

POLICIES AND PRACTICES FOR IMPLEMENTATION OF IFRS AND NAS IN THE REPUBLIC OF MOLDOVA

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Abstract:

This study aims to analyse the process of harmonization of national accounting standards of the Republic of Moldova to the international standards. It highlights the main advantages, disadvantages, risks and opportunities regarding the implementation of the new standards. A major step for the Republic of Moldova was the implementation of IFRS, which has become mandatory for all public interest entities from 1 January 2012 and the adoption of new NAS in accordance with EU Directives and IFRS for small and medium-sized entities, for which the transition to IFRS was difficult due to high costs involved. The new NAS came into force on 1 January 2014 as a recommendation, but starting with 1st January 2015 it will be mandatory for all entities. The paper includes a practical analysis of the impact of transition to IFRS on the financial results of a public interest entity- Moldova Agroindbank, which is the largest commercial bank, with the highest market share in the banking sector of the Republic of Moldova. A result of the analysis of primary and secondary indicators calculated on the base of the financial statements prepared by commercial bank at 31.12.11, we found that the transition to IFRS has resulted in the growth of all financial indicators.

Key words: Financial reporting, financial statements, IFRS, NAS, financial indicators

JEL classification: M41

1. INTRODUCTION

Thus, it led to the increase of the bank assets, liabilities, equity value and obligations. Under IFRS, the weight of equity in total bank liabilities has increased, but the weight of obligations has decreased. Implementation of IFRS resulted in the increase of the net profit, which contributed to strengthen the stability of the bank on the market. Simultaneously, the liquidity ratio, solvency and global financial autonomy rate have increased and indebtedness has decreased which is considered positive. By the light of the analysis of the impact of transition to IFRS can be concluded that the connection to the new standards had a beneficial impact on the bank, maximizing its market value, increasing investors, customers, business partners' confidence and contributing to the reduction of risks.

2. OVERALL ASSESSMENT OF THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

International Financial Reporting Standards are a set of accounting standards issued by the International Accounting Standards Board (IASB). IASB was established in 1973 by professional accountancy bodies from nine countries (Germany, Australia, Canada, USA, France, Japan, Mexico, the Netherlands and the UK) for the purpose of issuing accounting standards to be used for the preparation and presentation of financial statements and promote their acceptance and implementation worldwide. IFRS are considered to be a set of standards that establish general rules, but also require some specific treatments. International Standards in their evolutionary process, involve two types of standards:

1. International Financial Reporting Standards (IFRS) - standards issued after 2001;
2. International Accounting Standards (IAS) - standards issued before 2001.

Application of IFRS around the world involves common accounting principles valid in all the countries of the world, facilitating the development of international relations between states and ensuring comparability of accounting data, minimizing costs of information systematization and ensuring the transparency of local business environment.

Currently, IFRS is applied in many countries of the world, like: EU Member States, Hong Kong, Australia, Russia, South Africa, Singapore, Pakistan, Brazil, Chile, Costa Rica, Guatemala, Mongolia, Namibia, Panama, Venezuela, Kazakhstan, Tajikistan, Georgia, Belarus, the Baltic States and other 100 countries promote a policy of convergence to them.

The banking sector of the Ukraine adopted IFRS from 1998. IFRS is applied in Uzbekistan since 2002, and in Azerbaijan - since 2006. Russian banks have implemented IFRS from 1 January 2004. IFRS are longer applied in Armenia, Kazakhstan, Kirghizstan, Tajikistan, Georgia, Belarus, the Baltic States, etc.

According to European Directive from 2002, listed companies on European stock exchanges were required to present consolidated financial statements according to IFRS since 1 January 2005. All the neighbouring countries of Western Europe, including Romania, began the transition to international standards since 2005, these changes being perceived as a part of the process of European integration.

3. THE GENERAL CONDITIONS OF IMPLEMENTATION THE IFRS IN THE REPUBLIC OF MOLDOVA

Since the entry into force on 1 January 2008 of the Accounting Law no.113-XVI, in the Republic of Moldova many changes have occurred on the connection of the national accounting standards to the international ones. A special place in this law lies on the subject related on the application of International Financial Reporting Standards - IFRS, according to EU Directives. According to the new law, all public interest entities (financial institutions, investment funds, insurance companies, non-state pension funds, joint stock companies that are listed on the Stock Exchange of the Republic of Moldova) were obligated to apply international financial reporting standards IFRS since 1 January 2012. In this way, about one hundred of Moldovan companies have complied with this law. As concerns, for small and medium enterprises sector, the accounting reform has undergone a longer and more difficult way. So, till 1 January 2014 there were developed the new NAS that meet international standards requirements and EU Directives, which became mandatory for the small and medium-sized entities, replacing the existing ones. Initially, the transition to the new NAS was established on 1 January 2014, but later it was extended till 1 January 2015 because of the expert accountants' adaption to new requirements and standards.

The need to meet the requirements of the global economy dictates the passing of the Moldavian entities to a financial reporting in accordance with International Financial Reporting Standards (IFRS). Implementation of IFRS in the country was a difficult process, but also a necessary one, its main objective being both the increase of financial reports transparency and

reliability, within the country for shareholders, state authorities, as well as externally, among investors and international financial organizations.

