

**DISCOURSES ON ACCOUNTING TRANSITION IN  
RUSSIA, PAST AND PRESENT:  
Comparing the Russian ‘Time of Troubles’ and the Reforms of  
Peter the Great as an Historical Basis to Help Understand the  
Difficulties in the Contemporary Russian Accounting  
Transition**

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**Abstract**

This paper attempts to provide an improved understanding of the current state of Russian accounting reform by an historical comparison of contemporary Russia to certain periods of Russian history during the 16th and 17th century. The argument will be made that today, just as in the 17th century, comprehensive accounting reform will likely occur only after the Russian state has been strengthened following a time of troubles. The strengthening of the Russian state must continue under Putin until the Russian government can afford to use the considerable power necessary to proceed with accounting reform.

## **Introduction**

The contemporary transition of Russia from a member republic of the Union of Soviet Socialist Republics to a successful, prosperous country that has both internal tranquility and stable and peaceful international relations is far from complete. The depth and scale of the difficulties involved in attempting this transition has resulted in substantial pain and suffering on the part of many Russians. The depth of hardship is supported by a variety of scholarly analysis reflecting the state of affairs in Russia during the transition period.

In many ways, this suffering is reminiscent of the period in the 16<sup>th</sup> and 17<sup>th</sup> centuries called the ‘Time of Troubles.’ This paper will explore different aspects of a historical comparison between the ‘Time of Troubles’ and the contemporary Russian transition to a market-based economy. This modern time of troubles will be considered to be the Gorbachev and Yeltsin period (1985 -1999). The primary purpose of this paper is to suggest that the political and economic reasons behind the incompleteness of contemporary Russian accounting reform can be best understood by an appropriate historical comparison. This historical comparison will be accomplished by demonstrating that the very successful accounting reforms of Peter the Great were accomplished only after Peter Great had combined political power and political will with the necessary foreign accounting expertise. Crucially, it will be argued that a precondition to Peter’s success was the strengthening of the Russian state accomplished by the two Romanov tsars that preceded Peter the Great. The historical comparability of the 17<sup>th</sup> century to the 21<sup>st</sup> century is that Putin, like the first two Romanov tsars that preceded Peter the Great, has been busy strengthening the Russian state. This strengthening of the Russian state, this paper argues, is something that is a precondition to the deep and comprehensive reforms (including accounting reforms) so necessary to the future of Russia. Thus, the authors further argue, to expect accounting reform so complete that Russian financial reporting is to a degree harmonized

with international financial reporting is only something that can be accomplished by combining the necessary political power and political will in a stabilized and strengthened Russian state, just as in the case of Peter the Great.

Our conclusion is based on the argument that although the necessary accounting expertise is on board in Russia, it seems that it is only now that the contemporary Russian state is perhaps beginning to become strong enough such that that the national government can consider exercising the considerable political strength and will which is required to complete accounting reform. Comprehensive accounting reform in Russia is something that only the new Russian administration that follows President Putin's second term in office may choose to pursue. Russia's ongoing resistance to a comprehensive accounting reform becomes much more understandable when one considers that other nations much better situated to accomplish accounting reform have also experienced deep and broad-based efforts seeking to delay implementation of international financial reporting standards. Ravlic (2004) discusses such resistance to accounting reform in Australia, a nation whose national accounting principles have always been more closely aligned to international standards than is the case with Russia.

The remainder of this paper will be organized as follows. First the historical context will be established in sections two, three and four. Accordingly, with the historical context in place, accounting reforms will be discussed in sections five, six and seven. The next section, the second section, will cover the "Time of Troubles" and the period under the first two Romanov tsars when the Russian state was recovering from turmoil of previous years. The characterization of the 15 years prior to 1613 as the Russian "Time of Troubles" has been well accepted by professional historians and is taught as such in Russian schools. The third section of this paper will make the case for the Gorbachev and Yeltsin years from 1985 to 1999 as a second time of troubles. While there is much that has been written about these times, a consensus that this time is also a time of troubles has yet to be fully developed. The fourth

section of this paper will cover the administration of President Putin. The case will be made that the Putin administration has focused on the strengthening of the Russian state and this strengthening sets the stage for a successor administration, or perhaps even the Putin administration, to achieve a set of comprehensive reforms to include accounting reforms. The fifth section of the paper will present the accounting reforms of Peter the Great. The sixth section of the paper will review the efforts at accounting reform since the end of the Soviet Union in 1991. The seventh and final section will be the conclusion, which will include suggestions that offer the possibility for enhancing the possibility of accounting reform in the near future in Russia.

