The Relationship between Economic Performance and Accounting System Reform in the CEE Region: The Cases of Poland and Romania

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Abstract

The transition towards a free-market economy and democratic society in the Central and Eastern European (CEE) countries encompasses complex processes of socio-economic transformation from the centrally-planned economy and communist regime. The reforms of the accounting systems in the CEE countries can be envisaged as a multi-dimensional phenomenon, incorporating legal and educational changes at national, institutional, organisational levels. These reforms are shaped, in large, by the cultural specificity of every country and their professional and local traditions. In this paper we develop a framework for analysis of accounting systems reforms in the CEE countries. Applying this framework, we explore national accounting system reforms embedded in structural local conditions in two contrasting examples of the CEE region: Poland and Romania. What emerges from the study are insights indicating that accounting system reform represents an essential medium in reducing the resistance to transition change, in particular in the processes of familiarisation (socialisation) with capitalist principles and ways of thinking supportive of a market-driven economy.

Keywords: accounting system, socio-economic development, Poland, Romania

JEL Classification: M14, M41, P20

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Introduction

The research has demonstrated that accounting follows different patterns in different parts of the world (International Accounting Guide, 2001). The national systems are determined, in large, by socio-political conditions and are situated in the wider environmental and cultural milieux. Constructed accounting systems, in each country, serve information needs of various groups of accounts’ users; its characteristics vary depending on public policies, national philosophies and culture, guiding the system’s methodology. Hence, structural conditions of the national accounting system impact upon local practices and attitudes towards disclosure of information (e.g. Parker and Nobes, 2000; Alexander and Archer, 1998; Gray, 1988).

The socio-political system of each individual country impacts upon the institutional arrangements for establishing the accepted norms for best practice, principles of conduct and the degree to which (accounting) information is perceived as an important source of decision making process. For instance, the accounting system in the Western capitalist context is perceived as an essential part of the control mechanism of the market economy (Stiglitz, 1994), providing representation of the multitudinous activities of the business undertakings. The emphasis is upon providing the proper accounting record, a fair representation, and subsequently improvement of the information context for decision makers and the wider public. As the pricing system forms a basis of an accounting system, there is a symbiotic relationship between accounting, markets and prices mechanisms.

This paper analyses accounting system reforms in the context of economies in transition towards market-based regimes, in the CEE. The geographical centre of Europe is located at the meeting point of the Bielorussian - Lithuanian - Polish frontiers, on the boundary of the Roman empire, and latter, the Ottoman Empire; that is in the area bounded by Prague-Vienna-Budapest-Krakow line. This region, referred often as the CEE region, includes: Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Serbia, Croatia, Bosnia, Slovenia, Macedonia1.

The CEE region is no less diverse politically, economically and culturally than Western Europe. It could be argued that the CEE identity is constructed as a result of a struggle between Western(ised) and Slavophiles (Eastern) values, in the context of the recent, complex

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1 Constituents of the former Soviet Union: Russia, Ukraine, Belarus and Moldova have not been classified under the category of the CEE, as it is believed they form separate political economical and cultural identity being identified more with Eastern values in the socio-political context. Also, the Baltic States of Estonia, Latvia and Lithuania did not introduce market reforms until they became independent in 1991.
history of the 20th century. In this study, a special consideration is given to the influence of local conditions in the processes of transforming accounting systems and establishing law enforcement and authority under the transition.

Accounting, perceived as business language, becomes a socio-economic necessity in the CEE, responding to evolving conditions of the market economies. Facilitating the development of business reporting and emphasising the importance of transparency, accountability and comparability in disclosure, the national accounting system may influence the speed of socio-political transition and economic reforms. It also may have a significant impact upon processes of attracting foreign investment, desperately required in this part of the world.

This paper critically evaluates accounting systems reform in the CEE region on the example of two post-communist economies, Poland and Romania, and delineates the implications of this reform for transition processes. Poland and Romania were selected as two contrasting examples of the former centrally planned economies. Poland is in a group of the CEE countries, together with Hungary and Slovenia, which were exposed to some degree of market activities prior to transition, allowing for some private initiative. Romania, on the other hand, is part of the group of countries, together with Bulgaria and Albania, which suffered from tighter controls at the level of national policy under the Soviet regime and experienced more severe levels of bureaucracy prior to transition.

The development of accounting systems in the CEE region has inevitably been subject to many discontinuities, such as the partition experience of Poland in the 19th century, and the influences from the pre-communist and the communist period. This paper explores how accounting systems in Poland and Romania were constructed in the socialist era and reshaped in the beginning of the 1990s.

The remainder of the papers is organised as follows. First, the nature and role of the accounting system construct under the communist regime is discussed. Secondly, the proposed framework for analysis of accounting system reforms in the CEE region is presented. Third, the evolution of accounting systems in the two selected countries, Poland and Romania, and the relationship between economic performance and the accounting reform are presented and analysed. Finally, conclusions regarding the role of accounting systems

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2 The importance of accounting system construct in the pre-communist period, although acknowledged in the formation of the accounting system, exceeds the scope of this paper.
reform in transition economies for the CEE region are provided and implications for further research are delineated.

**Accounting systems in the socialist era**

Under the communist regime in the CEE region philosophy of historical materialism\(^3\) was shaping the design of socialist accounting information systems, as well as an understanding of the role of accounting function. Socialist accounting system was characterised by ‘operating’ in the absence of the real and effective price mechanisms. The objective of the system was to record immediate effects of the activities of the state enterprises in monetary terms but deriving from the pre-determined prices.

As prices were controlled and contrived (i.e. based on the average planned cost for a branch of industry plus a mark up), records generated by the system lacked an economic substance. Driven by the communist ideology, it was intended to render accounting information unusable for guiding economic performance. In effect, accounting was neutralised. At the same time, accounting in the capitalist (Western) countries was perceived as a tool of exploitation in legitimising the private appropriation of a socially produced surplus and consequently the unfair distribution of state income (Bailey, 1995).

After 1945, each country of the CEE region looked to the Soviet Union for ideological and methodological guidance in the early stages of restructuring of the existing national systems, developed in the between wars and before. A form of standardisation, through the design of charts of accounts (Berry, 1983), encouraged uniformity in valuation and allocation methods, preparation of financial statements and internal reports. The standardisation of accounting practice and the heavy reliance on economic modelling, developed by the economic experts, led to a divorce between economic planning and accounting monitoring, and resulted in a gradual loss of creativity and innovation in practice.

