

■ European traditions in accounting

Accounting tradition in Estonia: The reflections of accounting changes in the dynamic context

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Estonian accounting tradition should be viewed in the transitional context of political and economic systems. More than 20 years occurred transformations from a centrally planned to a market economy involved significant legal and institutional changes in the whole accounting area. Estonia, as a rather small country (population 1.34 million, territory 45, 215 km²), can be considered as a distinguishable example of these changes. We hope to shed more light on the accounting reforms and their effects on the Estonian accounting research and practice.

Accounting reforms in Estonia

More than fifty years lasted Soviet period in Estonia, when the planning economy principles via rigid state regulations were assumed to maintain the macro-economic balance of the economic system. The employed accounting methods and techniques had centralized state focus and were used at all enterprises without detailed customization to the particular circumstances at the organisation's level. In the planning economy conditions the main goal of enterprises was to fulfil a plan, which had been drawn out by the state institutions.

The enterprise managers had not much responsibility about production efficiency and products quality. The accounting system was the dominant instrument for planning and budget control. In general accounting did not serve the interests of enterprises, but

the interests of state and its ministries. In planning economy conditions, accounting had a relatively low status, being inflexible and unresponsive to market innovations. Contrary to the West, the prestige of accounting was extremely low in the previous Soviet Union.

Through the collapse of centrally planned economy in the late 1980s the situation in the accounting area in Estonia changed substantially. Estonia started to aspire towards market economy when it was still a part of the Soviet Union.

The accounting reforms in Estonia during last two decades can be viewed as an example, how to build up its national accounting system in the conditions of economic transformations. The accounting reforms can be distinguished between three different stages: the introductory stage (1990-1994), the system-building stage (1995-2002) and the system improvement stage (since 2003).

Introductory stage

In July 1990, more than a year before independence was regained in August 1991, the Regulation on Accounting was adopted by the Estonian Government. This event was the first step towards creation of market-economy accounting environment in Estonia marking the beginning of the spread of accounting disharmony within the Soviet Union. This event started also the introductory stage in formation of market-economy accounting environment. Although, in the contemporary sense, the Regulation was quite modest in content and volume, consisting of only ten pages, the actions spurred by the Regulation greatly contributed to and helped create a favourable environment for the adoption of the basic principles of market economy accounting, preparing movement to the second

stage of the Estonian accounting reform.

After the introduction of the Estonian Regulation on Accounting in 1990, there was some discord between the legal requirements and the actual accounting practice, as many accountants with their Soviet-era background failed to grasp the intrinsically different nature of financial accounting in the conditions of market economy. However, various retraining programmes and accounting disciplines taught at the universities and other higher education institutions have had considerable influence on the accounting profession and supported the accounting knowledge transfer into the organisations.

System-building stage

The significant incentive for the system-building stage of accounting reform has been the European integration decision, when Estonia submitted an application to join the European Union in the middle of the 1990s. The most important question for Estonia (and probably for other transition countries) was: how to build a forward-looking and flexible accounting regulation system, which would enable integration into and harmonization with the European accounting framework. First of all, this concerned business accounting, but the question was expanded to the whole accounting area. In June 1994 the first Estonian Act on Accounting (EAOA) was passed by the Estonian Parliament and came into effect in January 1995. One of the most conceptual issues of the EAOA was an attempt to create the facilities for merging the Continental European approach with the Anglo-American approach.

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In these circumstances the accounting framework and procedures in Estonian companies and institutions have since 1995 been legally regulated by the EAOA as a frame-law and by the Estonian Accounting Standards (EAS) issued by the Estonian Accounting Standard Board. This combination had a number of advantages, in particular in the initial period of the accounting reform, speeding it up and enabling the transition process to be flexible. In 1995- 2000 the EASB issued 16 EASs to improve particular aspects of accounting in Estonia.

Corporate accounting and information disclosure practices are influenced by the nature of enterprise ownership, sources of finance and the stage of development of capital markets. Tallinn Stock Exchange opened for trading in 1996, where seventeen domestic companies were listed. In 2001, the Helsinki Stock Exchange (HEX) Group from Finland acquired strategic ownership in the Tallinn Stock Exchange Group and trading in Estonian securities in the HEX trading system started in 2002.