### **The “Time of Troubles”**

In 988 Vladimir I of the Rurik dynasty (the dynasty was established by Rurik (c. 860-879)), a Nordic ruler of Novgorod) made a choice for Russia and all Russians under his rule. Vladimir I selected Orthodox Christianity as the religion for Russia. Orthodox Christianity was selected over such alternatives as Islam, Judaism, Roman Catholicism and the indigenous paganism. The commitment made to this choice over time has been very strong. So much so, that for many Russians, Orthodox Christianity is considered a most fundamental characteristic of what it means to be Russian (Milner-Gulland, 1997).

This is a paramount argument because some who oppose the adoption of international, American, or other western accounting standards do so from a *Slavophile* perspective. From the *Slavophile* perspective, the importation of foreign intellectual content ought to be generally avoided in favor of the development of an indigenous alternative that is authentically Russian. Interestingly, the preservation of the primacy of Christian Orthodoxy is all-important for *Slavophiles* in order to maintain the Russianness of Russia, even though it is an historical fact that Orthodox Christianity was very imported from outside Russia.

Russia went forward after its conversion to Christianity as a young European state evolving under the influence of both Roman and European cultures. Russia has always remained a true European state. However, almost three hundred years under the rule of Mongols separated Russia from the western world and left it culturally, politically and economically backward. Even though Russia has preserved Orthodox Christianity as the basis of its spiritual culture, in many respects Russia has increasingly resembled Asia. By the end of the 15<sup>th</sup> century Russia was the only independent Orthodox Christian state. Under the leadership of Ivan III (Rurik dynasty) Russia became an autocratic sovereign state. Ivan III was succeeded by his son Vasili III. MacKenzie and Curran (2002) state, that Vasili III, like his father “resorted to force only when necessary and coerced without cruelty.” However, it all changed after Ivan the Terrible (Ivan IV) succeeded his father Vasili III in 1533. Young Ivan was only three years old when he assumed Russia’s throne and his mother ruled as regent. After her death, the powerful *boyar* (noble) families increasingly took wealth and power from the Russian crown. Because of the continued centralization of power in Moscow and the strengthening of the Russian state under Ivan II and Vasili III, when Ivan the Terrible finally assumed power, he found himself in a position of taking decisive actions out of necessity. Many *boyars* and landed gentry lost their property at the hands of Ivan the Terrible. Not infrequently they also lost their lives. Ivan the Terrible was the first Russian ruler to be crowned as a *Tsar*. In spite of strong and brutal leadership, Ivan the Terrible’s rule set the stage for the even more chaotic internal situation in *Muscovite* Russia known as, “The Time of Troubles.”

Chaos and killing were a part of domestic life for Ivan the Terrible. He killed his beloved son Ivan, an intelligent young man, in a fit of rage. As a consequence of this senseless act, Ivan the Terrible was succeeded by his son, Fedor I, an imbecile, leaving Russian state without a clear ruler at its helm. Therefore, as it was mentioned above, following the death of Ivan the Terrible, Russia entered a period of continuous chaos. These times included a civil war in which a struggle over the throne was complicated by the

machinations of rival *boyar* factions, the intervention in Russian affairs by the regional powers Poland and Sweden, and intense popular discontent. Riots, murder, uprisings, and a sharp decline in the power of the state occurred. Furthermore, during the years 1601-1604 extreme weather conditions caused a severe famine in Russia which resulted in wide-spread hunger, suffering, and death. This famine was a low point in the Time of Troubles. In addition, a long term power vacuum in Moscow provoked a serious political, economic, social, spiritual, and moral crisis. Eventually, the combination of troubles destroyed the economic and political systems of the *Moscovy* state. Russian historian S.F. Platonov (Platonov, 1917, p.88), in describing the Time of Troubles, noted that “there was not a single social group in the country happy with the state of affairs.... everything was shaken.....everything lost stability”. For more than a decade thereafter, Russia was plagued by dynastic struggle, devastating famine, widespread uprisings, and invasion by Polish and Swedish armies. The Time of Troubles is considered by historians to have finally ended in 1613 with the establishment of the Romanovs as the new ruling dynasty of Russia.

Russia's state crisis during the Time of Troubles had been so severe that it had nearly destroyed the country. The Time of Troubles seriously delayed Russia's emergence as a great power. Almost one-third of the Russian population perished during the upheaval (Solozobov, 2006). The financial, transportation, and agricultural basis of the Russian state all but disappeared. Vast numbers of local merchants and manufacturers went bankrupt; the gap was filled by enterprising foreigners. Russia lost to foreign powers the prominent cities of Chernigov, Novgorod, and Smolensk. The rule of Ivan the Terrible and the Time of Troubles left Russia several generations behind Western Europe intellectually and technically (Platonov, 1913, pp.242—257).