The accounting system in the CEE, enveloped in the communist ideology, served both macro and micro-economic purposes. At macro-economic level, the standardisation of accounting practices was necessary to facilitate trade within the communist bloc, which was conducted on the rouble-based control system (de la Rosa and Merino, 1997). Considering the micro-economic aspects, it was argued that state control took a primary function of the accounting system developments under the centrally planned economy. Incorporated into the central

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\(^3\) This Marxist philosophy holds that history is guided by certain laws and because it is deterministic, little influence on its development can be ascribed to individuals. A change is affected by synthesis, that is, a higher force which resolves an opposition.
administrative systems of overseeing activities of all enterprises and internalised in the
national economic plans, accounting was congruent with national economic policy. Data
generated by the national system was used as input for economic planning processes and as an
aid to evaluate country average (macro) economic performance. Another macro-task of the
system was process of safeguarding the socialist property entrusted to all enterprises
(Makarov, 1983).

The actual performance of state enterprises was revealed through a comparison of the planned
and the actual performance indicators. Although not indented as information and used for
guiding the activities of the enterprise, accounting records were relevant in both a
determination of bonus entitlements, linked to an individual entities’ performance, and a
correct profit appropriation among employees. Accounting data, reflecting the activities of
individual enterprises did not enter the public domain. There was no concept of accountability
in relation to individual enterprise performance. Instead, data was accumulated at macro-scale
through statistical summaries, demonstrating the overall macro-economic performance.
Financial reporting was hierarchical (state authorities structures-oriented) rather than lateral
(market-oriented). Accounting records were much more important than financial statements.
The accounting information flew directly to the superior state administrative authorities. Data
was used selectively for checking up on an enterprise’s performance against the established
plans, looking for irregular fluctuations in the main economic indicators. This encouraged the
practice of data massaging, an equivalent of creative accounting in the West, exercised in
order to avoid scrutiny, attention and/or censorship (Bailey, 1995).

In short, over fifty years, the communist-created accounting system served its purpose of
legitimating the ruling of the Soviet-originated elite and emphasising protection of labour by
securing a full employment. The Soviet-originated accounting system, existent at time across
the entire CEE region, although adopted differently in each country within the boundaries of
permissible discourse, restricted accounting practice to clerical bookkeeping. An
implementation of the Soviet plan by all state enterprises was obligatory. Increasing
standardisation and simplification in economic substance of transactions made accounting
more routinised.

In some countries, such as Hungary and Poland, socio-economic reforms in the 1970s and
1980s resulted in a creation of a quasi-market mechanism. Versions of certain accounting
procedures, used in the Western economies, were accepted locally and entered into
accounting discourse, but without a substantial rationalisation (Swann and Lisowska, 1996).
Although the accounting rhetoric in the CEE countries began to reflect Western principles
(for instance issues of self-finance, self-dependence, and self-management), the lack of private ownership and absence of work incentives with the related responsibilities (Kosmala MacLullich et al, 2002), created a dysfunctional accounting system that had no problem-solving capabilities (de la Rosa and Merino, 1997).

The main functions of the accounting systems under transition
A necessity to transform the socialist accounting system was, in large, determined by structural changes in a functioning of the economy (de la Rosa and Merino, 1997; Dutia, 1995; Bailey, 1995). As the means of production became incorporated in private ownership, the state created new legal frameworks in which economic activity was supposed to be responsive to stimulated market forces.

The transition processes, from the centrally planned economy to the market based economy represent a set of complex reforms of which the key issue involve privatisation, labour market reform, the development of capital markets, currency convertibility, price liberalisation, macro-economic stabilisation and welfare reform. For instance, privatisation entails more than simply disseminating property to private owners; it requires acceptance and implementation of social values and accountability relationships that legitimate property to private owners (de la Rosa and Merino, 1997). In such a context of complex and dynamic evolution, the key role of accounting is perceived as facilitating the process of reducing the resistance to change by providing new criteria for measuring progress, i.e. accountability, profitability, transparency.

The socio-economic transition in the CEE region differs from a transition in other emerging markets. In the CEE region, the socialist principles over fifty years represented the foundation of economic organisation, both at macro and microeconomic level. It could therefore be argued that transition in the CEE region appears as more difficult, in comparison with similar processes in other emerging economies, that have experienced in the last fifty years an economy with competitive advantage principles such as for instance in the Central and South American countries. A specific geographical location of the CEE countries shapes and influences the conditions and national political and economic objectives for development. In particular, the vicinity of the European Union determines the general directions for development criteria and the structural integration at continental level (e.g. the direction of foreign trade and the EU integration) (UN/ECE, 2001; World Bank, 2000).

As candidates to the European Union membership, the CEE countries undergo intensive accession programmes. One of key conditions for the accession is harmonisation of the
financial reporting systems (incorporating practice of accounting, audit and taxation) with the European Directives and with the International Accounting Standards (hereafter IAS) framework (the 2002 EU regulation), under condition that the latter are not in opposition with the European Directives (The British Know How Fund, 1999). The application of the IAS is believed to provide the platform for increased foreign investment and foreign trade (King et al. 2001).

At present, the CEE countries lack the necessary capital in order to modernise and restructure the national enterprises on competitive bases. Such a position defines pressure for attracting foreign investments. Potential foreign investors are concerned with the accuracy and readability of the companies’ accounting reports, transparency of information regarding capital flows and the application of familiar (standard) accounting principles (Duţia, 1995), based on recognised and applied world-wide framework (Bailey, 1995) of best practice; that is, the IAS framework.

The Ministry of Finance in each of the CEE economies acts as a regulator of accounting. Hence, state, not the profession, has acquired a dominant position in reforming the systems. Now accounting, previously seen as an instrument of direct administrative control over state enterprises, becomes an instrument of indirect control and surveillance over privatised, and in a process of privatisation, enterprises.

External pressures (primarily from the Western Europe) have caused accounting reforms to be placed upon political agendas. Different countries have made different choices establishing criteria for development, influenced by political and technical factors. For instance, Romania have retained compulsory national charts of accounts, but reformed them by abandoning the old-Soviet style charts for the charts based on the French model (Feleaga, 1999). This was in part influence by the mutual interest; Romanian accountants were interested in strengthening their influence with French help and French accountants were interested in strengthening economic interests in Romania (Richard, 1995). As from 1996, the UK based project is designed to help Romanian accounting to evolve in a direction closer to the capital-market style of accounting in the Anglo-American context (Parker and Nobes, 2000).

Poland, on the other hand, abandoned compulsory charts of accounts, but statutory accounting law introduced a voluntary option for implementation of the charts of accounts for individual entities (Accounting Act 1994). In practice, although it is not compulsory, the majority of Polish entities continue to apply the charts of accounts (Jaruga, 1997).
In the early stages of the accounting reforms in the CEE region, an importance was given to the construction of the accounting record. Hence, provisions for proper and authorised documentation, the compilation of the accounting entries, and the maintenance of proper accounting records were introduced. An emphasis was placed upon the evidential nature of the accounting record. The implicit assumption was made that provided the accounting record was properly compiled, the financial statements would be necessarily correct (Bailey, 1995), as was the case in the socialist economy context.