According to article 3 paragraphs (1) of the Law on Accounting (Accounting Law, no.133-XVI of 27.04.2007), IFRS are standards and interpretations issued by the International Accounting Standards Board (IASB), which are valid in Moldova after their acceptance by the Government. These standards include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations on the application of these standards. On September 1st, 2013, in the Republic of Moldova were available 13 IFRS, 28 IAS, 16 IFRIC Interpretations and 8 IAS Interpretations (Nederiță, 2013, p.7). Thus, in 2013, in the country were accepted additionally 5 IFRS: IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of interests in other entities" and IFRS 13 "Fair Value Measurement" (www.mf.gov.md). There were also withdrawn IAS 31 "Interests in Joint Ventures", which was replaced by IFRS 11 "Joint Arrangements" and 5 interpretations (IFRIC 8, IFRIC 11, IAS 12, IAS 13, IAS 21) (Nederiță, 2013, p.8).

IFRS 13 "Fair Value Measurement" is a relatively new standard, which started its applicability from 1 January 2013. The purpose of this standard is to strengthen guidance on the use of the fair value term. It does not introduce new requirements regarding its necessity, but it only provides a single source of fair value measurement, that must be used every time when the fair value is required or permitted in other IFRSs.

With the implementation of international financial reporting standards and new NAS in the Republic of Moldova, a wider approach lies on the concept of fair value, which is a mix of three measurement bases used extensively in the period before the adoption of international standards : current value, realizable value, present value. Fair value is a relatively new concept, but extremely necessary, because it relies on entity's, external information, which it cannot influence in any way (Grigori, Bunget, 2012, pp.132-137).

According to IFRS, the fair value is the activity of the evaluators, who believe that the fair value is nothing else than the market value of assets. Fair value is the amount for which an asset could be exchanged or a liability can be settled between stakeholders. Therefore, the concept of fair value is a challenge, but also a premise of value in the context of transition to international standards.

In some cases, however, the consideration given or received (or face value) may not necessarily be the fair value of the financial instrument. For example, the fair value of long-term receivables bearing no interest is not equal to its nominal value and, therefore, a part of the consideration received is different than its fair value. Whereas the receivable should be initially registered at the fair value, this value must be estimated. The fair value of the instrument can be highlighted in comparison with other transactions that may be currently observed on the market in connection with the same instrument or based on a valuation technique that includes only data from observable markets. For a loan or receivable free of declared interest, the fair value is identified using the discounted cash flow technique. However, the standard allows that short-term receivables and debts to be assessed at original invoice amount, when the effect of updating/discounting is insignificant.

The adherence of the Republic of Moldova to the International Standards is quite difficult but also very necessary.

The main difficulties faced by the Republic of Moldova in the context of transition from the national accounting standards to international ones are: insufficient staff qualification; high costs related to the implementation of IFRS (IT, training, etc.); lack of transparency in the local business environment; fiscal instability caused by frequent legislative changes; the difficulty to perceive the essence of IFRS at the initial stage of implementation; the limits imposed by the existence of outdated IT systems.

The main problems in the implementation of IFRS in the Republic of Moldova are as follows:

- About 98% of the RM entities are SMEs for which the implementation of IFRS is expensive;
- Insufficient financial resources deriving from the high costs related to the transition to IFRS and accounting reform;
- Educational materials do not comply with IFRSs, and the curriculum do not provide adequate training of future specialists in accounting field;
- Low level of training in accounting field, of the public officials, that belong to the tax and legal system;
- Contradictions between Romanian and Russian translation version of IFRS.

*However, the connection to international standards ensures to the Republic of Moldova several **advantages**, including:* increasing transparency of local business environment, of foreign investments; ensuring the comparability of accounting information worldwide; reduction of corruption and accounting or fiscal fraud; decrease financial reporting costs; development of internal and external control system; Increase the number of specialists; development of international relations between Moldova and other countries; increasing the competitiveness and investment attractiveness of the Republic of Moldova companies, that would be internationally listed; increasing the confidence in the financial reporting in the Republic of Moldova; modernizing the educational system and its adaptation to international requirements; capital market development in the Republic of Moldova; easier way to identify the entity's financial problems and to take measures to combat them; attraction of external funding for developing accounting regulatory framework.

The harmonization of the accounting system regulatory framework in accordance with the requirements of IFRS will create a unique accounting system available internationally. As a result, it will be possible to strengthen the financial statements for multinational companies and the confidence of potential foreign investors. IFRS ensure a greater transparency in financial reporting, but also a better understanding of the financial performance of the reporting entities, increasing the national entities access to international financial markets.

With the adoption of a common accounting system of terms accepted globally, that will allow to perceive correctly the reports, there will be promoted and active developed the capital markets.

However, implementation of IFRS will reduce costs of financial reporting and external audit, eliminating the need for multiple sets of preparation of financial reports. And last but not least, the implementation of IFRS facilitates the economic integration of our country in the European Union.

IFRS is not just a pretty innovative approach of financial reporting, balancing between the desire to optimize costs used in your own business and the desire to maximize profits by dishonest optimization, but also a way to check their good implementation. Respectively, with the implementation of new standards by public interest entities (since 2012), several problems were identified both in terms of financial accounting and tax record level, which need to be resolved.

