THE INFLUENCES OF TAXATION ON ACCOUNTING AND FUTURE PERSPECTIVES IN ALBANIA

by

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Abstract

Usually income tax laws count on financial accounting information and data, in order to determine a business entity's taxable income, even though tax and financial accounting have diverse requirements and goals. The aim of this thesis is to find out the relationship that may exist between the Albanian tax and financial accounting regulations. Furthermore, a very important point that should be conducted by this research is to find out whether Albania is following a tax oriented accounting system or not. In the aftermath of a rapid Globalization and the increase of foreign direct investments in Albania, the numbers of entities that have implemented the International Financial Accounting Standards (IFRS) have increased enormously. Thus, we have in one side the continuously increasing number of the firms which require following IFRS standards and on the other side the tax regulations which sometimes comes to the opposite of these standards. So, it is important to find out which type of orientation does Albania follow: the financial or tax accounting. This study includes a diverse methodology, involving an analysis of the tax legislation and interviews with different certified accountants. By revising the progress of this relationship during the last 20 years, the aim is to identify and explain the main divergences that exist between these two sets of rules. Also after this study, the conclusion is that Albania follows a tax oriented accounting system.

Keywords: Accounting system, tax regulations, Albania, taxable income, International Financial Reporting Standards,

Abstrakt

Zakonisht ligji mbi te ardhurat mbeshtetet ne informacione dhe te dhena te kontabilitetit financiar, ne menyre qe te percaktojne te ardhurat e taksueshme te nje entiteti, edhe pse kontabiliteti financiar dhe ai tatimor kane pikesynime dhe qellime te ndryshme. Synimi i kesaj teze eshte te gjeje marredhenien qe ekziston midis tatimeve ne Shqiperi dhe standarteve te kontabilitet financiar. Gjithashtu nje ceshtje shume e rendesishme qe do te zhvillohet ne kete pune kerkimore eshte te zbulohet nese Shqiperia po ndjek nje system kontabiliteti ne orjentuar nga taksat apo jo. Me ndikimin e globalizimit dhe rritjes e investimeve te huaja te drejteperdrejta ne Shqiperi, numri i entiteteve te cilat aplikojne Standartet Nderkometare te Kontabilitetit Financiar (SNKF) eshte rritur ne menyre shume te shpejte. Nga njera ane firmat te cilat kerkojne qe te aplikojne SNKF jane ne rritje, nga ana tjeter legjistacioni I taksave vendos me shume rregulla te cilat ndonjehre i kundervihen ketyre standarteve. Keshtuqe shume interesante per tu zbuluar do te jete te zbulojme se cilin orientim ndjek Shqiperia, ate te kontabilitetit financiar apo tatimor. Ky studim perfshin metodologji te ndryshme, duke perfshire analize te legjislacionit tatimor si dhe intervista me kontabiliste te ndryshem te miratuar. Duke u bazuar ne progresin e kesaj marredhenie keto 20 vitet e fundit, qellimi eshte te identifikojme dhe shpjegojme divergjencat e ndryshme qe ekziztojne midis ketyre dy rregullave. Gjithashtu pas perfundimit te ketij studimi eshte vene re konkluzioni se Shqiperia eshte i orientuar te aplikoje nje sistem kontabiliteti tatimor ligjor.

Fjalet kyce: Sistem kontabiliteti, Shqiperi, legjislacioni tatimor, te ardhurat e tatueshme, Standartet Nderkometare te Kontabilitetit Financiar.

Dedication

I want to dedicate this work to my family, who has been supporting me all my life to reach this moment. Without their sacrifice I would not be studying at Epoka University, and would not have finished the Turkish College in my education steps. Also a great appreciation for the support and assistance they have given to me during this period of time. They have had a lot of difficulties to assist me with everything I needed and this is the work by which I thank them. Also I would like to thank my work colleagues for their help and support during my master studies.

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The thesis work has bought me a lot of new impressions and influenced the way of my look on the influences of Taxation on Accounting in Albania. I hope that my thesis will contribute in a better understanding on what are the main differences that exist between the International Accounting Standards and the Albanian Tax Legislation.

Also I thank all the professors in the department of business administration, which gave me a full support and knowledge during this year of study.

Head of department of Business-Administration.

Declaration Statement

1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

2. The program of advanced study of which this thesis is part has consisted of:

i) Research Methods course during the undergraduate study

ii) Examination of several thesis guides of particular universities both in Albania and abroad as well as a professional book on this subject.

Enigerta Halilaj

01 February 2016

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List of Abbreviations

ALL:	Albanian Lek
BoA:	Bank of Albania
CIT:	Corporate Income Tax
CoM:	Council of Ministres
EU:	European Union
EAS:	Professional Standards on Education
FASB:	Financial Accounting Standards Board
FDI:	Foreign Direct Investments
FS:	Financial Statement
GAP:	General Accounting Plan
IRS:	Internal Revenue Service
IASB:	International Accounting Standards Board
IFRS:	International Financial Reporting Standards
IEKA:	Institute of Authorized Chartered Auditors
IASC:	International Accounting Standards Committee
IAS’s:	International Accounting Standards
IFAC:	International Federation of Accountants
LPKM:	Association of Albanian Certified Accountants
NAS:	National Accounting Standards
NAC:	National Accounting Council
OLJ:	Official Legislation Journal in Albania
SME:	Small and Medium Sized Enterprices

US GAAP:	Generally Accepted Accounting Principles
VAT:	Value Added Tax
WB:	World Bank

Chapter 1: Introduction

This research aims to analyze the relationship between accounting and the taxation in Albania. Actually not too much researches have been done about Albania but is more important to be taken into consideration that Albania is a country in transition and as such, it is very important to be studied how accounting system has been developed in this country.

Very important points that should be conducted by this research are to find out if Albania is following a tax oriented accounting system or not. Although with the help of globalization, the countries in the European Union (EU) have adopted the same accounting standards, important to be studied is a developing country such as Albania.

Although at first glance the need for financial reporting based on the accounting standards may not count as an opportunity to encourage the economic growth in a developing country, is important to note that the reporting of reliable information, transparent for 98% of enterprises of a country is an important pillar for its strategic and sustainable development. Because an effective financial reporting, is a very important element to ensure a healthy business climate. In this way, to the owners it can be provided a clear situation of the financial situation of their business for the decision-making purposes, but also it also may bring to good investment opportunities for all investors (Hoxha, 2015).

In addition, the process of EU integration of many developing countries as well as the globalization of the capital markets are very closely related to the need for harmonization of accounting at the international level. Our country, the past 20 years has been accompanied by significant changes in the legal and institutional aspects, in order to improve the Albanian legislation with respect to the EU. Among the many disciplines that have faced a lot of fundamental changes were also accounting, auditing and finance. A special attention was paied to the accounting field. Actually, the Law no.9228 “On Accounting and Financial Statements” prepared by the National Accounting Council (NAC) and approved by the Parliament on 29.04.2004 regulates accounting and financial reporting.

This law defines the usage of two types of standards (national and international) as well as the criteria for classifying the economic units that would be subject to the implementation of these standards. Since 7 years, all entities that operate in our country, apply these standards to their accounting and adjusting purposes. The process of standardization of the accounting and financial reporting is considered a successful path towards the European Union. However, despite the success, in Albania as in every other country the accounting standardization process was followed and continues to be associated with various problems. These problems are evident in small and medium enterprises, which often have a lack of their resources of financing and adapting to the new changes.

This research will also include how the taxation system is influencing accounting standards and how related is accounting with tax regulations and also how taxation system is influencing the accounting standards implementation.

Although not too many previous researches have been done in this field the main purpose of this study is to find out:

- The situation that is facing Albania in relation to the accounting and taxation;
- what type of orientation is Albania following a tax oriented accounting system, or not;
- What type of differences can be faced between accounting standards and tax regulations in the everyday application of the NAS;
- Would it be necessary for Albania to adopt ne International Accounting Standards?
- What may be some advantages and disadvantages of the fully adoption of the IAS.

As during more than the last two decades, the Albanian economy has undergone fundamental changes, one of the problems for which a solution was required to be found from the part of the directors of the economic entities, was the continuous development and improvement of the legal framework for accounting and financial reporting, these elements would provide a reliable and transparent information to all interested parties (as well as foreign investors and domestic ones), to reduce informality in the country as well as the elimination of corruption in public administration (Qurku, 2013).

For transition countries like Albania and many other countries of the world, changes in the field of accounting regulations and financial reporting were frequent as a result of processes such as globalization, harmonization of international accounting standards, the development of capital markets, etc. The tax system has become part of these ongoing changes, which have had a large impact in the reporting process of different economic entities (Qurku, 2013).

The relationship between the two areas, that of financial accounting and tax accounting is a relationship that has existed, still exists and will exist further, in terms of the analysis of various quite disturbing problems, which are primarily related to the goal of economic entities which is to pay lower taxes, or the fact that the accounting records and information are important.

The most important reason of the existence of the financial reporting was present or make available the necessary information of the financial position of the economic entities and companies during the financial periods for their interested and a few ranges of users. Parts of these few users of the financial statements at those times include: Bank of Albania (BoA) and Government agencies.

It can be said that in Albania the economic entities are still facing the doubled financial reporting, from one side the reporting for accounting purposes and from the other side the reporting for tax purposes. The reason is simple, it's because on one hand the economic entities to exercise their activities are obliged to draft financial statements in order to provide the necessary information to the third parties such as shareholders, creditors, debtors, government, etc. The compilation of these statements certainly done in full compliance with the rules and accounting policies (currently even in Albania has been developed the full set of national accounting standards in accordance with International Accounting Standards). But on the other hand, since the state through tax authority requires to the entities to pay the income tax liability in accordance with applicable tax legislation, it often enables the entities while drafting the financial statements to encounter the tax rules and policies, namely to identify the tax liability on those statements. In the general view this phenomenon seems quite simple, but in practice there is often a duality between reports.

As Albania has been passing in through a transition period during the last 20 years its economy has face changes in a many aspects of the economy. In relation with all the changes and transformations related to the overall economic system there came out the need to build a new institutional and legal framework. This was at those times very difficult and risky, because this new system could have hade a positive or a negative impact in the economy. During 1990 many modifications have been faced in the legal infrastructure in order to regulate the new market system based on the guidelines of a free market economy. For this a lot of efforts were made in order to build the needed infrastructural dimensions and capabilities by taking innovative measures but also through building deep reforms in many different sectors. Among the many disciplines that have faced a lot of fundamental changes were also accounting, auditing and finance (Shkurti, Leka, Bahiti, & Manoku, 2011).

Taking into the consideration the last years in Albania the independent accountants and auditors have faced many of efforts and changes in order to make an improvement in the quality of services that were being offered. The newly written laws and regulations, in order to complete with the legal framework, were compiled according to the European Union requests, as Albania has been a country aspiring to enter to the EU and has signed many agreements in order to implement a legal framework that was totally compliable with the legal framework of European Union. The complete legal structure having such a development has in this way would find the possibility to form a proper institutional framework and infrastructure possessing all the required tools to supervise and also regulate the professions of the independent accountants and auditors (Shkurti, et all., 2011).