Accounting reform also encompassed a re-adoption of the regulation of the pre-communist era, these provisions have been revived by ministerial decrees and other legal documents, as well as existing accounting norms (authorised practices) were amended to form accounting standards. For instance, in Poland, in addition to the new Accounting and Audit Acts 1991 and 1994, the Commercial Code 1934 was revived (Kosmala MacLullich, forthcoming). Most recently, in addition to rules regarding compilation of records, new accounting rules were introduced in Poland to cope with new categories (e.g. intangible assets), new transactions (e.g. hedging) and complexities of market economy (real value vs. historic cost valuation methods) (Accounting Act 2000).

Legal changes and simultaneous societal transformation processes in the CEE region are ongoing. The actual practice needs to proceed in advance of the legislative changes, forcing the appearance of new forms of transactions and changing of information needs.

Research objectives and methodology
The previous studies exploring accounting systems in the CEE focused on a general presentation of the accounting principles, rules and institutions (Bailey, 1995; Duția, 1995; Jaruga and Bailey, 1998; Jaruga and Szycha, 1997; Krzywda, Bailey and Schroeder, 1995; Rosa and Merino, 1997; Swann and Lisowska, 1996), or attempted a general comparative analysis of the accounting system reforms (King et al., 2001; Parker and Nobes, 2000; Richard, 1995). However, these studies failed to incorporate the wider socio-economic and cultural dimensions into their analysis, and made no attempt to investigate the effects of accounting reforms on the success of economic transition.

This paper attempts to provide insights into the reform process, exploring accounting changes in the complex local environment of the two CEE economies individually, Poland and Romania. The research objective is first, to present a summary of accounting systems evolution in transition economies, exemplifying on the case Poland and Romania, and second to evaluate the influence of the accounting system reform on the speed and success of the
economic transition in the selected countries. For this purpose, we developed a framework that describes the complexity of structural relations encompassing the accounting system reform in a transition economy, and facilitates exploration of this reform on developments of the national economic system. The framework is discussed in the following section.

It is difficult to estimate direct impact of the accounting system reform on the economic transformation, as there are many other wider environmental conditions that shape the transition process. Considering the central position of financial reporting and control in the economic system of a market-based economy, it is logical to assume that countries which were more effective in reforming the accounting system (adapting to the requirements of the market-based economy) would follow a more positive pattern of economic transformation. Considering the specific local context of transition economies in the CEE region, these indicators of economic success in relation with the reform of accounting systems may include the following indicators: (1) GDP growth; (2) enterprise privatisation, restructuring and competition policy; (3) foreign direct investment (FDI) inflows; and (4) the advancement of integration with the (Western) European economic and political structures (i.e. EU).

The analysis is based primarily on secondary data. Literature review based data with regard to the evolution of accounting systems in Poland and Romania were accessed in both English and local languages (Polish and Romanian), and analysed with regard to the communist and the post-communist periods. Statistical data concerning economic development indicators (i.e. GDP index, FDI inflows, enterprise privatisation, restructuring and competition policy) have been obtained for these two country for the post 1989 period. Literature based data have been complemented with primary information obtained through face-to-face informal interviews with accounting practitioners from Poland (9) and Romania (6). These interviews were conducted for the purpose of other projects the authors are involved, concerning the CEE socio-economic development, but certain questions, specifically concerned with the accounting system reforms, were also incorporated in the discussion.

**Accounting system framework**
The transformation process of the socialist accounting system into the market-based accounting system has followed a specific path in each of the CEE countries, influenced by the local and international politics, immediate history and a degree of compliance with ideology of the communist regime.

Earlier implementation of the accounting system, based on the principles of market economy and free competition, appears to affect substantially the economic reforms. The introduction
of a new accounting system can facilitate changes not only in business procedures, but also in people’s mentality.

The introduced accounting system, supported through the appropriate legislation, should be complemented with the institutional framework enforcing and monitoring implementation processes. As a part of this process, one of the primary objectives is to ensure the accuracy and accessibility of generated information. It requires not only developments in accounting regulations, but also dissemination of interpretation on adopted laws, facilitating appropriate implementation within the local context.

There are three key determinants of the reform process in the CEE countries (King et al. 2001), and these include (1) political, economical and social changes (at structural and functional level); (2) the need of transition economies to attract foreign direct investors in order to complement the domestic capital flow; and (3) harmonisation of internal accounting principles with the relevant European Directives and with the IAS framework, as a prerequisite for EU accession. These determinants are also the key motivation factors for the accounting system reform in transition economies.

We argue that the reform of accounting system in a specific country will follow a particular pattern determined by the local culture and the accounting tradition (pre-communist and communist history and tradition of accounting systems). On the other hand, globalisation of markets will also shape this transformation. It can be assumed that the accounting system reform will oscillate between internal and external influences, between past and present conditions, negotiating a fine balance between local culture and global pressures.

The evolution of accounting system is envisaged as driven by the political, economic and social conditions within the country. These include in particular a stringent need of attracting foreign direct investment and requirements to harmonise the accounting practices with the EU Directives and the IAS, in order to fulfil the necessary standards for integration with the European and International Organisations (EU, IFAC, OECD). Figure 1 presents our proposed framework for analysis of the accounting system reform in transition economies, incorporating issues that determine, influence, shape, and support this process.
Figure 1
The Process of Accounting System Reform in the CEE countries:
A Conceptual Framework

Socialist Accounting System

Influences
Local Culture
Prior-war History
Post-war History
Globalisation

Transformation constructs

Political, Economical, Social Conditions

Accounting system in transition

Need to attract foreign investors

Harmonisation with the EU Directives and with IAS; Accession Processes

Supported by
Institutional Framework
Education
Best Practices
Monitoring and Enforcement

Shaping
Speed of Transition
Development Policy
Changes of Attitudes
International Integration
Considering the complexity of accounting rules and practices, the accounting system reform can only be a gradual process, starting from the most general principles and developing then more detailed instructions and regulations. The key stages of accounting system reform in Poland and Romania, as well as the main legislative measures that correspond with each stage, have been identified and are presented in Table 1. Hence, a transformation of the socialist accounting system into a market-based system comprises a number of intermediary stages, in which the transition system gradually becomes more compatible with the principles and practices of the market accounting system. Transformation processes need to be supported with specific measures, including the development of an appropriate institutional framework, education of the accounting professionals, legal enforcement, as well as the development of professional best practices.