The main disadvantages regarding the implementation of IFRS are as follows: insufficient resources; the risk that the specialists won't understand the essence of the accounting reform; the possibility of allocating the financial resources in other purposes than those originally set.

However, the transition to IFRS mainly produces positive effects on the local business environment. Thus, implementation costs are insignificant, compared to the benefits of implementing IFRS, the main costs involving personnel training and provision of information systems.

By analysing the information included in Tab. 1, it can be noticed that budgetary funds were insufficient to reform the financial reporting regulatory framework, covering only a small part of the expenses related to improving the financial reporting regulatory framework and strengthening the key institutions responsible for financial reporting. All the other costs were covered using in this sense the external funds, like subsidies given to the Republic of Moldova by the other countries, in order to encourage the adoption and implementation of the new standards.

Table 1. The costs needed to adapt the national financial reporting framework to the international one

Costs, MDL/EURO							
National priorities	Consulting, developing, implementing MDL/EURO	Training MDL/EURO	IT equipment MDL/EURO	Managerial Expenses MDL/EURO	Total MDL/EURO	including	
						external funds	budgetary funds
Improving the financial reporting regulatory framework	28 838 278/				28 838 278/	27 866 478/	971 800/
	2 059 877	0	0		2 059 877	1 990 462	69 415
Strengthening the main institutions responsible for financial reporting	5 686 422/	1 123 458/	22 469 132/		29 279 012/	28 626 812/	652 200/
	406 173	80 247	1 604 938		2 091 358	2 044 772	46 586
Supporting the auditor profession	1 555 554/		216 048/		1 771 602/	1 771 602/	
	111 111	0	15 432		126 543	126 543	-
Modernising the education, professional training and informing the public	3 041 976/	6 222 216/			9 264 192/	9 264 192/	
	217 284	444 444	0		661 728	661 728	-
Project management for implementing the Plan			190 120/	4 650 590/	4 840 710/	4 840 710/	
	0	0	13 580	332 185	345 765	345 765	-
Total cost	39 122 230/	7 345 674/	22 875 300/	4 650 590/	73 993 794/	72 369 794/	1 624 000/
	2 794 445	524 691	1 633 950	332 185	5 285 271	5 169 270	116 001

Therefore, although expensive and difficult, the process of reforming the financial reporting regulatory framework was an important step in harmonizing the economic relations between the Republic of Moldova and other countries, in attracting the foreign investments, in capital market development and also for improving local business competitiveness on the international market. For a more precise identification of strengths, weaknesses, opportunities and risks that characterized the economic and financial situation of the Republic of Moldova during the period of implementation of international standards, in Tab. 2 it is represented the SWOT analysis matrix of this evolutionary process.

Table 2. SWOT analysis matrix regarding the process of harmonization of national accounting system to international standards requirements

The accounting framework reforming process in the Republic of Moldova	
Strengths	Weaknesses
The approval of the Accounting Law, that meets the international requirements	Shortage of resources, educational materials, specialists
The existence of international companies designed to train specialists in the field of the new way of accounting regulation - ACCA, ACAP RM	Insufficient financial resources

Framing the higher education institutions in the Bologna process	Outdated IT systems
Partial subsidizing the costs of transition to IFRS for companies with Moldovan capital	High costs for accomplishing the accounting reform
In RM two main programs of training and certification of accountants are applied: Certified Accounting Practitioner (CAP)/ Certified International Professional Accountant (CIPA) and Accountant Certified by the Association of Chartered Certified Accountants (ACCA). According to these programs, there are 218 accountants possessing international certificates, including 193 – CAP, 7 - CIPA and 18 - ACCA.	The existence of NAS and other outdated and incomplete laws
	Non-compliance of educational materials with the international requirements
	Preparation the financial statements according to printed forms, which include a large amount of information, but do not convey enough the entity's real financial situation.
Opportunities	Risks
Developing the international relations with other states	The difficulty, for some accountants or audit organizations to understand the need and essence of accounting and auditing reform
Increasing the investment competitiveness and attractiveness of the companies from the Republic of Moldova, by ensuring transparency of the local business environment	Managerial and organizational imperfection of the institutions involved in improving accounting and auditing framework
The reduction of undetected tax fraud	The absence or reduction of necessary external funds
The comparability of accounting information, internationally	
Increase public awareness	
Decreasing the influence of shadow economy by combating illegal transactions and corruption.	

Source: Government decision Nr. 1507 from 31.12.2008 regarding the approval of the Action Plan in the domain of accounting and auditing for the corporative sector for 2009-2014.

Since 1 January 2012, all public interest entities were required to apply IFRS, but nevertheless, 98% of companies from the Republic of Moldova are small and medium sized entities (Fig.1) for which, reporting according to IFRS provisions is difficult and expensive.