Currently, after passing 20 years of completed reforms the country owns a suitable supervisory and regulatory instrument in order to assure accounting services at good quality, financial and auditing services to both private and public entities. When compared to the services offered in the European countries, with almost the same development state as Albania, it can be said that the quality of these services is almost in the same levels. Nevertheless, taking into consideration the Albanian's local economy necessities and the international economy framework that is facing continuous changes, new challenges and necessities are continuously presented to the practitioners of accounting, auditing and finance. And by taking this into account our country is yet interrelated in each aspect with the progresses that are happening in different countries of the Europe, in addition trying to adopt all these changes into the Albanian economy. Also important to be mentioned is that the taxation system in Albania, mentioning here the initiative of the Albanian government "Albania 1 Euro" has always promoted and attracted the foreign direct investments (FDI) (Shkurti, et all., 2011).

This analysis will be developed into four chapters, included are all the arguments related with the accounting standards, taxation system in Albania and the relationship between these two components.

In the first chapter the introduction is made, which includes a brief presentation of the objectives and arguments discussed in this research. Further, the second chapter provides theoretical background information related to accounting system and taxation in Albania. Also this chapter includes a description of the accounting and taxation system's changes made year by year up to the present day, making a complete picture of it. The evolution of accounting reforms and the necessity of the application of new accounting standards is another key factor of this chapter because through it we can understand haw was previously the accounting system and taxation and why was it necessary to implement the international accounting standards.

Chapter three has got an application which lunches to analyze previous classification studies and to determine the place of Albanian accounting system and its relation with taxation. Finally it will be very interesting to discover, what the tendency of a developing country such as Albania has to adapt to the international accounting standards.

This paper also analysis the recent developments in Albania. It determines that the relationship among taxation and accounting is still in progress and likely with further developments in the future.

Knowing that the financial statements composes one of the most important factors that affects the decision making process, referring to the passing of reliable and credible information regarding to the activity of the economic entity, information which indeed acts like an orienting map of the actual situation of the entity, and also for the entity's future insights.

Chapter 2: The Theoretical Background

2.1 A General Overview of the Purposes of Accounting and Taxation

Often the purpose of accounting has been identified as the supply of crucial information to interested parties to lead, control and make important decisions in a company. When we mention the interested parties we include the internal parties such as management or external parties such as creditors, shareholders, tax authorities etc.

A financial report is a formal report presenting the financial activities of a person or an economic entity. Important financial information is presented in a structured manner and in a form that can be easily understood. They usually include basic financial statements, accompanied by a management report and analysis of financial situations. For big entities, these reports are often complex and can include a wide array of explanatory notes to the financial statements, discussions and analysis. Notes to financial statements are considered an integral part of the financial statements (Fridson & Fernando, 2002).

The financial statements are intended to be understood by readers who have the necesity to have a reasonable knowledge of business, economic activities, accounting and who are willing to study the given information. Users can use the financial statements for different purposes:

• Business owners and managers require financial statements to make important decisions that might affect the entity's everyday operations and the everyday decision-making.

• Employees also need these reports in fulfillment of collective agreements with the leaders of the unit, in the case of labor unions or for individuals in their promotion, compensation, etc.

• Prospective investitors use the information of the financial statements to assess the viability of their investment in an entity. Financial analyzes are often used by investors and are prepared by professionals (financial analysts), offering them the "basis" for making investment decisions.

• Financial institutions (banks and other lending companies) use them to decide whether to "give an entity a long term loan in order to finance expansion and other significant expenditures (Fridson & Fernando, 2002).

Tax reporting is a requirement for all entities, they have to report income realized and payments made in the ordinary course of their economic activity. This report is the responsibility of the government and also responsibility of the entities and thus it is constantly growing. This report includes a large number of regulatory requirements set by the governments of each country. This report serves as the primary basis in order to verify the accuracy of tax declarations submitted by the taxpayer (Qurku, 2013).

In order to understand the development to the concepts that are ahead the development of the accounting standards is introduced in the Framework for the preparation and the presentation of the financial statements, which have been published by the International Accounting Standards Committee the (IASC). In addition, this is interestingly summarized by (Nobes & Parker, 2002), where they state that the Framework specifies that the main purpose that the FS have is to provide the necessary info and data to many users (internal and external) in order to improve their financial decision making.

It is well known that the interest of the users of the accounting information about the fiscal policy, can lead to many situations, among which may be mentioned the;

- Maximizing the economic value of the economic entities, which is consistent with the principal interest of the directors of the economic entities.
- Interest of managers to reduce the tax burden, despite maximizing the economic value of the economic entity (Qurku, 2013).

By analyzing the structure and the development of businesses in Albania, of the need for reliable and transparent information, it is believed that the accounting information is one of the most important elements that helps to increase efficiency in relation to decision-making of the economic entities and users of accounting information, as a necessity of time to ensure a consolidated financial reporting and integration of Albania into the European Union (Duhanxhiu & Kapllani, 2012).

We are actually facing the reality where the majority of bussinesses are aplying a dubbued financial reporting, this due to the fact that we are still living in conditions of an "informal" economy. This has made possible to continually search methods and ways that will lead to the improvement of the financial reporting, which may lead to a further development of the economy, financial markets, increasing foreign direct investment and the impact that would lead Albania towards the European Integration (Qurku, 2013).

Considering what the taxation system requires it may be quite different from that of the accounting system. To make clearer this idea, it may be given an example of a case that was represented before the Supreme Court in USA of a well-known Company and vs. Commissioner of Internal Revenue. The matter in this case was related to the additions to bad debt reserves and the inventory accounting procedures also including the issue that accountants can be a little bit further conservative for commercial purposes than it may be right for the assessment of taxes (James S. , 2002).

As we know the prime goal of the financial accounting is to deliver the useful information to shareholders, managers, creditors and other interested parties, the obligation of an accountant is to defend these interested parties from being misinformed. The income tax system has various goals but the primary and the most important goal, which is in distinction with the accounting's, is the assemblage of governmental revenue. The responsibility of Internal Revenue Service (IRS) is the protection of civic treasury or fiscal policy (James S. , 2002).

But on the other side the financial accounting, by taking into consideration its responsibilities and goals, has as its aim and leader the principle of conservatism, which leads that the possible errors that may occur in the measurements should be in the direction of understating rather than in the overstating the net income and assets. Though, in the perspective of public treasury's various goals the understatement of the net income won't be in the beneficiary of its interests. So by this case can be clearly understood that both taxation and financial accounting have different objectives (James & Nobes, 2002).

There exist also other reasons why taxation and accounting may have differences from each other in the concepts of income. In one hand one of the reasons of taxation is the funding the community expenditures, the extent of taxation nowadays has made it a dominant instrument of the governmental social and economic policies in its own right (James & Nobes, 2002). While on the other hand even if some taxation measures are introduced in order to improve the economic decision making some others are being used for other diverse reasons.

So, before coming up with proper figures for tax purposes, to the income figure there might be made all types of modifications (Surrey, 1973).

Let’s take as an example the depreciation, where the allowed amounts for capital expenditures can be adjusted for tax purposes such as to encourage commercial investments. But from the other side, it might be upon the government’s power that certain activities that are normally accepted for commercial purposes shouldn’t be given any tax concessions (James S. , 2002).

To explain this occasion an UK example might be given: that of the tax treatment in UK of such types of expenses. Accountants for business reasons take into consideration all the costs that might have incurred in generating revenues. But some expenses according to the tax purposes may not be allowable. For example, the costs for customer entertainment and the cost used for gifts, unless if they are in small amounts and used for the advertisement purposes, which for tax purposes are not allowed (James & Nobes, 2002).

The reason for this may have been to inhibit the excess costs for tax avoidance. However, inequality concerning taxation and accounting can be more essential than modifications to an acceptable amount of income. Moreover, it is important to be mentioned that these might have been some of the difficulties in forming a effective income definition (James S. , 2002).

2.2. The Development of Accounting and Taxation system in Albania

After the fall of the communist regime and the introduction of our country into a market economy, the development of accounting regulation was divided into two periods (Haxhi, 2012)

- from the early '90s until 2004
- from the year 2004 and straight on.

According to Haxhi L, 2012, the beginning of the ‘90s coincided with a period of very intensive drafting of the legal procedures in the field of accounting. The first attempt to draft the first law on accounting was undertook in January 1991. Because of deficiencies that this law faced, it was required the assistance of specialists from foreign countries. Whith their help the law was fully draft and entered into force as the Law No. 7661, dated 19.01.1993 "On Accounting". In its application dated 09.07.1993 according to the Decision of the Council of Ministres (DCM) of the same year, the law has presented the "General Accounting Plan" (GAP). The GAP was determined according to the accounting rules and principles, the functioning of these accounts and the financial statements. Afterwards the Law no. 7638, dated on 11.1992 "On Business Entities" laid the first foundations on the rules for the approval and publication of the financial statements.

Over the last decade, our country is constantly working and seeking its integration towards the European Union. This over all seeked also the reflection and development of the accounting rules. After the year 2000s, international developments in the accounting field, are particularly characterized by two major moves:

- The convergence of attitudes and acceptance that “the common language” of the financial information based on accounting are the International Accounting Standards (IAS) and their transfer to the International Financial Reporting Standards (IFRS), stressing here that this is the result of the globalization of the economy.

- The review of the legislative decreeing of the audit process, of the Code of Professional Ethics and the Professional Standards on Education (EAS) as the only way for the development and application of IAS, IFRS (Tomja, 2015).

In response to these challenges, all bodies in charge of the accounting field such as: (Ministry of Finance, the NAC and professional bodies including IEKA) and with the assistance of the World Bank (WB) and European Union (EU) conducted the new reform of the legal framework. In 2003, it was develop a strategy for a new reform in the accounting field with accounting basis (Haxhi, 2012). The purpose of this reform was to improve accounting adjustments in order to increase the transparency and reliability of the financial information. In addition, this reform came in response to the market needs and in protection of the public and the state interests.

This strategy intended to review the existing accounting rules and the amendment of the Law on Accounting and Financial Statements. Law "On Accounting and Financial Statements" of April 2004, with the amendments done in 2006, materialized this strategy. The law has been formulated in the basis of the international accounting standards by authorizing the amendment of the accounting, not anymore through the General Accounting Plan but with the Accounting Standards.

The law mandates that standards be established according to the national level and be in consistency with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and to be implemented by the majority of domestic companies (Bollano, 2010).

Therefore, Albania after the introduction of amended accounting legislation, the creation of new tax and accounting institutions aimed to adopt the accounting and tax reforms of the developed economies.

2.2.1. Development of the accounting law in Albania

Firstly I would like to make a short summary of the development of the accounting law in Albania. Considering the period of the previous socialist economy that has dominated in Albania, the role of accounting and the number of statistical figures that were needed for the central authorities were very limited during that period. At those times there was no independent accounting profession and no public disclosure of accounting information. So the new accounting reform that was needed to be accomplished had two major objectives to follow such as:

“(1) Establishing a new accounting system, and

(2) Creating the independent accounting profession” (Cela, 2004).