### **Gorbachev and Yeltsin: A New Russian Time of Troubles**

Any modern Russian history text that covers the end of the 16<sup>th</sup> century and the beginning of the 17<sup>th</sup> century will discuss this

time as the “Time of Troubles.” However most contemporary writers and commentators do not discuss, as we do, the last ten or fifteen years of the 20<sup>th</sup> century as a new time of troubles.

Shortly after the breakup of the USSR and beginning of economic reforms, a myriad of severe social and economic plagued Russia. Continued turmoil pushed Russia to the brink of territorial disintegration and a social explosion of unprecedented proportions. As a result of political and economic chaos of 1990s, the Russian people experienced a significant change in life expectancy to 57.6 years for males and to 71.2 years for females in 1994 (Gavrilova, Semyonova, Evdokushkina, & Gavrilov, 2000, pp.397–419).

Current life expectancy in Russia is lower than in China and less than in some countries of Africa. This negative phenomenon occurred during Yeltsyn’s presidency in 1990s. According to the findings of scholars from Russia’s public health institute in the 1990s, the life expectancy for Russian males dropped from 62.0 to 57.6 years and female life expectancy dropped from 73.8 years to 71.2 years (Gavrilova, Semyonova, Evdokushkina, & Gavrilov, 2000, pp.397–401). No other industrialized nation in the world experienced such a drastic reduction in life expectancy during peacetime (Gavrilova, Semyonova, Evdokushkina, & Gavrilov, 2000, p.399). Furthermore, the drop in life expectancy coincided with other painful changes including a rapid decrease in real wages and pensions, a nearly complete loss of personal savings, and a tremendous increase in the poverty rate. (Gavrilova, Semyonova, Evdokushkina, & Gavrilov, 2000, pp.397–401). Depending on the data sources used, between 1992 and 1998 the prevalence of poverty in Russia was between 29% and 40% with some estimates reaching 48% (Graham, Eggers, & Sukhtankar, 2002).

In 2001 the poverty rate stabilized at 33% (Graham, Eggers, & Sukhtankar, 2002). These levels of impoverishment in living standards are comparable to some of the most unequal countries (rich vs. poor) in Africa and Latin America. The number of orphans in Russia was estimated at over 700,000 (Weir, 2007) by the year of 2000, and it exceeded the number of orphans registered in the Soviet Union following World War II (Valieva, 2006). An additional

shock, particularly to those who relied on fixed incomes, came from a financial crisis and sharp devaluation of the ruble in August 1998. The ruble fell to 25 percent of its previous rate against the US dollar. The financial crisis of 1998 was a direct result of flawed economic policies implemented by Russian government (Kuznetsov, 2003, p.4). The gross domestic product (GDP) of the Russian Soviet Federal Socialist Republic (RSFSR), and the successor Russian Federation, had declined each year since 1989. Russia's GDP was about 55 percent of the 1989 level (Bush, 1999). This represents a steeper fall than was registered during the Great Depression in the United States in the early 1930s (Bush, 1999). New productive capital investment in 1998 was less than one-fifth of the 1989 level.

The Russian government was projecting a GDP of 4 trillion rubles in 1999. At the official rate of exchange, that was less than 2% percent of the US GDP in 1998 (Bush, 1999). Aleksandr Solzhenitsyn (2000) describing the depth of the failed economic reforms bluntly stated that all the main areas of Russia's national life, economic, cultural, and moral had been destroyed or stolen.

Nine turbulent years of Yeltsin's rule left Russia embittered, polarized and impoverished. As Stephen F. Cohen (2000, p.159) wrote, "so great is Russia's economic and thus social catastrophe that we must now speak of another unprecedented development: the literal demodernization of a twentieth-century country. When the infrastructure of production, technology, science, transportation, heating, and sewage disposal disintegrate; when tens of millions of people do not receive earned salaries, some 75 percent of society lives below or barely above the subsistence level, and millions of them are actually starving; when male life expectancy has plunged as low as fifty eight years, malnutrition has become the norm among schoolchildren, once-eradicated diseases are again becoming epidemics, and basic welfare provisions are disappearing; when even highly educated professionals must grow their own food in order to survive and well over half the nation's economic transactions are barter -- all this, and more, is indisputable evidence of a tragic "transition" backward to a premodern era".

Cohen's narration of Russia's state of affairs at the end of the 20<sup>th</sup> century reinforces our assertions in identifying this period as a new time of troubles in the country history. This connection is important to this paper's argumentation that this period so disrupted political and economic conditions so as to make the implementation of comprehensive accounting reform unlikely. Reform was unlikely not only during this new time of troubles, but also equally unlikely in any subsequent period until a time of relative stabilization occurred in which the state could reestablish itself. Only a reestablished state with sufficient power is able to accomplish something so meaningful and difficult as accounting reform. We will examine the period of 1985-1999 to identify underlying economic and political dynamics that lead to a new time of troubles. Then to further strengthen our case, we will discuss the opinions of others who have also labeled the 1990s as a time of troubles.

