14	Tax evasion is ethical if I can't afford to pay.	7.00
15	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.	6.80
16	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935.	6.80
17	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.	6.40
18	Tax evasion is ethical if the government imprisons people for their political opinions.	6.40

SUMMARY AND CONCLUSIONS

If one were to summarize the results of the survey in a single sentence it would be that most Romanian business students subscribe to the third view, that tax evasion is ethical in some cases and unethical in others. Although some moral arguments for tax evasion were stronger than others, none of the arguments that have been made over the last 500 years proved to be very persuasive, as evidenced by the scores. But the responses and the accompanying comments suggest that the general view is that tax evasion can be justified, a finding that agrees with much of the theological and philosophical literature of the last 500 years.

One rather surprising feature of the survey was the apparent strong support the respondents gave their government. One would think that people who have lived under communism would have much less support for their government, and thus would have little qualms about evading taxes. One explanation for this positive attitude toward government might be the age of the respondents, and perhaps the fact that many of them have not yet experienced what it is like to pay taxes The respondents were graduate students or upper division undergraduate students. They were too young to remember the communist dictatorship of Nicolae Ceaucescu, who was killed on December 25, 1989. One area for further research would be to conduct a survey of people over 40. Perhaps their attitude toward tax evasion would be different. If the results were not significantly different, one explanation might be that the present government has the support of the people.

There are many other possibilities for further research on this topic. One could give the same questionnaire to another segment of the Romanian community. Seminarians studying in Romanian seminaries might yield different results, since they are likely to be more familiar with the theological literature than is the average business student. Giving the survey to faculties in philosophy, political science or law might also have different results. Romanian business owners probably have stronger views on the issue of paying taxes than do business students, who have had little or no exposure to the real world of paying taxes.

One might also replicate this study in other countries, surveying any of the groups mentioned above. One would expect that the views of individuals who live in transition economies might be different than the view of people who live in a developed market economy. This preliminary perception could be tested by conducting a comparative study of one or more transition economies and one or more developed countries. One might solicit the views of various kinds of students in business, philosophy, theology, political science or law, or business owners. The present author is now engaged in several such studies. The results of these studies will be posted on the Social Science Research Network website www.ssrn.com as they are completed.

APPENDIX – THE SURVEY

The survey was distributed in Romanian. The English language version is included here for the benefit of the reader.

ENGLISH VERSION

THE ETHICS OF TAX EVASION

Instructions: Jesus said that we should give Caesar the things that are Caesar's and give God the things that are God's, but he didn't say what Caesar is entitled to receive. Tax evasion is defined as the illegal nonpayment of a tax. Tax avoidance, on the other hand, occurs when someone finds a way to legally minimize or reduce taxes. Please answer the following questions dealing with the ethics of tax evasion. Please return the completed questionnaire, either by post or e-mail attachment, to:

Please insert the appropriate number in the space provided for the following statements.

1______2______3______4______5______6______7
Strongly Agree   Strongly Disagree

1._____Tax evasion is ethical if tax rates are too high.

2._____Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me.

3._____Tax evasion is ethical if the tax system is unfair.

4._____Tax evasion is ethical if a large portion of the money collected is wasted.

5._____Tax evasion is ethical even if most of the money collected is spent wisely.

6._____Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.

7._____Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.

8._____Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.

9._____Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.

10._____Tax evasion is ethical if everyone is doing it.

11._____Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.

12._____Tax evasion is ethical if the probability of getting caught is low.

13._____Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.

14._____Tax evasion is ethical if I can't afford to pay.

15._____Tax evasion is ethical even if it means that if I pay less, others will have to pay more.

16._____Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1935.

17._____ Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.

18._____ Tax evasion is ethical if the government imprisons people for their political opinions.

I am a(n): ___graduate student ___undergraduate student

___faculty member
___other____

My main area of study is _____accounting _____business/economics

_____theology/religious studies ____philosophy _____law

____other (specify)____________________________________

I am ____male _____female

(Optional Comments) What are your views on the ethics of tax evasion? What determines whether tax evasion is ethical or unethical? You may use the back of this questionnaire if you need more space.