After the law “On accounting” was in January 1993 approved by the Albanian parliament, after six months the government approved the general accounting plan. At that time the ministry of finance was in charge for the preparation and modification of the accounting legislation, while the accounting profession was not involved in these processes at that time, because it was not so much developed at that time (Sudar, 2001).

As it is well known accounting plays a very important role in meeting the needs for reliable and transparent information from all public and private entities, which made that the reforms in the field of accounting to be continuous. The economic system before 1993 used accounting as an element to meet the established criteria for planning and maintaining the property. During that time the accounting reforms could provide useful information for the leaders of entities in the conditions of a market economy. This prompted the GAP of 1993, which was implemented without much difficulty and at low costs, which provided a strong continuity between accounting techniques before and after 1993, where accounting was reorganized on the basis of commertial companies replacing in this way the accounting in production with specifications according to the branches of the economy, which was an essential characteristic of that accounting system (Keshilli Kombetar i Kontabilitetit., 2014).

With the adoption of the Law no. 7661 dated 19.01.1993 "On Accounting" was marked also the most important reform of the Albanian economy, the transition from a centralized economy to an open market economy, through the means of codifying the basic accounting principles and practices which were generally accepted internationally and adapt to the requirements and economic conditions of Albania. The general accounting plan drafted in 1993, was implemented consistently for a long period of time by entities and professionals, serving as a guide to accounting. The financial statements represented a structured presentation of the financial condition and the operating performance of the economic entity (Qurku, 2013).

During the ongoing reforms in the field of accounting the regulatory bodies have taken into account the worldwide experiences, namely that of the French and the European mainland. These experiences are framed in terms of the Albanian economy and have helped in the formation of an accounting tradition. Also the process of transformation of the Albanian society has demanded the need for reforms in the field of accounting (Binaj, Binaj, & Irini, 2012).

In the context of improving the accounting adjustments, increasing transparency and reliability of financial information to be adapted according to the market needs and also to protect stakeholders, in 2004 began the work for the design of a new reform strategy in the accounting field and on the accounting-based professions. In 2004 was ratified the Law no. 9228, dated 29.04.2004, "On accounting and financial statements", which has replaced the Law no. 7661 dated 19.01.1993 "On Accounting". Pursuant to Article 100 of the Constitution and Articles 20 and 24 of Law no. 9228, dated 29.04.2004, "On accounting and financial statements" with the proposal of the Minister of Finance, the Council of Ministers decided "the ratification of the NAC" as a professional public and independent organization, who compiles the National Accounting Standards . The main objectives of the National Accounting Council are:

a) The continuous improvement of legislation on accounting.
b) The development of the accounting system in accordance with the Accounting Law.
c) Drafting of the National Accounting Standards.
d) Promote the implementation of the National and International Financial Reporting Standards (Ujkani, 2013).

The NAC with the support of the Albanian Government, through a project funded and assisted by the World Bank, conducted with the help of a foreign company "PricewaterhouseCoopers" the set with 14 national accounting standards, which are drafted in accordance with international accounting standards and are applied by all public for profit organizations and private entities from January 1, 2008, excluding those large companies, which are included in the list approved by the Council of Ministers and who are obliged to implement the international accounting standards in full. Due to economic developments and changes done in the accounting field to the Set of 14 accounting standards was added also the National Standard no. 15, "On the principles of accounting and financial reporting by very small economic entities", which entered into force from 1 January 2009 (Ujkani, 2013).

Creating a set of national accounting standards constitutes a substantial change to the preparation and reporting of financial statements (Qurku, 2013).

In the reforms framework can not be left without mentioning the Law no. 10091, dated on 05.03.2009 "On legal auditing, the organization of the registered certified accountants profession and of the chartered accountant", which aims to improve and strengthen the public oversight of the profession of the registered certified accounting experts, as well as the regulation of the adopted accountancy profession.

Persuant to the Article 12 of the Law nr. 9228, dated on 29.04.2004 " On accounting and financial statements", as amended, economic entities will report as a component of the financial statement the below mentioned documents:

a) The balance sheet
b) Income statement
c) The statement of changes in equity
d) The cash flow statement

e) The appendices of the financial statements, which contain an overview of the accounting methods and other explanatory materials.

2.2.2. National entities responsible for accounting adjustments

The most important organizations in Albania in the field of accounting are: the NAC, the Institute of Chartered Auditors (ICA) and the Accounting Associatons (AA). The NAC is a professional independent public body with legal character. It was created in 2005 by the decision No. 142 of the Council of Ministers (CoM), in persuance to the Article no.100 of the Constitution and Articles no. 20 and 24 of Law no. 9228, dated 29.04.2004, "On accounting and financial statements" (Tomja, 2015).

This decision the CoM appointed the members of NAC as well as the work environments. The main tasks of the NAC are:

- Developing the national accounting standards, in accordance with the requirements of the Law No. 9228 is consistent with International Accounting Standards. If for legislation reasons and accounting practices within the country, the NAC deems it necessary to avoid the following of some standards, it has the authority to do so, just after it explains and justifies the reasons of this action;
- developing an accounting system besides the national accounting standards, the list of accounts and its usage, as well as formats for financial statements;
- identify the needs and purpose solutions for the improvement of bookkeeping methods for the bookkeeping records and required qualifications;
- interpret and generalize the problems arising from the practice and accounting standards, which should present in the form of accounting guidelines;
- examine and give opinions on all draft laws and regulations which contain accounting provisions, for the preparation of accounts which are related economic entities, subject to this law, as well as basic accounting professions;
- establish relations with local and foreign professional organizations and take part in the national and international accounting activities (Keshilli Kombetar i Kontabilitetit., 2014).

Institute of Chartered Auditors established on 24 November 1997, with the status of a non-for profit professional organization. It assemblies the accounting professionals furnished with the title of "authorized auditor ekspert" who practice their profession in public independently, or as part of companies' of authorized auditors. In 1997, it counted its first 56 auditors, and today has 213 members registered as physical persons and 54 audit firms. IEKA regulates the organization of the "certified accounting expert" proffesion and the statutory audit of individual as well as consolidated annual financial statements of comercial companies pursuant to Law no. 10091 dated 05.03.2009 "On legal auditing, the organization of the expert accounting profession and chartered accountant." The main objectives for the continuous improvement and the realization of the mission of IEKA are:

- to ensure the exercise of the profession of "registered accounting expert" in accordance with the law.
- to protect the honor and independence of the "Registered Chartered Accountants" IEKA’s members.
- to ensure the supervision of professional training of the "reistered accounting expert"
- to increase knowledge and practical application of high quality standards in line with international developments.
- continuously improving services which are in the public interest (IEKA, 2004).

Since 2008, the Institute of Chartered Auditors is a member with full rights in the International Federation of Accountants (IFAC) (IEKA, 2004).

Accounting associations, recognized as responsible in the regulation of independent accounting profession. Currently, two associations operate in Albania: Institute of Chartered Accountants and the Association of the Albanian Accountants and Financers. Their main mission is to provide training in the areas of NAS, the IFRS, audit, taxation, drafting business plans, information technology, etc. for the benefit of professional titles. They also provide assistance and advice to NAS and IAS in general and for specifik standard. At the same time, it provides assistance for problems arising from the implementation of the Law "On accounting and financial statements" (Hoxha, 2015).

2.3 The Evolution of Accounting Reforms and the necessity of the application of new accounting standards in Albania

The IFRS are designed to serve as a common language for global business issues in order that the economic entity's financial statements to be understandable and comparable across national borders. They are particularly important for entities that have economic activity and business relationships in more than one place. IFRS represent the rules to be followed by professional accountants to ensure and maintain comparability, understandability, reliability and the importance of informaconit that the financial statements are representing, which are necessary for the internal users of this information as well as for the outside users (Qurku, 2013). During 2005, the European Commission took some important and fundamental steps in establishing financial reporting standards as being mandatory to be followed by all those companies listed on the stock exchange in the European Union. This step was taken in order to increase the cooperation between companies with common grounds (IFRS, 2014). Since 2005, countries in the European Union, Australia and South Africa have converged with IFRS standards, while Japan and United States of America are still working together with the IASB in order to converg their standards (IFRS, 2014).

Financial reporting is a set of concepts that form the basis element not only for the preparation of financial statements, but also for the usefulness in the presentation of financial reports by the economic entities. In the absence of a complete set of accounting standards and financial reporting in accordance with IFRS, it is not easy to record all transactions in a format that would be acceptable by all. However, maintaining an acceptable set of accounting standards is essential to record assets, liabilities, income and expenses of the economic entities (Lambrecht & Myers, 2008).

The financial reporting framework includes also information for creditors, investors, lenders and other interested parties. These users of accounting information have not sufficient privileges to access to the economic entity and get the information they seek. They can obtain this information through financial statements prepared by entities and through them they can evaluate the entity's performance and make economic decisions (Qurku, 2013). The leaders of the economic entity adopt effective and efficient procedures of drafting the financial reports making in this way possible that the information required by stakeholders to be more reliable and transparent. The status of the reporting entity is closely linked with its economic activity. Financial reporting framework is undoubtedly an important element of the resource allocation. For example, a potential investor capital can take a decision based on the financial reports for the acquisition of a subsidiary or division of an economic entity (Lambrecht & Myers, 2008).

So the main purpose of financial reporting is to provide to the interested parties the useful information for economic decisions. An information is useful when it is understandable. An information is convenient when it gives us the validity of a decision, his expectations and timeline. The relevant information, which meets these three criteria helps the decision-makers to make predictions for the future. The most important is the quality of information that allows users to review it in confidentiality. This means that this information is true, reliable and error-free, and of course that all figures that are listed in it are reliable and verifiable. This means that through the implementation of international standards, two of the main characteristics of accounting information are the most important, adaptability and safety (Qurku, 2013).

As for what was mentioned above it can be said that the financial statements prepared on the basis of accounting standards should not contain biased information, as such information would lead to "bad image" of the economic entity. The most important function of the financial statements is to provide a view as fair as possible for the economic entity. In conclusion we can say that the IFRS are playing an increasingly important role in the global financial reporting (Duhanxhiu & Kapllani, 2012). The IFRSs framework has been prepared taking into account the users of financial statements because they do not need just the financial information of the economic entities, but they also want to do a comparison of the reporting unit in relation with the other industries. For this reason, annual reports often contain such valuable information to make the user of the financial statements aware. The IFRS Framework allows the economic entities to provide information about its economic resources, and intends to make the users of the financial statements aware on the liquidity and solvency of the economic entity. In this viewpoint financial reports should also include a valuable analysis that would help to alert the user of the financial statements in relation to important issues and assist users of financial statements to understand the financial situation of the economic entity (IFRS, 2014).

Albania in order to fuilfill the conditions for its integration in the European Union, has been adopting the NAS fully in compliance with IFRS, as one of the many requirements for achieving the appropriate financial regulation, which has given to Albania a lot of political advantages. Meanwhile, it has not given many economic advantages considering the narrow number of big companies in Albania who aspire to attract foreign investments. In addition, considering the SME's, which are estimated to cover a big percentage of the Albanian companies, it has been a substantial cost the adoption of the new NAS because it was necessary to train the internal staff or alternatively to hire outside consultants who will charge higher fees for accounting services that they would provide (IEKA, 2004).