Table 1. A comparison of accounting system reform in Poland and Romania

<table>
<thead>
<tr>
<th>The stages of accounting system reform: legislative issues</th>
<th>Poland</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of the profession</td>
<td>Ministry of Finance Decree 1957 – the profession of state-authorised accountant (SAA) as precursors of the independent profession. The Audit Act 1991 - the profession of auditors</td>
<td>G.O no 65 (1994)- the profession of public and authorised accountant</td>
</tr>
<tr>
<td>Further de jure advancements with the EU Directives and IAS framework</td>
<td>The Accounting Act 2000; The Audit Act 2000</td>
<td>Future plans include: - a new Accounting Law - the full implementation of the 4th EU Directive and the IAS</td>
</tr>
</tbody>
</table>
The institutional framework of the accounting system is usually organised between two complementary systems: the governmental system, co-ordinated and supervised by the Ministry of Finance; and the professional system, which is managed by the Chamber of Auditors (or equivalent). Each of these two systems regulates and controls a specific dimension of the financial reporting; The Ministry of Finance establishes the requirements and the standards for financial reporting at organisational level, while the Chamber enforces the professional standards.

The rules of regulations of the accounting practice need to be transmitted to the professionals through a coherent education programme. The educational system should provide possibilities for the re-training of the accounting specialists trained under the communist regime, and for the formation of new accounting experts. This system usually includes the national network of high schools, Universities, and specific training programmes organised and delivered by the profession (the Chamber of Auditors).

We argue that if effectively implemented and supported, the transition accounting system can influence the speed of transition and economic transformation, the country's regional and international integration and facilitate societal changes. Most difficult challenge is a change in people's mentality, which implies a redesign of the personal value system.

Although this framework can be used for any transition economy, the degree and direction of transformation is significantly influenced by the cultural and historical profile of a country. For example, it could be argued that the CEE countries that have introduced in the 1980s rudiments of market economy have been more effective in implementing the market-driven accounting principles (e.g. Poland). The following section expands the analysis of the cultural specificity and its influence on accounting reforms, presenting the evolution of the accounting systems in Poland and Romania in the communist and post-communist periods.

The Polish Accounting System under the Communist Regime

During the communist rule and a centrally planned economy in Poland, as in other CEE countries, accounting was congruent with the state economic policy, serving Marxist-Leninist philosophy of dialectical materialism. The fundamental role of accounting was perceived as custodialship of state resources, a protection of the socialist ownership and associated accountabilities preventing illegal actions, such as a theft of public assets (Skrzywan, 1956). Accounting, under the direct control of the Ministry of Finance, was an instrument of central economic administration and control over the activities of individual enterprises. The state budget, together with the central plan, played a leading role in the accounting regulation (Jaruga et al., 1996).
Owing to the adoption of Soviet financial and economic systems, in 1951-53 the Soviet accounting plan was introduced. The basis of business activity was not profit of a single enterprise but carrying out the annual and long-term plans at macro-level (Skrzywan, 1956). Surpluses generated by enterprises were appropriated by the state budgets and reallocated according to the requirements of the national economic plan. The monetary valuation of recorded transactions was a way of aggregating natural units data rather than forming a basis for decision-making (Wróblewski, 1965). The categories such as costs, revenues, profit or loss were fictional, as the efficiency and effectiveness of individual entity performance was assessed only on the basis of the realisation of targets inherent in the central plans. It became the state concern to ensure that surpluses were calculated and appropriated at the end of the financial year in accordance with set targets of long-term central plans.

The version of socialism adopted in Poland after 1956 created conditions for the increased autonomy of state-owned enterprises which enabled the management and personnel to participate in the distribution of profits generated by the enterprise. Reforms of the national accounting plan were undertaken in 1959, 1974 (influenced, in part, by the French experience of a uniform accounting system), and in 1985 (Jaruga and Bailey, 1998).

Accounting theory developed in direction of bookkeeping. In constructing accounting records uniformity was emphasised. In the 1954, a notion of correct accounting technique was introduced. The standardisation of practice was necessary to facilitate trade within the communist block; trading was based on the transfer ruble control system (Jaruga and Szychta, 1997). The uniform measurement procedures replaced general accounting principles of the Commercial Code 1934 and tax legislation of the Second Republic. Accounting followed the ‘absolute truth’ or ‘substantive truth’ approach (Jaruga, 1979). Truth (rzetelność), emphasised reliability of provided information in reporting and was linked with the production of statistics by the national control system (Ministry of Finance Decree on Accounting 1959).

Ministry Decree 1972 introduced the notion of substantive truth. 1972 Decree was superseded in 1983 (Ministry of Finance Decree 1983).

The central statistical office determined a standardised format for annual reports what facilitated processes of aggregating macro-economic data for planning and control purposes. Financial statements consisted of balance sheet and profit and loss account. These were not publicly available. Enterprises reported to respective industrial association which in turn reported to the responsible ministry. The dominant form of reporting relationship was
vertical, from the plan to the ministry, from the ministry to the industrial association, and from there to individual enterprises (Rutland, 1985).

There were hierarchical accountability relations, where univocal understandings of accounting and reporting practices were imposed by the system and its formal relations of power. Accountability relationships were dressed in bureaucratic context, where individuals were guided and controlled through central systemic media typified by rules and central economic planning, inhered in the formalised accounting control system. Rules were explicit and detailed and therefore perceived as sufficient to carry out operations, often in separation from others.

Hence, the use of accounting was associated with protecting the uniqueness of the regime, fostering uniformity and 'objectivity' of the soviet planning (Edwards and Lawrence, 2000). In 1957 the institution of audit experts was created to verify accounts of state owned enterprises with the appointment of a state-authorised accountant (SAA). The audit was focused on certifying the agreement of financial statements with the law through the means of certificates of correctness (Ministry of Finance Decree 1973) ensuring that the enterprise had correctly accounted for all transactions with the state budget. A verification process was concerned with compliance, ensuring that the accounts and the financial reports were produced in accordance with the existing regulations. By 1985 there were more than ten thousands of the SAAs in Poland (Jaruga, 1979), they had virtually no power as accounting knowledge rested with bureaucrats at the top.

The main economic goal was to work effectively, and that meant, a fulfilment of the plan. There were no penalties for inadequacies and market failures, however enterprises risked a loss of subsidies and a disfavour of the communist party (Rosa and Merino, 1997). Deficiencies in actual economic performance were made ‘good’ through disclosure, by the manipulation of statistics and downright cheating, informal networking well established during the war continued flourishing. (Domański, 1997). Enterprises thus, were accountable not so much in financial but in political terms.

The Romanian Accounting System under the Communist Regime
The Romanian accounting system with its German and French roots (Demetrescu, 1972) was overlaid by a version of the Soviet based system. The Chart of Accounts were issued for different economic sectors (industry, agriculture, services) by the Ministry of Finance, together with very well defined sets of rules regarding the registration and processing of data,
and financial reporting. Some argue that a need for stewardship accounting caused the accounting system to resemble, in part, accounting in the US (McClure, 1984).