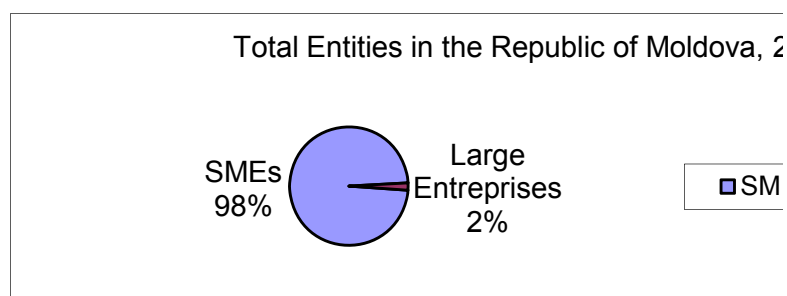


Figure 1 - Total Entities in Republic of Moldova, 2014

In this way, during the years 2009-2013, 16 new NAS were developed, and starting with 1 January 2014 they have replaced the existing ones, as well as the comments on their application which, starting with 1 January 2015 will be repealed. The new NAS are based on EU Directives and IFRS, their content being in compliance with international accounting rules. They will not extend the action on public interest entities that have already adopted IFRS (you can see in the Tab.3 the total number of corporate entities on 1 January 2012). Compared to the existing NAS and IFRS, the new NAS do not contain accounting valuation methods.

Table 3. The number of corporate entities by major sectors on 1 January 2012

<i>Sector</i>	<i>Number of registered entities</i>	<i>Number of active entities</i>	<i>Total assets, million MDL</i>	<i>% of assets</i>
Public interest entities	45	42	53 698	17
Banks (all corp.) of which	14	14	49 489	15
<i>Listed</i>	7	7	37 038	11
Insurance companies, of which	24	24	2 198	1
<i>Corp.</i>	9	9	916	0
<i>LLC</i>	15	15	1 282	0
Pension funds	3	-	-	-
Listed companies (all corp.) other than banks	4	4	2 011	1
State-owned entities	390	326	32 200	10
<i>State enterprises</i>	274	233	16 900	5
<i>Joint stock companies owned by the state</i>	116	93	15 300	5
Other entities	154 063	48 558	237 306	73
<i>Other corp.</i>	4 532	1 693	12 923	4
<i>Other LLC</i>	75 934	37 494	150 033	46
<i>Co-operative entrepreneurship</i>	3 971	1 235	189	0
<i>Savings and credit associations and microfinance institutions</i>	436	399	2 145	1
<i>Others</i>	69 190	7 737	72 016	22
Total	154 498	48 926	323 204	100

In essence, the nonbanking financial sector from the Republic of Moldova is governed by the insurance sector regulated by the National Commission for Financial Markets, Savings and Credit Associations (SCAs), Leasing Companies and Microfinance Institutions. In 1 January 2013 the number of insurance companies decreased to 17 because their licenses have been withdrawn or have expired (see the financial reporting requirements in Tab.4).

SMEs play an important role in Moldova's economy. 98% of businesses are SMEs, which concentrate about 58% of the workforce and generate 35% of economy's income.

Table 4. Financial reporting requirements for Moldovan companies

Entities	Accounting Standards	Audit requirements
Public Interest Entities	IFRS	Required
Limited liability companies	NAS or IFRS voluntary	Not required
Joint Stock Companies (except PIE)	NAS or IFRS voluntary	Required for JSCs that meet the criteria set out in Article 2 of the Law on JSCs.
State-owned entities	NAS or IFRS	Not required for state enterprises; for JSC – the same rules above.
Savings and Credit Associations (SCAs)	NAS 63 Unfolding information in financial reporting of savings-loans associations and another analogical enterprises	Required for SCAs having C or B licence that exceed a certain value of assets.
Non-profit organizations	NAS and The Rules approved by the Ministry of Finance of Republic of Moldova	Not required
Micro entities	SNC 62 Simple discount system. The preparation of financial reports is not required.	Not applied

Source: developed by authors based on the Observance of Standards and Codes on Accounting and Auditing in the Republic of Moldova (Report regarding the compliance of the Standards and Codes, Accounting and Auditing, Moldova, June 2013, pp.18)

The new NAS and other accounting regulations have been developed over the years 2009-2013 by the working groups set up under the Ministry of Finance. Their content generally corresponds, to the provisions of the EU Directives and International Financial Reporting Standards (IFRS). The same time, when developing the regulations mentioned above, it was considered the current legislation requirements, the current level of local entities economic development as well as the experience of other countries such as Croatia, Estonia, Kazakhstan, Romania, Slovakia and others (Nederiță, 2013, p.1).

Compared with IFRS, the new NAS do not include alternative methods of recognition and valuation the accounting elements. For example, according to NAS „Intangible and Tangible Assets” the further evaluation of these assets is recommended to be carried out only by basing on their accounting value model. However, in accordance with the accounting policies, an entity may apply the revaluated value model, regarding the nominated assets, under the provisions of relevant IFRS (Nederiță, 2013, p.2).

Unlike IFRS, NAS and other accounting regulations provisions are presented into a simpler and more accessible way for the practitioner accountants. Except this, the above-mentioned documents contain practical examples and explanations regarding the accounting elements registration, which facilitates their practice use (Nederiță, 2013, p.3).