Occasionally, the accountants and auditors or other practitioners in the field, may have experienced an increased need to apply the new knowledge in a very short time period. Nobody till now has ever conducted any study in order to measure the costs that in a direct or in an indirect way are related to the implementation of the national accounting standards in Albania, but sometimes it can be said that to apply the global accounting standards may result with higher costs in small countries like Albania who do not have any active capital market, which would benefit from more transparent financial information and better accounting rules (Shkurti, et all., 2011).

The current legislation creates some disagreements between the tax authorities and the business and also between tax authorities and the field practitioners, this comes out due to the inconsistency and the unclear as the current legislation is. As a consequence, it gives to the tax controllers full competencies to interpret the uncertain sections of the law according to their opinions and beliefs (ROSC-Report., 2006). Considering all these changes occurring to the reporting framework and its existing contradictory requirements are a major hidden cost that the auditors and the accountants have to bear, and this is a big challenge for then, in order to provide to their clients and employers updated services up to the latest revisions (WorldBank, 2006).

There were many differences such as technical and principal differences between the prior accounting system used in a command economy and the accounting system that operated in a market economy. The main differences consisted on taking into the consideration by the new system of main accounting principles applicable in international accounting standards, when by the previous system most of them have been previously ignored. Such kinds of differences were mostly the result of the differences in applicable principles, and partially from the necessity to disclose financial information and reports in line with the requirements of the market economy (IEKA, 2004).

After the early nineties, during the period in which Albania has entered in the system of the market economy emphasized the urgent necessity for:

- The introduction and implementation of a new accounting system which would be in line with the latest trends in the accounting field; and
- The creation of the independent accountancy professions that would be able to offer their services with high level of integrity and professionalism (IEKA, 2004).

It was obvious that after having analyzed and studied the existing situation in Albania there would be a lot of difficulties during the process of implementation of the above mentioned two important tasks. Some of these difficulties were:

- The absence of the appropriate knowledge. In order to implement a model of European Union Standards in the accounting area would have always required appropriate theoretical background information and also practical experience. During the nineties this kind of new experience almost did not exist in the Albanian environment.
- The absence of skilled and trained people who would be capable to lead this kind of reform in the practice. Only at the mid-nineties the primary generations of the post-communist accountants, were provided with new accounting knowledge, which were prepared from higher education institutions both within Albanian and abroad (www.oecd.org, 2007).
- Another difficulty was the necessity for their application in a very short time.
  There is needed a quick adoption of the new accounting rules and legislation in order to open the path for developing accountancy reform and ruling out accounting system and standards and also the hard work needed to develop the accountancy professions.

Besides these difficulties, the Albanian early transition period was characterized by a hard and intensive work that opens the path for the prospect developments. The output achieved was *"the preparation of new regulatory and legal background that facilitated a lot in reforming the* *accounting system in Albania which was in line with the fourth EU Directive*[1] " (www.oecd.org, 2007).

2.3.1 National accounting standarts and introduction of entities that should apply the international accounting standards.

Within each country, the local rules have a large or small impact in the governing the publication of financial statements (Binaj A. & Kalemi F., 2013). These local rules include the established accounting standards published by international organizations or other organizations of national accounting professionals. These organizations were created in order to enable the establishment of the harmonization between the local regulations and the accounting standards and the procedures relating to the preparation and reporting of financial statements.

Our country, starting from 01 January 2008 is implementing an accounting system by preparing financial statements based on International Accounting Standards and National Standards (Bollano, 2010). The latter are build in coherence with the first of the most important organization in our country in the field of accounting, the NAC.

The majority of companies operating in Albania are implementing the full package of National Accounting Standards ehich comprises of 14 standard. Below will be described the main objectives of the full package of NAS.

NAS 1- The general framework for the preparation of financial statements. The main objective of this standard is to establish the rules for the application of accounting policies, estimates, the correction of the errors and presentation of economic events after the closing date of entries (balance sheet) of the financial statements. Also in this standard are expressed the main objectives of the financial statements, definitions of elements of financial statements, general considerations, principles and characteristics of the information for the preparation of financial statements.

NAS 2- Presentation of the Financial Statements. This standard establishes the rules of financial information of the reporting entities. In this standard, the formats of four main statements are

[1] The fourth EU Directive - This Directive coordinates Member States' provisions concerning the presentation and content of annual accounts and annual reports, the valuation methods used and their publication in respect of all companies with limited liability.

presented, their respective definitions and general requirements the entities need for their preparation.

NAS 3- The financial instruments. The objective of this standard is to establish the rules of accounting, evaluation, recognition and disclosure of financial instruments, which includes financial assets, financial liabilities and equities in the financial statements.

NAS 4- Inventories. This standard set of accounting rules and disclosure of all inventories excluding work in progress related to construction contracts in the financial statements. Also, clarifies definitions of key elements of the inventory account, recognition and their initial and further estimates.

NAS 5- Current and non-current intangible assets. This standard set of accounting rules and the valuation of current tangible assets and the intangible assets in the financial statements. This standard clarifies the accounting treatment and presentation of the long-term assets. Also there are found the definitions of some key terms related to long-term assets. This standard does not include a description of the biologocsl assets, because they are treated extensively in a separate standard.

NAS 6- Provisions, Contingent Liabilities and Assets. This standard serves to support the creation procedures, calculation, recognition and valuation of provisions such as warranty provisions, provisions relating to litigation processes and pension provisions in the financial statements. Also, in this standard are specified explanations and definitions of contingent liabilities and assets in the financial statements.

NAS 7- Accounting for leases. This standard explains the ways of bookeeping for all financial and operational leasing agreements (or other agreements very similar to them) in the financial statements. This standard applies to those agreements that transfer the right to use assets from one party to the other party, even though the lessor is obliged to provide ongoing maintenance of these vehicles. But it does not apply to arrangements such as service contracts, which do not pass the right of usage of a vehicle from one party to the other.

NAS 8 - Revenues. This standard explains the subsequent bookeeping of revenues arising from the sales of goods, services performed and the usage of the entities assets by third parties, from which interest income are generated, income from the usage of property (royalties), and income from dividends; for construction contracts in the financial statements of the Contracting Parties. Also in this standard are given definitions and explanations for the main terms which are related to income.

NAS 9 - Business Arrangements. This standard defines the rules for the purchase of companies controlled by associates. Also, the objective of this standard are clarifications regarding the accounting for business arrangements, accounting and recognition in accounting of the goodwill and negative goodwill. There are also clarified the rules in accounting regarding the recognition of a mergers between the subsidiary and the mother company. Finally, this standard clarifies and terminology and rules necessary in cases of business combinations and arrangements.

NAS 10- Grants and other forms of support. This standard explains how to prepare the financial statements of those entities that have received grants. In this standard given the principles and requirements set out whith respect of grants received from governmental and non-governmental organizations, as long as these bodies are not shareholders of the reporting entity. It should be mentioned that this standard does not include the accounting treatment related to the support that some entities benefit from from organizations and entities who give their help and support or from governmental incentives which determine the taxable income or partial tax obligations (for ex. activities exempt from taxes, the right to credit the tax liabilities on investments made and reduced rates of the income tax percentages).

NAS 11- Income tax. The income tax is the only standard that is required to be implemented on a mandatory basis by entities. The objective of this standard is the introduction accounting rules and explanation required in the financial statements concerning the income tax.

NAS 12- The effect of changes on the exchange rate. This standard stipulates that all financial statements should be evaluated and presented in Albanian Lek (ALL). So the objective of this standard is the explanation of the accounting rules for transactions and balances in foreign currencies, translating the results and financial position of operationswhich were performed in foreign currency, which are included in the financial statements of entities, by full consolidation or proportionate or partially consolidation.

NAS 13- Biological assets. This standard establishes the accounting rules and clarifications with respect to the biological assets in the financial statements. In biological assets, land used for agricultural activities is exempt. Commercial companies with agricultural activity generally apply this standard. This standard uses a terminology and accounting rules that were not clearly defined on the previous accounting regulations in our country.

NAS 14 – Accounting treatment of the controlled companies and allies. The objective of this standard is to define the rules for the accounting and presentation of controlled companies and allies in the financial statements. In addition, it deals with the recognition of controlled entities and their own participation in individual and consolidated financial statements/ finally it explains the rules for the preparation of consolidated financial statements.

NAS 15- On accounting and financial reporting of economic micro-entities. The objective of this standard is to provide the basic concepts and principles, as well as to establish the rules for the implementation of these principles and for the presentation of economic events in the financial statements of the micro-entities (Keshilli Kombetar i Kontabilitetit., 2014).

Pursuant to Law no.10091, dated 05.03.2009 "On the statutory audit and the organization of the registered chartered auditor and approved accountant" (Auditing Law), the audit of the annual financial statements by chartered individual auditors or auditing companies is mandatory for:

- companies that apply the International Financial Reporting Standards (IFRS), irrespective of their legal form;
- joint stock companies that apply the National Accounting Standards (NAS) for financial reporting;
- limited liability companies that apply the NAS in cases where, at the end of the financial year, two of the following requirements are met:

    1. the total assets are equal to or greater than ALL 40 million ALL
    2. the annual turnover is equal to or exceeds ALL 30 million ALL
    3. the average annual number of employees is 30.

Requirement of Adoption of IFRS

According to the Law No. 9228, dated 29.04.2004, "On Accounting and Financial Statements," Article 4, paragraph 3 requires the application of that IFRS shall be applied by the following companies:

a) Commercial companies listed in the stock exchange and their branches/ affiliates subject to consolidation of accounts (Law 9228, 2004)**;**
b) Second-tier banks, financial institutions similar to banks, insurance and reinsurance companies, securities funds as well as other companies that are licensed to perform financial activities; and
c) The legal entities that simultaneously in the last two years have had a turnover and average number oemployees equal or over ALL 1.25 million 100 respectively, as stated by the Council of Ministers decision No. 742, dated 07.11.2007. The law provides that all other companies should use the new National Accounting Standards (Law 9228, 2004).

2.3.2 Accounting in small and mediun sized enterprises

Small entities are economic units which have in their payroll no more than 10 employees and which have a yearly balance sheet total not bigger than 10 million ALL. These criteria must be fulfilled for the last two years.

Their financial statements are prepared on the basis of accrued rights and obligations. According to this method, the effects of the transactions and other events are recognized when they occur (and not when cash or its equivalents are collected) and are registered and reported to the financial statements at the corresponding accounting periods. Financial statements, prepared on the basis of accrued rights and obligations inform the users not only for the past transactions with cash collections and cash payments, but also for the accounts payable to be paid in the future and also for the assets that will bring cash collections in the future periods. In this way, they provide information for the transactions and past events that help the accounting user to make the best economic decisions (www.oecd.org, 2007).

Financial Statements required from small and medium sized enterprises include:

(a) Balance Sheet;

(b) Income Statement, and;

(c) Disclosures.