ROMANIAN VERSION

ETICA EVAZIUNII FISCALE

Instrucțiuni: Isus a spus că trebuie să dăm Cezarului ce-i al Cezarului şi lui Dumnezeu, ce-i al lui Dumnezeu, dar nu a intrat în detalii în legătură cu ce anume îi este destinat Cezarului. Vă rog să răspundenți la următoarele întrebări cu privire la etica evaziunii fiscale. Dacă ați completat deja acest chestionar în cadrul unui alt curs, nu este necesar să îl completati din nou.

Vă rog inserați numărul potrivit în spatiul alăturat următoarelor afirmații:

1______2______3______4______5______6______7
Acord Total — Dezacord Total

1._____Evaziunea fiscală nu poate fi considerată ne-etică dacă taxele sunt prea ridicate.

2._____Evaziunea fiscală nu poate fi considerată ne-etică nici chiar dacă taxele nu sunt foarte ridicate.

3._____Evaziunea fiscală nu poate fi considerată ne-etică dacă sistemul fiscal este nedrept.

4._____Evaziunea fiscală nu poate fi considerată ne-etică dacă o mare parte a banilor strânsi este irosită.

5._____Evaziunea fiscală nu poate fi considerată ne-etică nici chiar dacă majoritatea banilor strânşi este înțelept folosită.

6._____Evaziunea fiscală nu poate fi considerată ne-etică daca majoritatea banilor adunați sunt cheltuiți pe proiecte cu care nu sunt de acord din punct de vedere moral.

7._____Evaziunea fiscală nu poate fi considerată ne-etică nici chiar dacă majoritatea banilor adunați este cheltuită pe proiecte care merită.

8._____Evaziunea fiscală nu poate fi considerată ne-etică dacă majoritatea banilor adunați sunt cheltuiți pe proiecte de pe urma cărora eu nu beneficiez.

9._____Evaziunea fiscală nu poate fi considerată ne-etică nici chiar dacă majoritatea banilor sunt cheltuiți pe proiecte de care eu beneficiez.

10._____Evaziunea fiscală nu poate fi considerată ne-etică dacă toată lumea o practică.

11._____Evaziunea fiscală nu poate fi considerată ne-etică dacă o parte semnificativă a banilor adunaţi ajung în buzunarele unor politicieni corupţi, a familiilor sau prietenilor acestora.

12._____Evaziunea fiscală nu poate fi considerată ne-etică dacă probabilitatea de a fi prins(ă) este redusă.

13._____Evaziunea fiscală nu poate fi considerată ne-etică dacă o parte din bani se duc pe finanţarea unui război pe care eu îl consider a fi nedrept.

14._____Evaziunea fiscală nu poate fi considerată ne-etică dacă nu îmi pot permite să plătesc.

15._____Evaziunea fiscală nu poate fi considerată ne-etică nici chiar dacă aceasta presupune ca eu să plătesc mai puţin, în timp ce alţii plătesc mai mult.

16._____Evaziunea fiscală nu poate fi considerată ne-etică în cazul în care aş fi un evreu trăind in Germania nazistă, in 1935.

17._____Evaziunea fiscală nu poate fi considerată ne-etică dacă sunt discriminat(ă) de guvern pe baza religiei, rasei sau a etniei.

18._____ Evaziunea fiscală nu poate fi considerată ne-etică dacă guvernul arestează indivizii pentru opiniile politice exprimate.

Sunt înscris(ă) la studii: ___postuniversitare ___universitare

___membru al corpului didactic

___aletele____

Principalul meu domeniu de studiu este _____management/economie
_____teologie

____filozofie ____altele
(specificati)___________________________________

Sex ____masculin _____feminin

(Comentarii - opţional) Care sunt părerile dumneavoastră cu privire la etica evaziunii fiscale? Ce face ca evaziunea fiscală să fie considerată etică sau ne-etică? Puteti folosi verso-ul foii în cazul în care aveti nevoie de mai mult spaţiu.

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