The new NAS and accounting regulations are compulsory for all double entry bookkeeping entities, except entities applying IFRS and public institutions. The new regulations correspond to EU Directives and IFRS provisions, revealing terms that significantly differ from both the concepts contained in the NAS and other existing accounting regulations.

The new NAS were prepared either with the purpose of improving the existing ones, or in order to add and implement something new. Thus, all 16 new NAS elaborated as well as the methodical guidelines, in line with existing NAS that are going to be substituted by them are indicated in Tab. 5. On 01.01.2014, the new NAS came into force as recommendation, but starting with 01.01.2015, it will be mandatory for all entities in the SME sector.

Table 5. The classification of the new and existing accounting regulations

New NAS	Existing NAS that are going to be substituted
NAS „Presentation of Financial Statements”	NAS 4 „Special features of discount at the enterprises of small business”, NAS 5 „Presentation of financial reports”, NAS 7 „Report on money circulation”, Comments on the application of NAS 7
NAS „Accounting Policies, Changes in Accounting Estimates, Errors and Subsequent Events”	NAS 1 „Record policy”, NAS 8 „Clear profit (dead loss) of reporting period, significant mistakes and changing record policy”, NAS 10 „Events happening after the date of making up financial report”, Comments on the application of NAS 1
NAS „Intangible and Tangible Assets”	NAS 13 „Non-material assets discount”, NAS 9 „Discount of expenditure on research work”, NAS 16 „Long-term material assets discount”, Comments on the application of NAS 13 and NAS 16
NAS „Investment Property”	It has no analogue
NAS „Leases”	NAS 17 „Leasing discount”
NAS „Impairment of Assets”	It has no analogue
NAS „Receivables and financial investments”	NAS 25 „Investments discount”, Comments on the application of NAS 25
NAS „Inventories”	NAS 2 „Commodity-material stores”
NAS „Equity and liabilities”	NAS 20 „Discount of subsidies and unfolding information about state aid”, NAS 26 „Pension plans discount”
NAS „Income”	NAS 18 „Income”, Comments on the application of NAS 18
NAS „Expenses”	NAS 3 „Composition of outlay and expenditure of the enterprise”
NAS „Building contracts”	NAS 11 „Building contract”, Comments on the application of NAS 11
NAS „Borrowing Costs”	NAS 23 „Expenditure on loans”, Comments on the application of NAS 23
NAS „Course of Exchange and amount differences”	NAS 21 „Consequences of changing the course of exchange”
NAS „Connected sides and civil contracts”	NAS 24 „Connected sides information unfolding”, NAS 31 „Reflection share of taking part in joint control business activities in financial reports”, Comments on the application of NAS 24

NAS „Accounting in agricultural enterprises”	NAS 6 „Special features of discount at the agricultural enterprises”
Methodical indications regarding the production costs accounting and the calculation of the products and services cost	NAS 3 „Composition of outlay and expenditure of the enterprise”
Methodical indications regarding the accounting for the individuals operating business activities	NAS 62 „Simple discount system”
General plan of accounts	Plan of accounts of the enterprise’s economical and financial activities

Source: developed by authors based on the data from the fiscal Monitor from the Republic of Moldova (Nederiță, 2013, pp.5-6).

All these new National Accounting Standards and methodical indications have been approved and entered into force on 1 January 2014, by publishing them in the Official Monitor of the Republic of Moldova and on the official website of the Ministry of Finance. National Accounting Standards and methodical indications listed above shall be applied by entities starting with 1 January 2014 as a recommendation, but starting with 1 January 2015 it will become mandatory for all the SMEs, when the NAS, Comments on the application of National Accounting Standards (CNAS) and conceptual Basis of preparation and presentation of financial statements will be repealed. Note that, additionally to the standards shown in Tab. 5, another standard that remained in force is NAS 63 "Unfolding information in financial reporting of savings-loans associations and another analogical enterprises" that will be used until the drafting of a new standard designed to replace it.

In Tab. 6 are revealed some parameters of generalization of the information regarding the accounting regulatory framework in the Republic of Moldova.

Table 6. General aspects regarding the financial reporting in the Republic of Moldova

Requirements for IFRS adoption in the Republic of Moldova	
Who currently applies IFRS in the Republic of Moldova?	Public interest entities
Is the IFRS application required or permitted?	IFRS are required for all public interest entities, since 01.01.2012.
	IFRS are permitted for the other entities, including the SMEs.
For instance, are IFRS required or permitted for companies whose securities do not trade in a public market?	<i>IFRS are required</i> for all public interest entities even if their securities do not trade in a public market. Public interest entities are financial entities, investment funds, insurance companies, private pension funds, joint stock companies that are listed on the Stock Exchange of Moldova and entities whose shares are not listed on the Stock Exchange.
	<i>IFRS are permitted</i> for other entities whose securities do not trade in a public market. Alternatively, the other entities whose securities do not trade in a public market may use Moldovan National Accounting Standards.
Translation of IFRS	
Are IFRS translated into the local language?	In the Republic of Moldova IFRSs are translated. The Romanian translation is used.
If IFRSs are translated, what is the translation process? In particular, does this process ensure an ongoing translation of the latest updates to IFRS?	The Romanian translation is prepared under the direction of the IFRS Foundation, and the standards, with the latest changes made are published on the official website of the Ministry of Finance of the Republic of Moldova.
Application of the IFRS for SMEs	
Has the jurisdiction adopted the IFRS for SMEs for at least some SMEs?	No
If no, is the adoption of the IFRS for SMEs under consideration?	No, because at this stage were developed the new NAS, under which all SMEs are obligated to report

	since 01.01.2014, or no later than 01.01.2015.
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Source: developed by authors based on IFRS APPLICATION AROUND THE WORLD (Moldova) (www.ifrs.org.)