Most of the Albanian entities which consist in small or medium size enterprises, the actual accounting norms that are applied to them are those that are prescribed by the actual accounting law in force, and also by the general chart of accounts (www.oecd.org, 2007).

The implementation of these regulations and guidelines by professional accountants during the last decades on small and medium sized enterprises has helped in building a very good experience and a crucial basis on how to use and apply the requirements and also finding the right solutions in different cases, have improved a lot the actual accounting situation compared within the early years of its implementation in 1993. Although such improvements were made, there exist still some concerns, such as: As long as a very big number of transactions between buyers and sellers are performed in cash, the income statements and balance sheets of small and medium sized enterprises remain in question because of the completeness of their accounting transactions. These have risen up a lot of discussion points, and have made possible that some important institutions such as businesses, governmental departments, banks etc. come up together in order to find out some practical solutions and giving new and valuable ideas on how to possibly make the market environment more formal. In fact, taking into consideration that the most important user of the financial statement of the small and medium sized entities still remains the fiscal authorities, these discussions were restricted to dealing with fiscal matters only (www.oecd.org, 2007).

Since the late 90s, the Albanian government has undertaken a series of structural reforms, including reforms regarding the land, the financial market and privatization. During this time, almost all SME's have been privatized and has had a very significant progress in the privatization of strategic sectors such as telecommunications and banking sectors. The banking sector has gradually enabled the opportunity of more financial services for SMEs and improved credit indicators. Meanwhile, the government in October 2002 approved the amendet law for SMEs, which was followed by a broader strategy concerning SMEs in June 2003, by setting up the Agency for the Development of SMEs. It was created according to the most successful models of SME agencies in Europe. The Agency responsible for the development of the SME's seeks to anticipate, identify and address the needs of 99% of the total number of private businesses in Albania (Hoxha, 2015).

Given the number of persons employed in an enterprise, the Albanian Law No. 8957 "Small and medium enterprises", dated 17.10.2002 used the following criteria for the classification of SME:

- Microenterprise: up to 5 employees;
- Small enterprises: 6-20 employees;
- Medium enterprises: 21-80 employees;
- Large enterprises: with over 80 employees;

The implementation of the European Charter for Small and Medium Enterprises is one of the most important agreements of the European Commission's agenda for the Western Balkan, and in this regard, it is also important for our country. In coherence with that, come also the improvements in the Law no.8957, dated 17.10.2002 "For small and medium enterprises" reflected in the Law No. 10 042, dated 22.12.2008. This law serves as a legal basis regulating the governmental measures and policies for the classification, fostering the creation and development of small and medium enterprises. The purpose of this law is to help small and medium enterprises, through the creation of an institutional, regulatory and financial frame. Under this law, companies are classified into micro, small and medium enterprises.

- The category of micro, small and medium-sized enterprises includes those enterprises, which employ less than 250 employees and realize a turnover and / or annual balance sheet total amount, which does not exceed 250 million.

- A small enterprise is an enterprise which employ less than 50 employees and which has a turnover and / or annual balance sheet total amount, which does not exceed 50 million.
- Microenterprise is an enterprise which employ less than 10 employees and which has a turnover and / or annual balance sheet total amount, which does not exceed 10 million.

The data, applied to the number of employees and the financial amounts used in the determining the type of enterprise, are those relating to the last approved accounting period, which are calculated on an annual basis. They are taken into account from the date of the accounts closing entries. In order to determine and calculate the amount of income the value added tax (VAT) and other indirect taxes should be excluded. When the date of the closing of the account journal entries, an enterprise finds out that, on an annual basis, it has exceeded or fallen below the number of employees or financial ceilings , it doesn’t acquire or loses the status of small and medium or micro-enterprise , except when these ceilings are exceeded over two consecutive accounting periods. In the case of newly established enterprises whose account entries have not yet been approved, the data to be applied are to be derived from a bona fide estimate, made during the financial year (Tomja, 2015).

Chapter 3: Literature Review

3.1 Prior researches about Accounting systems and taxation

The relationship between financial reporting and tax reporting and the relationship that exists between them is one of the most debated and analyzed issues at European level. Referring to previous studies, Lamb et al. (1998) conducted an empirical study with this regard, in four countries (Germany, France, UK and USA), identifying in this relation 5 aspects of influence between accounting and tax reporting relation. The first aspect was the detachment or independency, which means that there are used different rules for the tax and accounting reporting purposes. Accounting rules are used for determining the accounting profit and tax rules for the calculation of the income tax. In this case the accounting rules and the taxation rules are different from each other. The second aspect is the identity, where the accounting and tax rules are part of the same group of rules. The third aspect is when the accounting rules are used in order to identify both accounting and tax purposes. In this case the accounting rules are more detailed than the tax rules. The fourth aspect is when the tax rules are dominant, and thay are used to define the accounting profit both for accounting and for tax purposes. In this case the tax rules are more comprehensive than the accounting rules. The last aspect is the prevalence of tax rules. Which means that the acconting rules can be breached and only the tax rules prevail. The conducted analysis is done on the basis of 15 factors influencing this connection between these reports. The study concluded that, considering the relationship that exists between accounting and the tax reporting, in the case of Germany and France (the countries involved in the EC accounting system) exists a strong connection between them, in contrast to the case of Great Britain and USA, where in these countries more flexible rules dominate. The study of Lamb et all. (1998) is one of the most representative studies in the field that explores the link between accounting and taxation, considering that some subsequent studies have been conducted with its respect.

In his study Gallegro (2004) analyzed the relationship between accounting and taxation, which identified several elements such as: coorporate income tax, welfare schemes for providing pensions, monetary compensation, accelerated depreciation, or exceptions of rinvestments, as points of differences between the two reports. In the results that came out from the study of the connection between the reports, it was found that from a strong link that previously existed between accounting and tax reporting the intensity of this connection has been declined (Blake et al. 1997, 1998, 1999). The relationship between accounting and taxation was seen as a major obstacle in the process of harmonization of accounting in the case of the Czech Republic (Sucher and Jindrichovska, 2004) and Polish (Krzywda and Schroeder, 2007).

According to Cuzdriorean (2011) the link between accounting and taxation had as main attributes the complexity and dynamics. As complex as this relation was, it could also be characterized as inevitable in some economic environments based on their cultural variables. Taking into consideration this connection, the introduction of IFRS in Europe had created the need to review a whole series of accounting standards by the national tax authorities and not only. While considering this connection can not be left without mentioning a number of factors identified by the review of the literature such as: laws on taxation and accounting, principles and rules on accounting and taxation, which of course as long as there will be differences between them for any particular issue, they may have the effect to cause differences between the two reports (for example depreciation issues, provisions, penalties, etc.); european economic environment under the influence of the IAS / IFRS (this is because of the fact that each country wants to establish accounting standards in accordance with IAS / IFRS, but it also should take into account the characteristics of its economic, social and cultural environment). And this often leads to unequal treatments. The same goes for tax reporting, because the European Commission has proposed a new tax code that can be implemented by Member States; objectives of accounting and tax which certainly are different; relationship between accounting and taxation based on the experiences of member states (approaches, types, history, etc.) may also lead to unequal treatments.

But Shaviro in his study in 2009 highlighted the differences that existed between the two reports related to the accounting profit and tax accounting reported by entities. He emphasized that the problem of manipulation in accounting reports is widespread, despite the implementation of the Sarbanes - Oxley Act.

Duhanxhiu and Kapllani (2012) found out fascinating results considering exploring the relationship between financial and tax accounting rules in case of Albania and concluded that Albania’s remarkable development during years have also marked the change in the accounting and taxation system.

Through their research they found out that the relationship among the two sets of rules could be improved by processes such as: Clear and simple guidelines on how to calculate income taxes, making continuously trainings to accountants and tax officials; and improved accounting disclosure requirements.

Xhaferri (2013) in her study about the convergence of accounting treatment for intangible assets in Albania aims to analyze the accounting treatment for intangible assets that can be identifiable. Her research is focused on the analysis of the regulation in Albania under the general accounting plan of the year 2003, which is also currently active) and the international regulations stated by: the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). She has carried out a comparative study of the recognition criteria, definition, valuation, amortization, impairment of value also including its recovery and the necessary information to be provided in the notes to the financial statements. As a result to her study she came to the conclusion that through the review of the accounting regulations displays that there exists no homogeneous treatment, despite the great advance achieved on this subject, to obtain a greater level of convergence.

Chapter 4: Research Design and Data

4.1 Methodology

In order to achieve the objectives of this study a mixed methodology was used which comprised of a comparison between International Financial Reporting Standards and Albanian tax legislation and also made some key informational interviews. By using this type of mixed methodology it may come out with a deeper results and understandings into this matter. The selection of the interviewees was established on criteria such as their professional experiences related to IFRSs, with experiences they might have had with the institutions that are involved with the setting processes of the accounting standard in Albania. Five semi-structured interviews were conducted during June - July 2015. These interviews were with certified accountants who are working in private sector or in big international consulting companies. The above mentioned interviews were conducted through direct meetings with the proffessionals in the field. The interview questions were divided into two sections. In the section one the questions that were discussed are about the situation of Albania and the actual differences that exist between the two sets of rules. While in the second section the interview questions were mainly to discover the advantages and disadvantages that could arise from the adoption of the international accounting standards.

4.2 Implementation of Research/ Data Analysis

Generally a company may choose what type of standards it will apply based on its financial and legal status. The two types of standards that the companies may choose to follow are:

1) National Accounting Standards (Accounting Law) National accounting regulations
2) International Accounting Standards

The accounting policies and applications (treatments) of the company depend from which of these two standards the company will choose to follow.

On the other side there exists a strong influence from the tax regulations. Based on the interviews that were conducted it came out the conclusion that there exist some important points in which the accounting standards face some differences when compared with the taxation rules.. Some of these differences are faced in:

1) Methods and rates of depreciation allowances
2) Accrued revenues
3) Accrued expenses
4) Non-deductible expenses
5) Value added tax

These five points from which the differences arise, were not chosen by coincidence, but during the interviewes these characteristics were the only ones mostly mentioned by the interviewees. All of them mentioned these differences as the most common and most important ones.

1) Depreciation allowances

Normally the internal policies of the companies, which follow the international accounting standards, choose what type of depreciation method the company will use and also at what rates the company will depreciate the value of their assets. So the depreciation method and rates are estimated by the reporting entity.

But on the other hand the tax legislation has implemented some limits for the depreciation rates that should be used by the economic entities, which often comes in conflict with the IFRS standards.

i) Confirmation of the rate of depreciation allowances available for the following types of expenditure :
   a) Geological and Geophysical costs
   b) 2D and 3D Seismic costs
   c) Exploration Wells
   d) Development Wells
   e) Development Facilities
   f) Plant and Machinery
   g) Other

However, based on the current Albanian tax regulations and treatment of depreciation the rates are as follows:

- The purchase or construction, upgrading costs, renovation and reconstruction of buildings, as well as construction costs, equipment and machinery with a useful life greater than 20 years, tangible in a steady and continuous way with the building or land (which are items attached to the lead, gypsum, or other that cannot be separated without breaking or without damaging the part of land or building to which it is attached ex. Elevator, metallic constructions, parts of the building, electric and plumbing installations etc.) as well as other transportation plants, such as water, oil, gas, railway lines, high voltage lines, funiculars and other similar assets) are depreciated at a depreciation rate of 5%.