Accounting was centralised on a national basis both in relation to the determination of accounting principles and the chain of commands over accountants, to a greater extent that in Poland and even the Soviet Union (Berry, 1983; McClure 1984). The chief accountants of Romanian enterprises were appointed by the organisation directly superior to that enterprise (Enache, 1977; Lanczos, 1975). The management of the enterprise had administrative control over the chief accountants, but control over accounting practices was enacted directly by the Ministry of Finance. Chief accountants, due to responsibility for the enterprise financial health, had veto power over both financial and physical operations ( Tâmășan, 1973). This level of responsibility and decision power was significantly higher than that placed on chief accountants in the Soviet Union, Eastern Germany or Poland (Chumachenko and Bedford, 1968; Berry, 1983).

The Romanian accounting system in the communist period had two main functions; that is to inform and to provide a basis for control (Rusu, 1977; Vaduva and Oprea, 1982). In order to fulfil these functions, the accounting system was designed to provide data and information necessary to elaborate the socio-economic plan of socialist organisations, to insure the integrity of the socialist propriety, to consolidate the organisation and co-ordination of socialist organisations and to mobilise the internal resources of the organisation (Vaduva and Oprea, 1982). Also control mechanisms on the implementation of the socio-economic plan were incorporated in the system ( Tâmășan, 1973).

As expected of a centrally controlled economy, enterprises had to sent regularly financial reports to a higher organisation within the hierarchical system (Lanczos, 1975). The annual statements of enterprises (balance sheets) and monthly ‘situations’ (profit and loss equivalents) were used as principal economic-financial indicators. These were forwarded to a hierarchically superior organisation (central headquarters, ministry, the regional director of the economy), to local financing banks, and to the regional director of statistics (Lanczos, 1975). Annual statements included explanatory notes with information regarding completion of the financial plan, any difficulties leading to failures in the fulfilment, and predictions on the completion of the plan. Operating results were less important. Profit or loss statement was included as an appendix to the balance sheet. These statements were not publicly available but directed to the Ministry of Finance (a legislative setting body responsible for accounting in Romania) and regional statistical offices. In addition, the national bank received these reports quarterly.
Despite the apparent complexity of the system, the application of the accounting rules predetermined by the central authorities was rigid, offering little space for creative applications at the organisational level. In this centralised accounting framework which makes possible a strict control of subordinates, the primary interest of managers was defensive justification (explaining to their superiors what happened to every asset under their control) rather than offensive action (trying to maximise the difference between the benefits produces and the resources consumed) (McClure, 1984).

The Polish Accounting System under Transition

The socio-economic and political transformation from communism and centrally planned economy was very sudden, and is sometimes referred to as the 'Big Bang' approach to Polish democratisation, encompassing simultaneously privatisation, labour reforms, developments of capital markets, prices liberalisation, macroeconomic stabilisation and welfare reforms. As a result of the Balcerowicz plan, unemployment soared, demand plummeted and the private sector expanded (Balcerowicz, 1999). Many state-owned enterprises, however, responded to the shock therapy by adopting a defensive posture designed to protect their position and interests (Kewell, 1997), leading at times to a socio-economic paralysis. A residual state sector in contemporary Poland remains significant.\(^4\)

The accounting system reform in Poland after 1990 could be envisaged as three-stage process; changes were introduced by the 1991, the 1994 and the 2000 legislation.

After abolition of the communist regime, the Ministry of Finance introduced temporary regulations, in a need of urgency, without any consultation process with different users of financial information. The Accounting Decree 1991 required all types of enterprises to have an accounting plan and a model chart of accounts. And similarly to French model, the choice of the cost accounting system was left to enterprises. The 1991 Decree, although loosely incorporated some aspects of the 4\(^{th}\) EU Directive requirements, was criticised for introducing an unhelpful uniformity in construction of accounting records. The interpretations of the provisions of the 4\(^{th}\) Directive were emphasising legal compliance and a general leaning towards the German model of accounting and reporting. There were inconsistencies in provisions introduced between revived Commercial Code 1934, the Accounting Decree 1991 and the Income Tax Act 1992.

\(^4\) Some of 500 medium-sized companies were allocated to fifteen National Investment Funds (NIFs) set up by the state. The NIFs act as main owners of the companies and all citizens were entitled to a universal share certificates exchangeable into NIF shares.
The role of audit was also redefined, as an independent examination of financial statements to report on whether the accounts fairly and truly reflect economic reality. For over 40 years auditors (SAAs) examined financial statements for tax purposes. In 1991, the independent auditing profession was introduced (Audit Act 1991 superseded by the Audit Act 1994) so as to carry compulsory audits of financial statements. Former SAAs were entered on a list of auditors (Krzywda et al., 1995).

As from 1995, the Accounting Decree 1991 was superseded by the Accounting Act 1994. The Accounting Act 1994 was issued with an aim of advancing consistency of Polish accounting regulation with European law. The EU framework was politically determined as soon as Poland entered fast track accession processes to the European Union. In the mid-nineties, Poland did not have a detailed accounting framework which could have been supplemented by the IAS framework. The 1994 Act needed to restore certain economic and financial categories of the commercial law of the inter-war period, from the Commercial Code 1934, such as dividend, market value and securities. The 1994 Act regulated areas of valuation of assets and liabilities, calculating profits and preparation of financial statements.

The aim of the financial statements de jure was related to a presentation of a true and fair view (TFV) of the company’s financial position, profitability and profit or loss for the financial year. Even though the introduced framework formally treats TFV as an aim of the accounting, the specific feature of the 1994 Accounting Act was a dominant position of the prudence concept (Kosmala MacLullich, forthcoming). Historical cost was a basis for valuation of assets and liabilities, there was no concept of fair value (Walińska, 2000). The 1994 Act regulated formal areas of bookkeeping, including documentation, stocktaking, storage and protection of books, whilst many issues were not dealt with such as business combination, leases or long-term contracts. The lack of these regulations and no existence of fair value brought chaos to practice causing (mis)understandings of what the TFV construct is and how it was realised (Kosmala MacLullich, forthcoming).

The Act 1994 also abandoned an obligation to implement uniform chart of accounts but Polish enterprises were required to develop their own accounting plan. An optional model chart of accounts was developed and published by the Accounting Association of Poland in 1995 (Jaruga and Szychta, 1997).

For tax purposes, not in principle for financial reporting requirements, depreciation rates and methods, inventory valuation methods, and provisions for bad debts and doubtful debts were
determined by the Ministry of Finance with little choice available to the individual companies (Nobes and Parker, 2000).