4. STUDY ON THE APPLICATION OF IFRS IN THE REPUBLIC OF MOLDOVA BY PUBLIC INTEREST ENTITIES

According to the *Report on the Observance of Standards and Codes on Accounting and Auditing in Moldova (A&A ROSC)*, report implemented by the World Bank and the International Monetary Fund, where is presented the evaluation of the accounting and auditing practices, currently, in the Republic of Moldova there are 45 public interest entities and approximately 50,000 active entities. A total of 569 entities are required to audit their financial statements. This figure consists of 524 joint stock companies and all the public interest entities (Report concerning compliance of Standards and Codes, 2013, p.16).

MOLDOVA AGROINDBANK is an example of a lending financial institution from the Republic of Moldova that annually prepares and submits consolidated financial statements according to the provisions of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements are prepared in Moldovan Lei (MDL). These financial statements are prepared under the historical cost convention, excepting the securities held for trading which were estimated at fair value, as well as buildings and grounds.

MOLDOVA AGROINDBANK prepares the financial statements according to the following basic principles: continuity of activity, accrual accounting, assets and liabilities separation, consistency.

The consolidated financial statements include the financial statements of Moldova Agroindbank and subsidiaries - MAIB Leasing and MoldMediaCard LLC – on 31 December every year. The consolidated financial statements include the following types of reports:

1. Consolidated statement of the financial position;
2. Consolidated statement of the global outcome;
3. Consolidated statement of changes in equity;
4. Consolidated statement of cash-flows.

Additionally, financial statements prepared in accordance with International Financial Reporting Standards include notes to the financial statements and independent auditor's report, which is mandatory. Below, a model of financial reporting in Moldova Agroindbank is presented in accordance with the provisions of both IFRS and NAS, by realizing a comparative analysis of the registered outcome.

5. COMPARATIVE ANALYSIS OF THE INDICATORS IN THE FINANCIAL REPORT OF MOLDOVA AGROINDBANK, PREPARED UNDER NAS AND IFRS PROVISIONS, 31.12.11

5.1 Consolidated statement of the financial position (Balance Sheet), 31.12.11

In the process of analysing the results from the table above, there is a tendency to increase the total value of bank assets, as well as the total banking liabilities (total debts and equity) if reporting under IFRS provisions. In this case, when reporting under NAS provisions their value is 9.201.531 thousand lei but when reporting under IFRS – 9.617.713 thousand lei, that is 416.182.000 lei more.

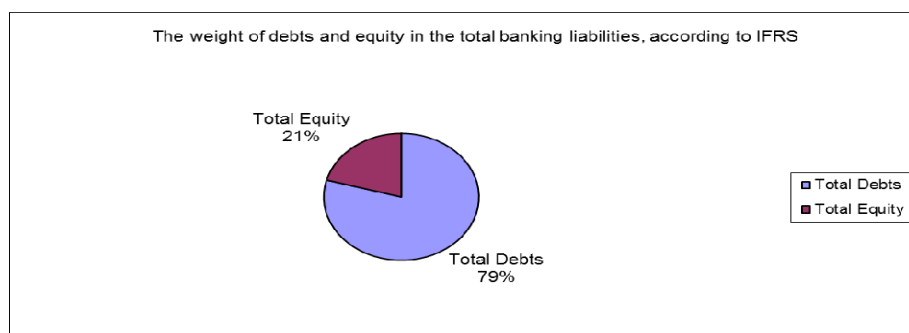
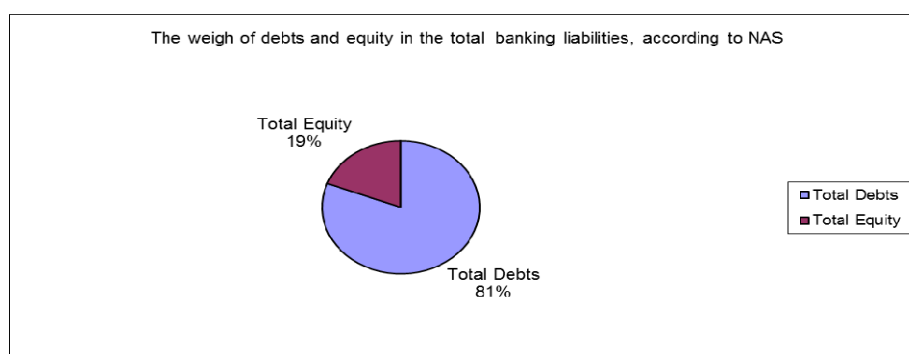
To study deeper the incidence of reporting under IFRS provisions, in the table below, there is presented the liabilities weight and, respectively, the equity weight in the total bank liabilities.