- Intangible business assets such as patents, trade-marks, costs of starting up, “goodwill” in cases when the latter is purchased, etc. are depreciated at a rate of 15%.

- Computers, information systems, computer programs and in general software and equipment for product storage, are depreciated at a rate of 25%.

- Every other assets part of the economic activity which are not included in the above groups, such as machinery for production and service equipment, means of transportation of all kinds, etc., are depreciated at a rate of 20%.

The method for claiming depreciation allowances on each of the above types of expenditure (straight line / reducing balance / other) according to the *Article 40 of the Law nr.8438, dated on 28.12.1998 “On Income Tax”, as amended.*

Important to be mentioned is that the depreciation method allowed under the Corporate Income Tax Law of Albania is the straight line method.

But through the usage of this kind of depreciation the value of the asset never becomes 0.

<u>Let’s take an example:</u>

The Company ABC which is applying the IFRS standards, according to its policies the company will use a rate of depreciation for computers of 30%. While according to the tax legislation the depreciation rate for computers of 25%

At the end when calculating the depreciation expenses for each year it can be observed that the depreciation expenses are at a larger amount for the company while using the 30% of depreciation rate. Let’s assume that this amount of depreciation expense is 2000 Euro, while by following the taxation rules of 25% of depreciation rate the amount of depreciation expense at the end is 1800 Euro, so a difference of 200 Euro is remaining.

Therefore, when the company prepares its income statement it deducts all its expenses (including the depreciation expense of 2000 euros) from its revenues in order to obtain the Net income before taxes. However, as the legislation does not recognizes the company's total depreciation expenses because it recognizes only up to 25%. Thus, the remaining difference of 200 Euros should be than added to the Net income before taxes. These are the kind of adjustments that should be performed by the company in order to be in compliance with the tax regulation. In case this adjustment would not be rendered, the Income of the company would have been reduced as the company would declare a large amount of expenses in order not to pay too much corporate income tax. This is the main reason behind the limits in the depreciation rates set forth by the tax authorities.

This also happens because as it is known the aim of the taxes is to enrich the budget of the government by putting lower depreciation rates the Net income of the companies would be larger and so the Corporate Income Tax that these companies would be liable to pay would be accordingly higher.

The same occurs with the depreciation of technical installations in buildings. According to the international standards the companies may put their depreciation rate according to the policies that the company is following but the tax legislation considers such kind of installations as part of the building so it has set a depreciation rate of 5% for the technical installations. Of course that the legislation allows the companies to use what amount of depreciation rate the company wants but with one condition that when calculating the Corporate Income Tax the company should add the difference of the depreciation at the Earnings Before Interests and Taxes and that calculate the CIT rate. These kinds of adjustments are obligatory for all type of companies.

Revenues

- Expenses (Depreciation expense 2000 Euro)

Net Income before taxes

\+ Depreciation differences (200 Euro)

Corporate Income tax calculation

Let's assume that for accounting purposes a company uses straight- line accounting depreciation rates for 5 years and depreciates its fixed assets that has bought for 2000 Euro. It depreciates them at 400 Euro per year. Meanwhile it claims 25% per year of tax depreciation on a reducing balance basis. The corporate income tax rate applicable in Albania is 15%. After that, the net value is substracted.

	Purchase	Year 1	Year 2	Year 3	Year 4
Accounting Value	2000 Euro	1600 Euro	1200 Euro	800 Euro	400 Euro
Tax Value 25%	2000 Euro	1500 Euro	1125 Euro	844 Euro	633 Euro
Taxable/ (deductible) temporary differences	0 Euro	100 Euro	75 Euro	(44 Euro)	(233 Euro)
Deferred Tax liability/ (asset) at 15% according to the Albanian Tax system	0 Euro	15 Euro	11 Euro	(7 Euro)	(35 Euro)

The tax value in years 1 and 2 is lower than the accounting base. In this case, the company should recognize a deferred tax liability. It happens because the company has claimed more tax depreciation compared to the accounting depreciation expense recorded in the company's accounts, while in the future it has to claim a smaller amount of tax depreciation in total compared with the accounting depreciation recorded in its accounts.

Meanwhile in the rest of the years, namely 3 and 4, the tax value is larger than the accounting value so in this case the company should recognize a deferred tax asset. In addition, the company assumes to be able to claim more tax depreciation when compared to the accounting depreciation.

Some other specific differences between the accounting standards and the Albanian tax regulation, which as a result reflect different effects on the outcome of an entities performance, are:

<u>Differences in tax legislation and NAS 5 "revaluation and depreciation calculation"</u>

The standard recognizes as a suitable period for the starting of an assets depreciation calculation period the moment when the long-term asset starts its functioning, meanwhile the tax legislation has well-defined the time period when an asset should start the depreciation calculation of an asset that is just entered in the inventory of the company. This coincides with a period of one month after the purchase date of the material long-term asset of the company, different from the standard that corresponds with the time from which the long-term assets starts to be used.

In addition, according NAS 5, temporary interruption of along-term asset operation should'n be followed by a temporary interruption of depreciation for this long-term asset. Otherwise, the tax law allows temporary interruption of depreciation whith the exuse that the long-term asset is not being used for the purposes of the economic activity from which income is generated. Therefore, it should not be recognized an expense from which income is not being generated.

<u>Differences betweem the tax legislation and NAS 5 "On the methods and rates of depreciation of a long-term asset"</u>

According to NAS 5, the policies and procedures of the economic entity define the methods and rates of depreciation of a long-term asset. Moreover, whenever deemed necessary by the management of the entity they can review and change the previously choosen depreciation methods and rates. Unlike the standard, the tax legislation has to determine exactly the depreciation methods and rates for each item of the long-term assets. In addition, the depreciation rates and methods are not allowed to be changed based on the business policies. So, for the purposes of calculating the tax results an entity shall apply the depreciation methods and rates according to the tax rules of a long-term asset, eventhough the companies executives may perceive otherwise.

<u>Differences between the tax legislation and NAS 5 on the "recognition of a long-term asset"</u>

Based on treatments of NAS 5 for the immaterial long-term assets, start-up costs, such as costs for governmenal taxes etc. are recognized as expenses in the period they are incurred, and must be recognized during the closing of the financial statements of the same year. Otherwise, the tax legislation recognizes the expenses for the start-up fo the business activity as immaterial long-term asset, which should be depreciated by applying a depreciation rate of 15%. This coincides with a depreciation period of approximately 6.5 years. So their cost should reduce approximately for seven years the outcome of an entities performance.

2) Accrued Revenues

- According to the IFRS, revenues are earned during the economic transaction occurs and income earns, even though the collection of cash will not occur until a point of time in future (Williams, et al., 2008). While according to the tax regulation, the revenue should be recorded in the moment the transaction is accompanied or justified by the appropriate documentation that is legally recognized. Which in this case is an invoice including the value added tax amount, simple tax Invoice, other invoices which are issued by non- residents which are not registered by the Albanian tax authorities etc. Non residents are foreign entities or physical persons which are registered for the purposes of performing their activities in a foreign country.

Let's take an example of a construction company;

It performs construction services from October 2014 up to December 2014. Normally this company will issue its invoice when it finishes all the work, but the company will recognize its revenue during all the period it performs the job. Moreover, if the company does not issue its invoice before the 31 of March 2015 (which is the last date to close the Financial Statements of the year 2014), the tax authorities would not recognize these revenues for the 2014 fiscal year. As the law requires that for a revenue to be recognizable, an invoice should accompany the installment for the work done. In this way, the tax authorities do not recognize revenues in the moment they are earned but only when the invoices are issued.

Another example includes the service companies which before they issue an invoice for the services provided thay have to receive a confirmation, and this may delay the issuing the invoice. For this reason, the revenue is recognized at the moment the services are providet mainly in 2014, meanwhile in the following year when the invoice is issued in 2015 the Vat amount of this invoice will be paid in 2015. And also the value of this invoice will be calculated and added in the turnover amount of the upcoming year.

3) Accrued Expenses

The same principle as with the accrued revenues applies also to the accrued expenses.

- According to the IFRS an expense may be incurred in the current accounting period even though no cash payment will occur until a future period. (Williams, et al., 2008). While according to the tax law the expense should be recorded in the moment the transaction is accompanied or justified by the appropriate documentation that is legally recognized, which in this case is an Invoice with VAT, simple tax Invoice, other invoices which are issued by non- residents which are not registered by the Albanian tax authorities etc.

What is considered as accrued revenue for one company (for example the service providing company) on the other hand for the company which receives the services it will be considered as accrued expenses.

Therefore, in Albania, the Taxation system has a stronger influence in the calculation of the net income when compared to the accounting standards. Since also in this case there is the need of adjustments at the end of the financial year for the income tax calcualation purposes.

4) Non-Deductible Expenses

The deductibility of the expenses with regards to the corporate income tax is provided under law no. 8438 “On Income tax” dated 28.12.1998, amended. In general, allowable expenses under the provisions of this law, are those which are incurred wholly and exclusively for profit purposes and if they are supported by the proper tax approved documentations.

The Law on CIT provides a range of criteria to be met in order for an expense to be treated as deductible.

In order for expenses to be deductible, the below conditions must be met:

- Expenses must be incurred in the direct interest of the economic activity through which income is received, or the expenses must be related to the normal running of the economic activity.
- Expenses must have been effectively incurred and must be supported by appropriate legal documentation.
- Expenses must be registered in the financial statements and a decrease of net assets must come as a result of these expenses.
- The taxpayer, must under any circumstances, support incurring expenses by appropriate legal documentation. Supporting documents for tax purposes are a VAT invoice, simple tax invoice, invoices given from non-residents that are not registered with Albanian tax authorities and any other document released from public entities or judicial authorities (Foreign embassies, international organizations, police stations) regarding the payments made to the taxpayer by these organizations. Regional tax offices can ask the general

directorate of taxes for their interpretation whether other documents that have not been covered in this instruction of the law prove that expenses are allowable.

Advertising goods such as posters, commercial spots, movie trailers and photography, which are advertised and promoted in the interest of the running of the business, are deductible expenses for tax purposes. The following expenses will be considered as non-deductible when computing taxable profit:

- The cost of purchasing and improving of land, as they are not related to the accounting procedures but to the investments of the business.
- The cost of purchasing, renewal and reconstruction of assets which depreciate over time.
- For tax reasons, included in the costs of improvement, renewal and reconstruction of assets are those expenses incurred when improving the future profit margin of assets and whose value is greater than 15% of the remaining accounting value of the assets.
- Any increase in the capital of the company or an increase in the contribution of capital in a partnership or the initial contribution detailed in the contract and statute of the company or partnership.
- Benefits in kind, which are payments, not paid in cash. Such payments include food compensations, gifts, travel tickets and other expenses that are not related directly with the business. Payments in kind are non-deductible because they are not taxed as personal income as required by article 8 of the law and article 2.3 of this instruction. In cases when payments in kind are paid in cash they will be considered as personal income of the individual and will be taxed along with his/her wage and will be considered as a deductible expense of the business. When payments in kind are paid to third parties that are not employed by the business then they shall never be deductible expenses.
- Voluntary pension contributions and other forms of insurance (whereas mandatory pension contributions by the employee are tax deductible.)
- Dividends or share of profits paid to shareholders or partners, after paying tax on profit.
- Interest paid by the taxpayer during the accounting period which are greater than the average 12 month period norm of interest on debt decided by the Bank of Albania.