These events pointed to a need for internationally acceptable accounting standards and improved the requirements on disclosure and reporting principles of listed companies. The income tax reform in year 2000 changed considerably the country's corporate income taxation principles. The moment of corporate taxation shifted from the period of earning profits to the period of their distribution in either explicit (dividends) or implicit ways (the latter include fringe benefits, expenses unrelated to business, etc.). The idea was to increase competitiveness of a transition country like Estonia and to encourage private investment and expansion of economic activity.

System improvement stage

The system improvement stage of accounting reform in Estonia was needed to meet the requirements of the improved European accounting framework following the European Commission's decision from 2002. The initial steps were arranged through the new, amended version of the EAOA and a revised set of the EAS, which came into force in 2003.

The main characteristic of the new EAOA and the new set of EAS is their clear orientation to the International Financial Reporting Standards (IFRS). Since 2003 the Estonian Accounting Standard Board (EASB) has revised 18 standards and brought them in line with the requirements of the new law and the IFRS. The new Act allows all companies to apply the IFRS instead of the national accounting standards in both consolidated and stand-alone financial statements for statutory purposes. This change was also supported by the abovementioned fact that in Estonia the corporate tax is charged on dividends, not on profit. Therefore, the accounting framework does not affect the tax basis or the state budget revenues.

The new Act has also expanded the scope of the legal accounting framework, involving also governmental institutions. The EAOA is specified by the general rules for organisation of the accounting and financial reporting of the state and the state accounting entities (riigi raamatupidamise ildeeskiri) which are based on and are in compliance with the accounting principles generally accepted in Estonia and the international public sector accounting standards. Thus the transfer of the Estonian public sector from cash-basis to accrual accounting can be regarded, in the light of the New Public Financial Management Framework, as an attempt to adopt the accounting principles that apply in the private sector. It can be summarized that the new EAOA has covered the regulation of the accounting principles for all entities either business or public ones.

Consequently, starting from 2003, there are no considerable differences in recognition and measurement policies between IFRS and Estonian accounting principles. Minor differences remained mainly in disclosure as the Estonian accounting principles is primarily meant for small and medium-size entities requiring less disclosure than IFRS. In 2011 the EASB updated the Estonian Accounting Standards according to the IFRS for SME-s. Development of the Estonian accounting system throughout its three stages can be regarded as a process of harmonization, which more or less consciously in different stages moved from regional focus (until the middle of the 1990s) towards global harmonization (until now).

The central role in the Estonian accounting reform has been played by the EASB. The Board started as a department of the Ministry of Finance, but from stage to stage it became more independent of the Ministry in its decisions concerning the accounting regulation. To enable a flexible manner of accounting regulation and to speeding up the reform, particular accounting themes are regulated by the accounting standards issued by the EASB.

The way how the profession is organized and the public attitude towards accountants and auditors affects auditors' ability to influence or control the behavior of companies and their reporting systems. In 1990, a step towards creation of a proper auditing environment was made by establishment of the Estonian Regulation on Auditing and the Board of Auditing. In 1994 the first set of auditing guidelines was enacted. It has to be emphasized that the Estonian Government continuously brought up the topic of auditing framework. The Chamber of Auditors was authorized under the Act on Auditing in 1999. The Chamber oversees the registration, education, certification and disciplining of auditors, setting of auditing standards and the regulation of audit practice.

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The Estonian Association of Accountants was established in 1996 as an accounting interest group open to anybody, without any qualification requirements. In the beginning, the main objective of the Association was to provide retraining in order to improve the accounting system. In January 2001, the Vocational Law was enforced in Estonia, which created basic conditions for organizing the certification of accountants in improved circumstances.

The present requirements set to the accounting profession in Estonia are based on the Guidelines on National Requirements for the Qualification of Professional Accountants. Currently the main objectives of the association concerning their potential impact are to distribute accounting knowledge and practical experience, and to represent their professional opinion in public discussions (including comments and suggestions on the drafts of the EAS opened for public discussion on the website of the EASB). The Estonian Association of Accountants is not directly involved in the accounting regulation setting, but a representative of the association is a member of the EASB, the issuer of the EAS. The association organizes conferences and seminars to contribute the profession.