The provisions of the 1994 Act applied to all economic entities, i.e. sole traders and partnerships (except very smallest) as well as companies. Smaller entities were allowed to prepare simplified financial statements and small groups did not need to consolidate. The 1994 Act permitted the Securities Commission to introduce rules for the listed companies; those rules are concerned with disclosure and not as such with measurement of information e.g. provisions regarding the publication of interim financial statements.

Since 1995, there have been 17 amendments made in the Accounting Act 1994. The new Accounting Act passed in December 2000, comes into effect in January 2002, commencing a new era in the development of Polish accounting system and practice. The aim of the new Act was to adapt Polish accounting to the IAS framework, without contradicting the introduced EU regulations in the 1994 Act. Out of 83 articles of the 1994 Act, only 11 were not amended; this illustrates the scope of de jure revolutionary advancements.

The changes in the 2000 Act can be divided into two categories. The first category of amendments represents new terminology introduced in unregulated areas. The second category consists of terminological modifications to the existing regulations. The former covers areas of (1) business combination, (2) investments and financial instruments, (3) construction contracts and (4) leases (Cicha, 2001; Walińska, 2000). Methods of consolidation for group accounts were included in the 1994 Act, but there was no regulation with regard to valuations of assets of the acquiree (as per the 2000 Act). Also, the purchase method of accounting was not specified. In the 1994 Act, investments were represented as expenditures on new fixed assets or as expenditures on improvement of existing assets, inconsistent with an essence of investing, and with the IAS framework. In the 2000 Act, a creation of wealth is stressed and the ways of valuation of investments and financial instruments, as the main element of investments, are provided. The 1994 Accounting Act did not regulate directly long-term contracts. According to this Act costs should have been matched with revenues and assigned to the proper accounting period. Practical interpretation of these general rules resulted in different approaches to calculating profits causing confusion among practitioners. Now, valuation of work in progress and determination of revenue and costs are regulated. Until the 2000 Act, concepts of financial lease or operating lease were defined only in tax law, and dealt with only for fiscal purposes. Many leasing firms referred to tax regulation for accounting solutions. In the new Accounting Act not only a definition of leases but also valuation and profit determination methods are provided.
In the latter group of amendments, the 1994 Act provisions were modified in the areas such as (1) deferred tax, (2) reserves and provisions, (3) foreign currency transitions, (4) inventories, (5) fixed assets and (6) intangibles. With regard to deferred tax, the profit and loss account method evolved into the balance sheet method. From 2002 calculating of deferred tax is to be consistent with IAS no 12. Other changes are first and foremost changes in the valuation. The objective is to make the value of assets or liabilities more real, in other words to reassess the value of an item so as to reflect the reality of business. Hence, under the new Act, the TFV concept becomes apparently more important than the prudence concept.

The predominant position of the TFV under the new laws is also visible in the scope of disclosures in financial statements. For the last seven years financial statement consisted of balance sheet, profit and loss account, cash flow and notes to the accounts. The three first items had to be made public. From 2002, notes to the accounts are extended, divided into two parts; the first consisting of introduction to the financial statements and the second including additional information and notes. The scope of information in notes is similar as under the 1994 Act, but an introduction to the financial statement will be made public; that means that accounting policies and methods of valuation of assets and liabilities will be publicly disseminated. Under the new Act, there are also some re-classifications in the balance sheet and profit and loss account. The items connected with related parties are to be presented separately. In preparation of the cash flow statement two methods, direct and indirect are permitted instead of only the indirect method (as per the 1994 Act). The reporting requirements have been extended also by including in the annual report the statement of changes in equity. This item, consistent with recommendations of the IAS reporting framework is new to Polish accounting practice.

The 2000 Act does not explicitly refers to accounting principles but states in Art.1 that ‘the Act defines principles’ implying that de facto all provisions in the Act (except the provisions in a section on audit) are referred to as principles. In that way, there seem to be simultaneous reference to accounting principles (as superior principles) and accounting methods (as inferior principles). If there is a problem with an accounting treatment, principles of accounting, as specified in the Act, should provide a final solution (Cebrowska and Jeżowski, 2000).

In short, it could be argued that developing trends in Polish accounting system can be taken as a further departure from a tax oriented system and de jure an emphasis is on a role of accounting as an autonomous tool for business transaction measurement and decision making. New areas of business activity have been defined. An emphasis on fair value and on the
departure from historical cost accounting which *de jure* strengthens the position of the TFV in the existing framework. The amendments introduced by the new Act are aimed to enhance the quality of financial statements through the extension of the reporting requirements and an improvement of principles of valuation of balance-sheet items and profit determination. There is a significant increase in the scope of disclosures so as to increase transparency in reporting.

Although formally accounting has been separated from the tax law, as the relationship between tax and accounting has diminished through new 2000 legislation, the tax approach is still present, especially among more senior accountants (Jaruga *et al.*, 1996). Despite an increase in reporting requirements, there is still a tendency towards secrecy, to disclose the minimum required information about performance of enterprises. This may be connected with the former interrelation between the restrictive tax law and accounting.

Hence, despite advancement in legislative changes of accounting system, certain features of the former regime persist in practice, such as the influence of the Ministry of Finance in accounting regulation, importance of reporting financial results to the central statistical office, low transparency and secrecy, and the continuation of the previous SAAs as the mainstay of the emerging auditing profession. There is however emerging awareness of the new trends in practice, especially amongst newly trained individuals entering the market with fresh attitudes and without (or with limited) experience of centrally planned economy. Although Polish accounting came through revolutionary changes in the last decade, the approach to accounting appears, in large, legalistic.

**The Romanian Accounting System under Transition**

Parallel with the fundamental changes in the Romanian economy, processes of harmonising accounting with principles and rules of the European Directives and IAS started in the 1990s. Many new accounting rules were issued between 1990 and 2001, which have progressively transformed the Romanian accounting system (The British Know How Fund, 1999).

During the initial stage of developing Romanian accounting towards a market-based accounting, three lines of argument emerged. Some specialists considered that the former accounting system could, in essence, remain subject to certain necessary changes; others believed that the new Chart of Accounts should be introduced on the basis of the French model (Feleaga and Ionascu, 1993); and some sought the new US-inspired system (Richard, 1995).
The reform of the Romanian accounting system has been implemented over three main stages. First, the fundamental legal framework for accounting was created. Second, incorporated processes of integrating of EU Financial Directives and of IAS standards to the national accounting procedures started. Third, the implementation processes of a market-driven accounting system, in accordance with the EU Directives and the IAS Standards emerged.

The legal framework for the accounting practice was stated created; main sources of regulation were Accounting Law No. 82 (1991) and the Government Ordinance No. 65 (1994). The Accounting Law was complemented by the Government Ordinance no. 704 (1992) which included The Regulations for the Implementation of the Accounting Law.