- In addition to this, it will be considered a non-deductible expense the sum of interest on debt paid which is greater than 1:4. In other words, 1 unit of own capital against 4 units of debt. Short term bank loans which run less than a year are not used for the above calculation. Banks and insurance companies are exempt from the 1:4 rule.
- Fines, late payments fees and other irregularities paid by the taxpayer are non-deductible expenses for tax purposes. In the case that fines are forgiven, income received from these fines is not taxable or they can be considered deductible expenses if at the moment of giving the fine, these fines have been considered as non-deductible expenses for tax purposes.
- The creation or increase of reserves and other special funds. According to the law, reserves are created from profit after tax. Exceptions are made when the creation of reserves is required by law. The reserves and provisions created to cover losses and expenses are not tax deductible.
- Tax on income, excise, tax on profit and deductible VAT as follows:
    - Tax on personal income is withheld 100% from the wage of employees and later to be transferred to the tax authorities. In this case we are talking about tax on personal income that the employer keeps from the gross wage paid to employees.
    - Tax on profit is computed after a loss or profit has been established. From this point of view tax on profit is part of the year result.
    - Deductible VAT is not registered in the expense account; it reduces the VAT computed on sales so it is registered in the VAT account.
    - Exception is made when VAT on sales is not deducted according to the VAT law and in that case this amount of VAT will be registered in the expenses account and will be considered as a deductible expense for tax reason.
- Excise paid on purchases or imports is deductible in any case. So if a transport company buys petrol at a price which includes excise too, the whole value of the expenses is deductible. The opposite happens with the excise calculated on sales. This type of excise is not tax deductible.

- Withholding tax as part of payment for technical or other services does not have a separate effect on the expenses accounts.
- Expenses related to representation and expenses related to receptions that are greater than 0,3% of total annual revenue. Expenses related to representation include general expenses that the company incurs when presenting its products to other institutions.
- Expenses for personal use that include all personal expenses that are not related to the running of the business. Such expenses include when an employee uses some of the goods for personal use, or uses some petrol that belongs to the company for his/her own vehicle.

<u>Some Non-Deductible Expenses are listed below:</u>

Administrative fuel expense- The cost of fuel for the automotive used by the administration staff and management are treated as a non-deductible expense. This classification is also in line with the "Income Tax" law and instructions supporting it, which states that only expenses that are wholly and exclusively for the purpose of the business can be classified as deductible expenses. On the other hand, expenses classified as personal consumption cannot be deducted.

Purchase of water Expense- If part of such expense is not used for patients and is considered as a consumption it has to be reported as a non-deductible expense.

Purchase of Services- Staff food- This decision is in line with the Instruction "On Income Tax" no. 5 dated 30.01.2006, section 3.6, point **(d)** which states that all the non-cash benefits such as food compensation, gifts, and medical benefits are non-deductible expenses unless they are received in cash and included in the monthly personal income and taxed accordingly.

Rent expenses- Land, Building, Apartments- Withholding taxes for the rent expenses of the land, building and apartments should be withheld and paid to the Albanian government. Also the expense regarding the rent expense for the apartments should be classified as a benefit being provided and therefore a non-deductible expense.

Mobile telephone expenses- Pursuant to instruction no. 5 "On Income Tax", section 3.6, point (l), part of the telephone expenses which are **not related to business** are considered as consumption expenses and as such as non-deductible for corporate income tax purposes.

In cases when a usage limit has been set from management for the employees of the company. This usage differs from one employee to the other based on their ranking, and is considered as a limit used for business purposes. Therefore it is considered as a deductible expense from the company.

Local Taxes- Local taxes relating to the financial year should be treated as deductible expenses for that year. Taxes which the company has paid for the previous years have to be treated as non-deductible expenses.

Other expenses-Travel and Hotel accommodation- Expenses related to flight bookings and hotel accommodation may be deductible expenses if proper documentation that the travel has been for business reasons may be documented. In other ways it should be considered a non-deductible.

Representation Expenses- Based on the Law “On Income Tax” representation expenses of the company if they exceed the margin of 0.3% of the annual sales set by the law in force than they should be considered as non-deductible expenses.

Services from the non-residents- Pursuant to the law no. 8438 “On Income Tax, point **(ll)** the technical consulting and management services provided from the non-residents not paid, or the WHT on these services not paid within the fiscal year, such expenses are not considered as deductible for tax purposes. The test on these expenses is focus on the reviewing of all the supporting documents including payments of the invoices one by one, calculation and payment of the WHT or the application of the Double tax Treaty if this is the case.

Depreciation of fixed assets- Regarding to the treatment as an expense for the period of the amount of assets which do not exceed ALL 5,000, it is worth to specify that based on Law no. 8438 “On Income Tax” article 22 point 7 “The basis of depreciation is the accounting value of the category registered in the opening financial statement of the fiscal period” continuing it is specified that “ when the basis of depreciation does not exceed ALL 5,000, the whole basis of amortization will be a deductible expense of the economic activity”.

Therefore, the company should account as a deductible expense the assets which have a net accounting value <= ALL 5,000 in the beginning of the accounting period and not at the end after the depreciation expense for the year has been deducted. Also, it is worth to specify that deductible expenses for the period will be classified only for those assets which are in the function of the economic activity at the time when the expense is wholly classified as an expense of the period.

So before the calculation of the Taxable Income the non-deductible expenses should be added to the Net Income before taxes in order to be in accordance with the Albanian law.

Revenues

\- Expenses (Depreciation and non-deductible expenses are included)

Net Income before taxes

\+ Depreciation differences

\+ Non-deductible expenses

Corporate Income tax calculation

5) *Value Added Tax VAT*

Value added tax is a type of indirect tax that is paid only by the end consumer. Companies performing an economic activity of purchase and sales of goods and services normaly do not pay any VAT. A company which buys products with VAT and uses these products to produce products or services through which it generates earnings by selling them with VAT, follows the VAT rotation process. While the company buys products such as row materials, which it will use in the production process, it pays VAT of 20% of the products value, but at the moment the company sells the products it has produced it receives the 20% of the VAT amount of the sold products. So through the rotation mechanism it can be stated that the companies do not actually pay any VAT. If the company at the end of the month faces a situation that it has performed more sales than purchases, which mean that it has received more VAT amount that it has paid, it is obliged to refund to the government the difference of the amount of VAT received.

- If the VAT amount received from sales > VAT amount paid in purchases = the difference will be refunded to the government
- If the VAT amount received from sales < VAT amount paid in purchases = the company carries forward the creditable amount of VAT.

But there exist some other cases in which the company could not credit the Vat amount because it buys also products which do not serve to the primary objective of the business, products which are not used to generate profits. These kinds of products are the nondeductible expenses. For example, a construction company buys cleaning products for the offices where the company performs its business activity, these products are not raw materials they are categorized as a non-deductible expenses. If the value of these cleaning products is 100 ALL+ 20% Vat = 120 ALL the company pays the 120 ALL amount but it does not claim the 20 % of the paid Vat. So the amount off 20 ALL of the Vat will not be categorized as creditable Vat but the total amount of 120 ALL will be recognized as a cost for the company.

When accrued revenue or expense is registered in the balance sheet, it is recorded as an accrued revenue only the amount without Vat, the amount of Vat will not be registered. As the Vat liability arises at the moment when the invoice is issued.

With regards to the questions asked in the Section 2 of the interview the intention of these questions were to find out the advantages and disadvantages that might arise from the adoption of the international accounting standards in Albania.

According to the interviewee although the adoption of the IAS would be a positive thing for Albania of course there should be taken into the consideration also the benefits and the costs that arising from this process. According to the interviewees the aplication of the international accounting standards will decrease the cost of compareness of the financial statements of the economic entities of different countries making in this way possible that the European capital market to become global and as such to increase the level of liquidity. Another benefit that was mentioned is the increasing of the number of the foreign direct investments in Albania because the adoption of the international accounting standards would simplify of capital flows due to the decrease of the costs that could arise from the process of transferring from one set of rule into the other.

It would be difficult the process of the adoption of the IAS, because according to their evaluation, the adoption of the IAS will be acompanied with additional and considerable costs while the benefits from their adoption are expected to become possible in a long-term basis. It would also cause additional costs for the training of the internal staff of the companies and additional cost for the auditors of the financial statements. Based on their opinion in the first years of adoption of the IAS Albania would face a transitory period in order that after some years to pass in the fully application of these standards.

4.3 Recommendations

Based on the research performend in this study and from the intervieewers the following recommendations were mostly important related to this field of study.

- All the actors of the field of accounting should work more towards the preparation of financial statements for financial reporting purposes in order to minimize as much as possible the orientation towards financial reporting for tax purposes. It requires a good collaboration between KKK, professional bodies of the General Tax Directorate and the Ministry of Finance, concerning the identification of issues that have differences between accounting and fiscal adjustment and reach a high level of harmonization between the two sets of rules. This will entail increasing the level of applicability of accounting standards for the construction of financial statements.
- Avoiding the preparation of duplicative reporting by the economic entities during the preparation of financial statements. This can be accomplished by reducing the frequency of changes in tax laws and regulations by the governmental institutions and regulatory authorities.
- To take into consideration the possibility of harmonization between accounting rules and tax rules in the highest possible levels, which will reduce duplication of the two reports. I think this can be achieved through the cooperation of the KK, General Tax Directorate and the Ministry of Finance, by setting clear evidences of the differences between the two reporting areas, in order to achieve a reconciliation between them.
- Also to shrink as much as possible the differences between financial reporting and tax reporting, by unifying these reports into approximate indicators which would serve as economic and financial representative.
- To increase and strengthen the connection between the accounting information and the fiscal information in order to create possibilities for the control of the maximization of the economic value of economic entities, which complies with the main interest of the directors of entities, which can be achieved through the cooperating of the entities with the regulatory bodies.

- The harmonization of tax legislation consistent with the upgraded NAS, particularly for: NAS 4 and NAS 5 as are the standards applied by over 90% of SME’s and identify the major differences between the accounting and tax rules.
- Avoiding the use of "confidential" financial statement information, which in most cases not prepared according to NAS by the lending institutions such as banks, for the purpose of the approval of a bank loan for SME’s.
- Organizations responsible such as Universities, National Accounting Council, IEKA should organize trainings and practical application of accounting standards, not only for young professionals, but also those with experience.