Challenges

During the transition period the management roles had been redefined in order to focus their attention more on the market alterations, customer demands and organizational changes. Therefore, for enterprises it was necessary to develop their management accounting systems, which could provide accurately, measured cost information for pricing-decisions, budgeting or performance measurement purposes in order not only to survive but also to gain success in contemporary fast changing environment. Similarly to other transition countries the adaptation process in Estonian companies to

new and constantly changing conditions has demanded very deep alterations in the functioning of management accounting systems. Conceptual changes in financial accounting served as a precondition for the design, introduction and improvement of cost accounting and management accounting, and the development of companies' management accounting systems.

Market economy countries have not experienced such a conceptual change in financial accounting in such a short time during the last decades. Therefore the evolution of financial accounting has influenced the development of cost accounting and management accounting and the legal accounting reform represents an essential and inevitable motivator of these management accounting changes to occur.

An interesting feature of management accounting change in Estonian organisations is that due to the economic restructuring they had an opportunity to develop the traditional financial or cost based and innovative accounting tools simultaneously. Hence, management accounting change represents a combination of the introduction of traditional market economy based practices and the application of contemporary accounting tools, expressed by the system's sophistication. The increasing need for management information, the availability of competent accountants, changes in managerial practice and dissatisfaction with performance measurement indicated the drivers of management accounting changes. During 1990s the shifts in the management accounting systems of Estonian organizations represented mainly technical and conventional developments focusing on issues of cost information accuracy and conventional management accounting approaches (i.e. the replacement of the full costing method with variable costing). The prevalence of production oriented and narrow-scope accounting information reflected the main features of management accounting practices.

Later we can track the shifts towards more sophisticated and contemporary approaches (i.e. activity-based costing, balanced scorecard). More often the organisations' management accounting systems started to emphasize the necessity for the wider spectrum accounting information including market and customer performance indicators delivered by the integrated performance measurement methods and approaches.

Accounting research in Estonia

Curriculum on accounting has been developed at four universities (University of Tartu, Tallinn University of Technology, Estonian University of Life Sciences and Estonian Business School). The accounting researchers' community is relatively small (about 15 people) representing mainly the university members including the doctoral students, concentrated at the University of Tartu and Tallinn University of Technology.

Most popular research topics include management accounting, financial accounting, public sector accounting and accounting history. The research funding, mainly arranged by Estonian Science Foundation, is based more and more on sophisticated bibliometric models. Although accounting researchers in Estonia find it hard to compete for research funding with researchers from other areas of social sciences, they still have received a number of research grants for the projects on accounting during last decade. The focus of empirical accounting research in the politically and economically changing context was initially largely devoted to the financial accounting and auditing issues. There have been carried out studies by the university staff and also practitioners, describing the accounting principles and financial reporting application by the companies.

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The reforms of legal accounting regulations represent the necessary motivator for management accounting developments in the organizations' practices to occur. There are few published studies dedicated to the financial accounting developments and problems in Estonia. But these describe only some fragments of the accounting developments in Estonia. Since 1999 there have been conducted studies on the management accounting area, which findings are internationally available (see reading list). Nevertheless, current stage of management accounting research is characterised by the limited amount of well-documented and systematic research evidence on this area in management accounting.

Besides the teaching and research activities, Estonian accounting scholars has a certain influence on accounting regulation and business practice. As members of the EASB, accounting scholars have contributed to the development of national accounting standards and their alignment with the IAS/IFRS. But they also publish papers for practitioners that are based on empirical research of Estonian companies and organizations, retrain top managers and also serve in different professional positions, such as on professional certification boards, supervisory boards and as legal experts in practice etc. This intense intertwining of research work and practical experience has influenced the growth of accounting popularity among undergraduate and graduate students.



Organisation of the 37th EAA congress in Tallinn

Today the Faculty of Economics and Business Administration at the University of Tartu is the leading business administration (including accounting) research institution in Estonia. It has already hosted the international conferences (ISSWOV 2006; EIBA 2008; EACES 2010, ESU 2010).

We consider the opportunity of organising the annual 37th EAA congress in 2014 in Tallinn as a great honour and prospect for promoting accounting research and profession in both Estonia and the Baltic Sea region. The doctoral colloquium will be held within the facilities of the University of Tartu, one of the oldest university in Northern and Eastern Europe (founded in 1632).

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Reading list:

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