Table 7. The comparison between the economic and financial indicators according NAS and IFRS

NAS		IFRS	
Indicator	Amount, thousand lei	Indicator	Amount, thousand lei
Total Assets	9201531	Total Assets	9617713
Total Debts	7439194	Total Debts	7624404
Total Equity	1762337	Total Equity	1993309
Total Debts and Equity	9201531	Total Debts and Equity	9617713

The analysis of data presented in the table above reveals that when reporting according to IFRS, equity's weight in total liabilities (about 21%) is higher than when reporting under NAS, when its weight in total bank liabilities constitutes about 19%. In the same context, the weight of debts when reporting under IFRS tends to be lower than under NAS, constituting, respectively, 79% and 81%. Therefore, it can be easily noted that, under IFRS provisions, there is a tendency to increase the capital's weight in total bank liabilities and to decrease the weight of debts, unlike the reporting under NAS.

A more detailed representation of this information is given in Fig. 2 and Fig.3 below.

**Figure 2 - The weight of debts and equity in the total banking liabilities, according to IFRS****Figure 3 - The weight of debts and equity in the total banking liabilities, according to NAS**

5.2. Consolidated statement of the global outcome (Profit and Loss Report), 31.12.11

Analysing the data presented in the table above it can be noted that the net profit of Moldova Agroindbank at 31.12.12 is higher in the case of preparation the financial statements according to IFRS requirements, representing 290.802.000 lei. At the same time, the net profit obtained by the bank when reporting under NAS provisions constituted 282.362.000 lei, which are 8.440.000 lei less. Also when reporting as required by IFRS, the net income before tax is higher than that obtained when reporting under NAS requirements. Therefore, the adoption of the international

standards by the bank led to the increase of the income before tax (Tab. 8). Nevertheless, increasing the tax base, even if the income tax grows up, the net profit increases too, contributing to increase the market share of the institution as a whole.

Table 8. Cash flow analysis under NAS and IFRS provisions, 31.12.11

Indicators	NAS	IFRS
	Amount, thousand lei	Amount, thousand lei
Net cash flow from the operational activity	-653211	-622886
Net cash flow from the investment activity	-24914	-37371
Net cash flow from the financial activity	191969	175293
Net flow before extraordinary posts	-486155	-----
Net flow after extraordinary posts	-486155	-----
Total net flow	-494353	-494095
Cash and cash equivalents at the end of the period	1703631	1706618

5.3. Consolidated statement of cash flows (Cash flow statement), 31.12.11

The analysis of data in the table above denotes that the value of each of the indicators presented in the table is greater by reporting under IFRS compared to the NAS (Tab. 9).

Table 9. The relative impact of applying IFRS in Moldova Agroindbank, 31.12.11

No.	Indicators	NAS	IFRS	Relative impact, %
1	Total assets, thousand lei	9201531	9617713	4,52
2	Equity, thousand lei	1762337	1993309	13,11
3	Debts, thousand lei	7439194	7624404	2,49
4	Total liabilities, thousand lei	9201531	9617713	4,52
5	Net profit, thousand lei	282362	290802	2,99
6	Return on Equity, % (rd.5/rd.2)	16,02	14,59	-8,93
7	Solvency, coef. (rd.1/rd.3)	1,23	1,26	2,44
8	Global financial autonomy rate, coef. (rd.2/rd.4)	0,19	0,21	10,53
9	The leverage,% (rd.3/rd.4)	80,85	79,27	-1,95

Therefore, reporting in accordance with international standards and requirements generated at Moldova Agroindbank, an increase of 4.52% of total bank assets, of 2.49% of total liabilities and a significant increase in equity of 13.11 %. As a consequence, higher financial results are recorded, so the net profit grows up by 2.99% when reporting under IFRS and, the same time, it generates a higher taxation related to various taxes and fees payments. It also increases the coefficient of the solvency rate and global financial autonomy, which can be positively appreciated as it increases confidence in economic and financial stability of the institution as a whole. Simultaneously, return on equity decreased by 8.93% due to considerable increase equity value, and together with this, have increased capital cost of ownership, which led to a lower return on equity value. Another factor that can be positively appreciated is the decrease of the bank leverage of 1.95%.

As a conclusion, besides the fact that reporting under IFRS in Moldova Agroindbank tends to increase financial results and, at the same time, the income tax increases, there are also advantages of applying IFRS, such as that it creates a solid image of the bank on market, provides financial stability of the bank in the banking sector, and greater credibility to customers and business partners.

5.4. The applicability of international financial reporting standards in Romania

In Romania, the changes in the accounting field in recent years have been profound, Romanian accounting system being the subject of an ample reform process in order to adapt it to the new economic, political, legal and social conditions. One of the objectives of the reform was to implement international accounting standards (Ristea, Jianu, Jianu, 2010, p.174).

The period 1990-1993 was an intermediate period in between practicing a Soviet-style accounting system and an accounting system of French inspiration. Since 1994, Romania has implemented a new accounting system based on French accounting model.