Chapter 5: *Conclusions*

Considering the long way that taxation and accounting in Albania has come along, it has faced and experienced a lot of problems that may arise for transitional economies. Considering that Albania during the last twenty years has opened to a free market economy during 1990 it has faced a lot of changes in all the dimensions of the economy. As a result of a rapid Globalization and the increase of foreign direct investments in Albania, the numbers of entities that have implemented the International Financial Accounting Standards (IFRS) have increased enormously. The results of this study show off that the accounting information that the tax authorities require continue to dominate over those information that other participants who are part of the market activities, including creditors and investors. The interviewees were almost all in the same opinion about the divergences that exist between these two sets of rules. The main points which are in a conflicting relationship between tax and financial accounting are 1) Depreciation, 2) Accrued Revenues, 3) Accrued Expenses, 4) Non-deductible Expenses and 5) Vat, whose amounts must be adjusted at the moment of the calculation of the taxable net income. Also after this study, it can be concluded that Albania is follows a tax oriented accounting system. And the influences of tax regulations overcome the accounting standards. The amendments made to the tax regulations brought out a greater concentration towards the international accounting standards.

According to the interviewee although the adoption of the IAS would be a positive thing for Albania of course there should be taken into the consideration also the benefits and the costs that arising from this process. Some of the benefits of the adoption of the international accounting standards is the decrease of the cost of compareness of the financial statements of the economic entities of different countries making in this way possible that the European capital market to become global and as such to increasy the level of liquidity. Another benefit is the increasing of the number of the foreign direct investments in Albania. Meanwhile there exist also disadvantages that might arise. As the adoption of the IFRS will be acompanied with additional and considerable costs while the benefits from their adoption are expected to become possible in a long-term basis. It would also cause additional costs for the training of the internal staff of the companies and additional cost for the auditors of the financial statements. As a conclusion in might be said that in the first years of adoption of the IFRS Albania would face a transitory period in order that after some years to pass in the fully application of these standards.

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Table 1 – Intervieew questions

INTERVIEW QUESTIONS	
1. Name of the Interviewee:	
2. Work position of the interviewee:	
3. Contact information:	
4. Work experience in the field:	
Section 1 –The two sets of rules and the differences between them.	
5. What is your opinion about the situation that is facing Albania in relation to the accounting and taxation?	
6. Do you think that Albania is following a tax oriented accounting system, or not?	
7. During the performance of your profession did you face any differences between accounting standards and the tax legislation?	
8. Can you mention what are these differences?	
9. Would you please shortly explain some of them?	
Section 2 – Adoption of the International Accounting Standards, their advantages and disadvantages.	
10. Do you have experience with the application of the International Accounting Standards?	
11. According to your opinion, is it necessary for Albania to adopt ne International Accounting Standards?	
12. Is it difficult for Albania to adopt the International Accounting Standards?	
13. Acording to your opinion what are some advantages that may arise from the adoption of the International Accounting Standards in Albania?	
14. Could you please mention also some disadvantages that the adoption of International Accounting Standards may bring?	

Table 2 - Standard Chart of Accounts

Standard Chart of Accounts

Account no.	Account description
1	**Capital, reserves**
10	Capital
101	Paid capital
102	Subscribed but not paid capital
103	Treasury bonds
104	Capital Premiums
105	Capital Discounts
106	Reserves from revaluation
107	Reserves
1071	Legal reserves
1073	Statutory and contractual reserves
1078	Other Reserves
108	Retained earnings/losses
109	Current year profit/loss
2	**Fixed assets**
20	Intangible Assets
201	Goodwill
203	Development costs
205	Brands, marks, patens, concessions and similar
208	Other Intangible Assets
21	Tangible assets
211	Lands
212	Constructions
213	Technical installation, machinery, equipment and tools
215	Vehicles
218	Other tangible assets
2181	Office furniture
2182	Office equipment
2188	Other

23	Fixed assets in progress
231	Tangible assets in progress
232	Intangible assets in progress
24	Biological assets
25	Fixed assets for sale
26	Financial fixed assets
261	Shares from controlled entities
262	Shares from related entities
263	Other shares and securities
265	Long term loans
268	Other long term receivables
28	Depreciation and impairment of fixed assets
280	Amortization of intangible assets
2801	For goodwill
2803	For development costs
2805	For brands, marks, patens, concessions and similar
2808	For other intangible assets
281	Depreciation of tangible assets
2812	For buildings
2813	For technical installation, machinery, equipments and tools
2815	For vehicles
2818	For other tangible assets
284	Depreciation of biological assets
29	Impairment of fixed assets
290	For intangible assets
2901	For goodwill
2903	For development costs
2905	For brands, marks, patens, concessions and similar
2908	For other intangible assets
291	For tangible assets
2911	For lands
2912	For buildings
2913	For technical installation, machinery, equipments and tools
2915	For vehicles
2918	For other tangible assets
293	For fixed assets in progress
294	For biological assets
296	For long term financial investments
2961	Shares from controlled entities

2962	Shares from related entities
2963	For other shares and securities
2965	Long term loans
2966	Other long term receivables
3	**Inventory**
31	Materials
311	Raw materials
312	Other materials
3123	Auxiliary materials
3124	Fuel
3125	Spare parts
3126	Package material
3128	Other materials
32	Small item inventory
33	Production in progress
331	Production in progress
332	Works in progress
333	Services in progress
34	Products
341	Semi-products
342	Finished products
347	Semi-products and similar
35	Goods
36	Biological assets (short term)
37	Non-delivered stock or stock near third parties
371	Raw materials
372	Other materials
374	Finished products
375	Goods (and products) for sale
376	Live stock
39	Impairment of inventory
391	Impairment of raw materials
392	Impairment of other materials
393	Impairment of production in progress
394	Impairment of finished products
395	Impairment of goods and (products) for sale
4	**Third parties accounts**

40	Trade payables
401	Suppliers for goods, products and services
403	Promises- Payables
404	Suppliers for fixed assets
409	Prepayments received
41	Trade receivables
411	Clients for goods, products and services
413	Promises-Receivables
414	Clients for fixed assets
416	Receivables from court trials
418	Advances paid
42	Due to personnel
421	Payable wages
423	Advances to personnel
43	Due to state-social contributions
431	Due to state-social and health contributions
437	Due to other state owned entities
438	Other liabilities
44	Due to state - taxes
441	Due to state -excise taxes
442	Due to state - personal income tax
443	Other taxes for employees
444	Profit Tax
445	VAT
4453	State-VAT to be paid
4454	State - receivable VAT
4456	State - deductible VAT
4457	State-payable VAT
4458	State-VAT to be adjusted
447	Other receivable/payable taxes
448	Deferred taxes
449	Withholding tax
45	Due to/from related parties
451	Due to/from other group entities
455	Due to/from shareholders
456	Due to/from shareholders for subscribed capital
457	Payable dividends
46	Other creditors & debtors
460	Financial lease

461	Short term borrowings
4611	Banks
4612	Other titles
463	Provisions
4631	Short term
4632	Long term
464	Liabilities for securities bought
465	Acc. Receivable from sales of securities
466	Grants
4661	Short term
4662	Long term
467	Other creditors & debtors
468	Long term borrowings
4681	Banks
4682	Bonds
46821	Bond premiums
46822	Bond discounts
47	Temporary account
48	Accrued income and expenses
481	Accrued expenses
483	Accrued interest (income)
484	Accrued interest (expense)
486	Deferred expenses
487	Accrued income
488	Deferred income
49	Impairment of receivables and payables
5	**Cash, bank and similar**
50	Securities
503	Securities from participations
504	Loan securities
51	Bank accounts
511	Cash in transit
5111	Cash in transit, in Llek
5114	Cash in transit, in foreign currency
512	Bank accounts
5121	Bank accounts in Lek
5124	Bank accounts in foreign currency
519	Overdrafts

53	Petty cash
531	Petty cash
5311	Petty cash in Lek
5340	Petty cash in foreign currency
532	Other petty cash
5321	Fiscal stamps
5322	Tickets
5328	Other values
54	Loans and debt securities up to three months
541	Loans-receivable
5411	Loans, in Lek
5412	Loans, in foreign currency
542	Loans-payable
5421	Loans, in Lek
5422	Loans, in foreign currency
543	Purchased securities (held-to-maturity)
5431	Purchased securities, in Lek
5432	Purchased securities, in foreign currency
544	Issued debt securities
5441	Issued debt securities, in Lek
5442	Issued debt securities, in foreign currency
55	Derivatives and financial instruments
551	Derivatives
5511	Positive values (assets)
5512	Negative values (liabilities)
552	Primary financial instruments for trade
559	Other financial assets for trade
58	Internal Accounts
581	Internal Accounts
59	Impairment of financial assets
590	Impairment of securities
5903	Shares
5905	Bonds
599	Other impairments for financial assets
6	**Expenses**
601	Purchase/Cost of materials
602	Purchase/Cost of other materials
605	Purchase/Cost of goods, services

608	Other Purchases/Costs
61	Services from third parties
611	General treatment
613	Rent
615	Repair & Maintenance
616	Insurances
617	Research & development
618	Other expenses
62	Other services
621	Services from third parties
623	Expenses for concessions, patents, licenses & similar
624	Publicity, promotions
625	Travel expenses
626	Mail & telecommunication Expenses
627	Transport expenses
6271	For purchases
6272	For sales
6276	For personnel
628	Bank charges expenses
63	Taxes
632	Customs duties
633	Excise tax
634	Local taxes
635	Registration tax
638	Other taxes
64	Expenses for personnel
641	Staff salaries
644	Social & health contributions
645	Other contributions and payments for personnel
648	Other expenses for personnel
65	Other expenses
653	Given subsidies
654	Representative and reception expenses
657	Fines and penalties
658	Other expenses
66	Financial expenses
661	Financial expenses from controlled entities
662	Financial expenses from related entities
664	Losses from revaluation of securities

665	Losses from sales of securities
667	Interest expenses
668	Other financial expenses
669	Losses from foreign exchange differences
68	Amortization & Depreciation
681	Amortization of fixed assets
686	Provisions for devaluation of financial assets
687	Other expenses (here are also included losses from impairment of assets when these are recognized in the profit and loss statement)
69	Tax on profit
7	**Revenues**
70	Income from sales, services and other works
701	Sales of finished products
702	Sales of semi - products
703	Sales of sub - products
704	Sales of works & services
705	Sales of goods
708	Income from other sales
7081	Rent
7082	Commissions and charges
7083	Transport for others
7088	Other
72	Production of fixed assets
721	Production of intangible assets
722	Production of tangible assets
73	Grant revenues
75	Other revenues
76	Financial income
761	Financial income from controlled entities
762	Financial income from related entities
763	Income from dividends
764	Income from revaluation of securities
765	Premiums from securities sold
765	Income from sale of securities
767	Interest income
768	Other Financial income
769	Gains from foreign exchange differences
77	Income from revaluation/sale of assets

	Off-balance sheet items
800-809	Goods of other parties near the entity's premises
810-819	Goods of the entity near the other parties
820-829	Contingencies
830-839	Risks
840-849	Adjustment accounts for taxes