The principal objectives of the new system of accounting, adopted for the realisation of a comprehensive reform, focused on a promotion of accounting as an administrative tool and defining the general principles of accounting, rules for the valuation and specialised terminology. The application of the new accounting principles, rules and methods were also incorporated.

The promulgated general accounting principles were those of prudence, going concern, inseparability (the opening balance sheet of a financial year should be the same as the closing balance sheet of the previous year), matching and the principle of non-setting-off (according to which revenues and expenses should not be set-off against each other). These principles marked the switch from the former cash based system to an accrual-based system, aligned with Western practices (King et al., 2001).

With an experience of severe regulation and control under the previous system, financial statements appear to be regulated as legal documents evidencing the rights of possessors (executives) to control and dispose of the assets of the enterprise, and not yet, as commercial documents of use of shareholders. General perceptions were that in the privatised economy financial information is private, as evidenced by the references to commercial secrecy contained in accounting law, and that in privatised economy business people may negotiate for whatever accounting information is needful when entering into contractual agreements.

The Ordinance No. 65 (1994) has also created the basis of an institutional infrastructure, establishing the Institute of Public Accountants and Authorised Accountants (CECCA), as an autonomous of state entity. The Institute was given responsibilities for developing the
standards for professional and ethical conduct, and for educating, and monitoring work of authorised accountants.

The reform of the Romanian accounting system has been partially based on the regulations of a market-driven economy before the Second World War (Duția, 1995). At the same time the accounting system reform was supported by professional institutions from France and Belgium, and financed through the European Union (Duția, 1995).

Second stage in the reform of the Romanian accounting system was the establishment in 1997 of the Romanian Accountancy Development Programme (RADP), sponsored by The British Know How Fund. The Programme has been co-ordinated and implemented by The Institute of Chartered Accountants of Scotland, in collaboration with the Romanian Ministry of Finance.

The long-term objective identified was to enhance compliance of national Romanian provisions with the 4th European Directive and with the IAS framework. It was recognised that a short-term priority was to address the needs of publicly traded companies (and certain other public interest entities). The plans were also made to dissociate accounts prepared for tax purposes from the general-purpose accounts.

In 2001, Ministerial Ordinance No. 94 was passed implementing the provisions of the EU 4th Directive and requiring all companies within the scope of the Ordinance to apply International Accounting Standards. It also requires all companies within its scope to have their annual financial statements audited. The IAS were translated and published in Romanian language in September 2000.

Regarding auditing procedures, in 1999, the Government Ordinance number 75 was passed, enacting the EU 8th Directive which established a Chamber of Auditors, set out rules on admission to the Chamber of Auditors, for an appointment, independence and integrity of the auditor. The first examinations to the Chamber of Auditors were held in October 2000 and respectively in June 2001.

The implementation of a market-driven accounting system now requires the development of the professional practices in accordance with the accounting regulations, the organisational improvement of professional bodies, and the intensive training of accountants and auditors. Despite the implementation of the legal framework, the accounting practices are still subject of debate among professionals, regulators and academics. The financial reporting is
considered by entrepreneurs to be cumbersome, and the training of accounting experts and auditors professionals is proceeding at a slow pace.

**The relationship between the CEE countries economic performance and the accounting system reform: Poland vs. Romania**

It could be argued that reforms of the accounting system have been realised differently across the CEE region, depending on the specific internal conditions at socio-economic and political levels in each country. The countries, which pursued the most radical economic reforms, have benefited the most from the process of EU accession. Hungary, Poland and Czech Republic led the group of countries in the CEE, while the Slovak Republic, Romania and Bulgaria lagged behind (World Bank, 2000).

Economic performance could be analysed applying different indicators. In terms of the GDP growth, the speed of output recovery depended, in part, on the extent of the initial output loss and, in part, on the speed and extent of economic and institutional reforms, which in turn depended in part on initial conditions. While Poland suffered the least output loss and benefited the quickest output recovery, growth recovery was the one of the slowest in Romania. In 1999, a real GDP in Romania was only three-fourths that of its 1989 level, while in Poland the 1999 GDP was already surpassing the 1989 level by 34.3% (see Table 2).

**Table 2. Real GDP (1989-1999): 1989=100**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>90.9</td>
<td>83.2</td>
<td>77.1</td>
<td>76</td>
<td>77.4</td>
<td>79.6</td>
<td>71.5</td>
<td>66.5</td>
<td>68.8</td>
<td>70.5</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>98.8</td>
<td>87.3</td>
<td>86.9</td>
<td>97</td>
<td>88.9</td>
<td>94.1</td>
<td>98.7</td>
<td>97.7</td>
<td>95.5</td>
<td>95.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>96.5</td>
<td>85</td>
<td>82.4</td>
<td>81.9</td>
<td>84.6</td>
<td>86.2</td>
<td>87.6</td>
<td>92</td>
<td>96.9</td>
<td>101.7</td>
</tr>
<tr>
<td>Poland</td>
<td>95.1</td>
<td>89.9</td>
<td>92.7</td>
<td>96.6</td>
<td>101.6</td>
<td>108.7</td>
<td>115.3</td>
<td>123.1</td>
<td>129</td>
<td>134.3</td>
</tr>
<tr>
<td>Romania</td>
<td>94.3</td>
<td>82.1</td>
<td>74.9</td>
<td>76</td>
<td>79</td>
<td>84.6</td>
<td>87.9</td>
<td>81.9</td>
<td>77.4</td>
<td>75</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>97.3</td>
<td>83.1</td>
<td>77.6</td>
<td>74.7</td>
<td>78.4</td>
<td>83.8</td>
<td>89.3</td>
<td>95.1</td>
<td>99.3</td>
<td>101.1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>95.3</td>
<td>86.8</td>
<td>82.1</td>
<td>84.4</td>
<td>88.9</td>
<td>92.5</td>
<td>95.8</td>
<td>100.2</td>
<td>104.1</td>
<td>108</td>
</tr>
<tr>
<td>Estonia</td>
<td>100</td>
<td>78.8</td>
<td>72.1</td>
<td>70.7</td>
<td>73.7</td>
<td>76.6</td>
<td>84.7</td>
<td>88.7</td>
<td>87.4</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>100</td>
<td>65</td>
<td>55.3</td>
<td>55.7</td>
<td>55.2</td>
<td>57.1</td>
<td>62</td>
<td>64.2</td>
<td>64.4</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>100</td>
<td>78.7</td>
<td>66</td>
<td>59.5</td>
<td>61.5</td>
<td>64.3</td>
<td>69</td>
<td>72.6</td>
<td>69.6</td>
<td></td>
</tr>
</tbody>
</table>


Economic performance could be also assessed analysing processes of privatisation and restructuring. Strong positive associations have been found between enterprise privatisation and restructuring, and between privatisation and higher productivity growth in transition countries (World Bank, 2000). But effective privatisation process and restructuring requires the implementation and the application of the new accounting system, based on market-driven principles and incorporating market-based control mechanisms.
Differences in accounting reform processes have been mirrored in the level of enterprise privatisation and restructuring in Poland and Romania (see Table 3). Poland appears to have higher value of the indices measuring the large and small-scale privatisation, governance and enterprise restructuring, and the improvements in the competition policies then Romania. Simultaneously, the reform the accounting system, aligning local practice with the principles of the market-driven economy in Poland proceeded ahead that in Romania, which had a positive impact on the process of privatisation and enterprise restructuring.