French accounting system introduced from 1 January 1994, was applied without too many changes until 1999. Since 2000, it was aimed to adopt a mixed accounting system, both of European and international influence. The practical application of these regulations was performed starting with 2000, experimentally, in 13 commercial societies and national companies. Also during this period, it can be noticed a partial implementation of IFRS (Ristea, Jianu, Jianu, 2010, p.175).

Order no. 94/2001 was issued to harmonize the Directive IV accounting rules of the European Economic Community and the International Accounting Standards. Initially, the subject of this order provisions included 197 legal entities, commercial societies listed on the Bucharest Stock Exchange, autonomous administrations, national companies and other national interest entities. These regulations became mandatory also for the rest of the large entities if they met at least two of the size criteria specified for the period 2001-2005 (see Tab. 10).

Table 10. Size criteria according to Order no. 94/2001

End of the financial year	Turnover (Euro)	Total assets (Euro)	Number of employees
31-dic-01	over 9 million	over 4,5 million	250
31-dic-02	over 8 million	over 4,0 million	200
31-dic-03	over 7 million	over 3,5 million	150
31-dic-04	over 6 million	over 3,0 million	100
31-dic-05	over 5 million	over 2,5 million	50

The size criteria were applied until 31 December 2002 (Tab. 11). Subsequently it was issued the Order no. 1827/2003 on amending and supplementing some provisions related to the accounting field, which amends 15 size criteria (Ristea, Jianu, Jianu, 2010, p.176).

Table 11. Size criteria according to Order no. 1.827/2003

End of the financial year	Turnover (Euro)	Total assets (Euro)	Number of employees
31-dic-03	over 7,3 million	over 3,65 million	150
31-dic-04	over 7,3 million	over 3,65 million	50

The use of the size criteria was not justified, because it obligated other entities that were not listed on the stock exchange, to apply IFRS.

By 2005 some 1,500 entities have prepared financial statements under IFRS provisions. Although the result was not the expected one, in these years it was ensured a good level of familiarity with the provisions of IFRS. Since 2005, Romania has established a program of gradual accession to the international financial reporting standards, and since 2006, credit institutions were required to prepare consolidated financial statements, additionally to the financial statements already prepared, in accordance with EU directives. The rest of the public entities could prepare financial statements according to IFRS provisions. Since 2006, in Romania started a process of successive adoption of IFRS by several categories of entities.

Since 2012, according to the regulations of the National Bank of Romania, all credit institutions and all the companies listed on the Bucharest Stock Exchange were obligated to prepare financial statements in accordance with IFRS provisions.

In the countries with strong investor protection, IFRS does not dominate the local standards in terms of the quality of information presented, while in countries with poor investor protection, IFRS are perceived as superior, for example - Romania or the Republic of Moldova. Conflicting results regarding the quality of the information presented under IFRS provisions compared to the national standards revealed that IFRS are serving more to foreign investors than to local shareholders. Nevertheless, the adoption of international financial reporting standards constituted an evolutionary process of development, extremely important in the context of the country's European integration.

5.5. Impact of IFRS implementation according to the international practice

In international practice, we find many countries such as Belgium, France Ireland, Italy and the UK where the transition to IFRS resulted in an increase of the net outcome recorded at the end of the reporting period.

For German entities, adopting IFRS resulted in a significant increase of the total assets and equity, and in Turkey, the transition to IFRS, had a major influence on liquidity and rotational speed of assets for the entities listed on the Istanbul Stock Exchange. A research on Finnish companies showed that, with the implementation of IFRS, due to fair value application, changes were produced, especially on rates of profitability. In the UK, it leads to the increase in debts, net outcome, leverage and return on equity, while the current assets, capital and solvency have decreased (Săcărin, 2014, pp. 46-54).

As a whole, the transition to IFRS has resulted in a significant increase in the outcome of companies in Ireland, Italy and the UK, and the equity has increased for the British and Irish companies and decreased for Italian companies.

6. CONCLUSIONS

The transition to IFRS is a very important step in the economic development of every country. Both in the Republic of Moldova and Romania, the process of adaptation and reforming the financial regulatory framework was a difficult and lengthy one. There existed and still persist problems of vocabulary, practical applicability because of the insufficient number of trained specialists, perception, and assimilation regarding the essence of the new standards. Nevertheless, the advantages of implementing international standards are much higher compared with the transition costs, because reporting according to the international standards will contribute to a substantial reduction in the cost of systematization, processing and presentation of information. As a result, there will be established a common language of financial reporting and will be harmonized the economic relations between states. This will increase the transparency, comparability of information between companies in the same field of activity, but on different markets, will increase the number of foreign investors and their confidence in national financial reporting quality. As a benefit of international standards implementation, may be that, on medium and long term, it ensures an increase in liquidity of all entities applying IFRS and, as a result, it reduces the risks related to every entity. Most entities have adopted IFRS because it prepared consolidated financial statements, the process being a very expensive and complex one, causing problems, problems that are substantially reduced by the use of IFRS. The intensification of globalization process is the main premise for the implementation of IFRS, and at the same time, the global adoption of uniform standards tends to reduce costs, increase efficiency and significantly increase investments in capital markets both on national and international level. The companies hope to increase their financial

results through the implementation of IFRS. Therefore the transition to IFRS is the only way for an entity or a state to progress, development, economic ascension, transparency and safety.

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