There is a widespread agreement on what determines the flow of the FDI (i.e. a foreign investment that has as result the control of a company or group of companies) to one country rather than another. Countries attracting large amounts of FDI generally have achieved higher levels of macro-economic and political stability and have favourable growth prospects. This indicates a good infrastructure, stabilised legal system including enforcement of laws, creating positive investment environments (UN/ECE, 2001).

The reform of the accounting system can be perceived as an essential part of achieving a stable economic growth and the required transparency at macro and microeconomic levels. The national accounting system in countries under transition, which incorporates the provisions of the EU directives and the IAS standards, are readable to the foreign investors (King et al., 2001). Hence, more accentuated progress in the accounting system reform in Poland is connected with large inflow of the FDI, in a comparison with the situation of Romania (see Table 4).

Table 3. Enterprise Privatisation, Restructuring and Competition Policy, as per 1999

<table>
<thead>
<tr>
<th>CEE region</th>
<th>Lange-scale Privatisation</th>
<th>Small-scale Privatisation</th>
<th>Governance and Enterprise Restructuring</th>
<th>Competition Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>3</td>
<td>3+</td>
<td>2+</td>
<td>2</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>4</td>
<td>4+</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Estonia</td>
<td>4</td>
<td>4+</td>
<td>3</td>
<td>3-</td>
</tr>
<tr>
<td>Hungary</td>
<td>4</td>
<td>4+</td>
<td>3+</td>
<td>3</td>
</tr>
<tr>
<td>Latvia</td>
<td>3</td>
<td>4</td>
<td>3-</td>
<td>3-</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3</td>
<td>4+</td>
<td>3-</td>
<td>3-</td>
</tr>
<tr>
<td>Poland</td>
<td>3+</td>
<td>4+</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Romania</td>
<td>3-</td>
<td>4-</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>4</td>
<td>4+</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3+</td>
<td>4+</td>
<td>3-</td>
<td>3-</td>
</tr>
</tbody>
</table>

Source EBRD, 1999
Note: The indices range from 1 to 4+, with 4+ being the highest
Table 4. Cumulative FDI inflows: Years 1988-1999

<table>
<thead>
<tr>
<th>CEE region</th>
<th>Billion $</th>
<th>% of 1999 GDP</th>
<th>In Per Capita Terms ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>2.3</td>
<td>18.5</td>
<td>279</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>16.5</td>
<td>31.1</td>
<td>1609</td>
</tr>
<tr>
<td>Estonia</td>
<td>2.0</td>
<td>38.2</td>
<td>1361</td>
</tr>
<tr>
<td>Hungary</td>
<td>19.8</td>
<td>40.9</td>
<td>1969</td>
</tr>
<tr>
<td>Latvia</td>
<td>2.1</td>
<td>33.2</td>
<td>853</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2.1</td>
<td>19.4</td>
<td>557</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td><strong>32.1</strong></td>
<td><strong>20.6</strong></td>
<td><strong>830</strong></td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td><strong>5.5</strong></td>
<td><strong>16.2</strong></td>
<td><strong>246</strong></td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>2.2</td>
<td>10.9</td>
<td>400</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1.6</td>
<td>8</td>
<td>806</td>
</tr>
</tbody>
</table>

Source UN/ECE, 2001

This relationship can be extrapolated at the level of accession process to EU membership. Poland is in a group together with Czech Republic, Hungary, Slovenia and Estonia of the first wave of EU candidate countries, while Romania is included by the EU officials into the second wave of candidates (UN/ECE, 2001).

Conclusions

This study was aimed to explore the accounting system reform in transition economies, from the communist regime and the centrally planned economy to the market-based mechanisms. Two contrasting examples of the CEE region, Poland and Romania, have been analysed, both from the point of view of accounting system reform and from the perspective of transition succession.

The authors proposed the (generic) framework for analysis of the accounting system reform in transition economies. In order to accommodate the framework to the context of particular country, attending to local culture and political aura is required. This local specificity was illustrating by comparing the two contrasting examples, Poland and Romania.

The paper demonstrates that the reform of the national accounting systems in the CEE region have a direct impact upon a speed and success of economic transition, considered here in terms of economic performance. The level of FDI inflows and the advancement of the EU integration were extrapolated as indicative of economic transition succession.

The analysis concentrated on the implemented legislative initiatives. A summary of these changes is incorporated in Table 1 (see above). Other aspects of the accounting system implementation and functioning, such as operationalisation of implemented laws through best
practice and professional ethics, as well as institutional framework and education related issues, need to be addressed as areas for further research.

In both analysed countries, for comparison purposes, we identified a number of stages in these reforms from the 1990s onwards. Poland appears more advanced in the accounting system reform, succeeding to implement the provisions of the EU directives and the IAS framework within its national accounting system with somewhat less resistance than Romania (see Table 1). This is evidenced in the faster enactment of the professional legislation, and width of accounting issues of implemented provisions. At the same measure, Poland has registered a more advance transition reform, in terms of privatisation, GDP growth, FDI inflows and the EU accession (see Tables 2, 3 and 4).

What emerges from the study are insights indicating that the accounting system reform represents an essential medium in reducing the resistance to transition change, in particular in the processes of familiarisation (socialisation) with capitalist-based principles and ways of thinking supportive of the market driven economy.

This study has a number of limitations. First, it is indicative in nature and covers two counters of the CEE region. Second, the issues in the accounting system reforms are limited to legislative issues without exploring in detail the socio-political issues. Third, transition indicators considered are selective as aimed to illustrate, as oppose to validate, economic performance of the countries considered. More interpretative research could address the wider issues, integrating the complex construct of institutional framework, education, best practices and work ethics. In particular, the influence of the national culture and local traditions on specific features of the accounting system reform and on the nature of the transition process needs to be empirically investigated. From this perspective, the present study attempted to provide a comprehensive but indicative in nature analysis of the national accounting system reform in the context of the transition process, comparing two contrasting examples from the CEE region, Poland and Romania.
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