Vladimir Zhirinovsky (1995, p.75) has commented that the system that Gorbachev confronted was absolutely rotten. He further characterized the condition of the USSR in 1985 as "dying." Thus, it is clear Gorbachev inherited a most difficult situation. Thomas and Sutherland (1992) have observed that, it seemed as though everything man-made in Russia was either falling apart or destroyed. Further as Layard and Parker (1996) note, in the Soviet Union crime and corruption were widespread. Gorbachev came up with a collection of ideas and programs often discussed as *Perestroika*. At the time Gorbachev (1987, p.27) described *Perestroika* as a carefully prepared program. Some years later, Gorbachev (2000, p.179) observed that not everything in *Perestroika* had been well thought out. In his memoirs, Gorbachev noted that among other disorders in the Soviet Union, production discipline was breaking down (1995, p.216.). Gorbachev sought to remedy this disorder, as well as other economic difficulties with a scheme of decentralization. In fact, Gorbachev's *Perestroika* had decentralization as its theme, (Boycko, et. al. 1995, p. 39).

However, this decentralization of power under *Perestroika* was not accompanied by a culture of accountability and, thus the power of the state began to decline both politically and

economically. In his last months in power, Gorbachev considered a “500 days” plan to quickly implement the free market system in Russia. Ultimately Gorbachev made a choice not to follow through with this plan. This decision eroded his support among reformers, some of whom considered it as his biggest mistake (Palazchenko, 1997, p.222). Without significant support from either Soviet traditionalists or reformers, it often seemed that the only true and significant supporters of Gorbachev were foreigners.

Yeltsin took power from Gorbachev in a time when many Russians feared starvation. According to Remnick (1997), Yeltsin choose to unleash Gaidar, who freed almost all prices in one bold move. The resulting inflation destroyed almost all the personal savings of ordinary Russians. Yeltsin promised economic improvement in six months, in an effort to garner popular support (Brady, 1999, p.11). However, as Satter (2003) notes, instead of improvement, what was ushered in was a decade of steady decline. The privatization process under Yeltsin’s minister Chubais was, according to Miller (2000) a process of uncontrolled corruption.

The reform process began with Gorbachev and an unlimited power of faith in the state (Vorrnin, 2001, p.69). The privatization that followed under Yeltsin was in reality the government-assisted theft of state property. In the west, the sources of capital are primarily private investment and cash from the profits of past operations. In Russia in the 1990’s it often seemed that about the only source of capital was to maneuver a legal way to steal state property. To the extent profits were generated, they frequently departed Russia because to re-invest such profits in the Russian economy was simply too risky. As a result, in the 1990s Russia experienced a significant outflow of capital. As Gustafson (1999) notes, to most observers, the 1990s were a failure in Russia. He continues by stating that consistently throughout the 1990s, Russians told pollsters that market reforms had made them worse off. Gustafson labels it a “decade like no other.” The market reform disasters compounded by the destructiveness of increased violence and other disorders. This was a direct result of all the policy errors, poor administration, and extensive corruption of the Yeltsin era.

Eventually, according to Schleifer and Triesman (2004) Russia has come to be viewed as a disastrous failure and the 1990s as a catastrophe for its people. According to Yurii Moskovskii (2002), as of 2000, almost 60 per cent of Russia's capital stock was worn out. Further, few repairs have been undertaken since 1991.

Our characterization of these times as seeming to be a new Russian time of troubles is not original, Lenoiod Shebarshin (1998) considers the last years of the twentieth century to be a new time of troubles. Abdelal, Rawi (2001) from Harvard Business School narrates Russia's troubled economic transition since 1991 and identifies a myriad of economic and political problems faced by Putin at the dawn of his presidency.

Peter Lavelle (2004) has also made the same observation. Further, Lavelle has also compared the administration of Putin to the beginnings of the Romanov dynasty, just as we will do in the next section.

### **The Administration of Vladimir V. Putin: A Period of Strengthening a Weakened State.**

The national government under Gorbachev and Yeltsin pushed for erratic and arbitrary reforms that resulted in sacrifice and suffering for the Russian people. Both explicitly and implicitly Gorbachev and Yeltsin promised much improved economic circumstances to the Russian people if only they would submit to a period of sacrifice one more time. However, the longer the changes continued the more suffering they inflicted upon the Russian people. For many Russians the pain caused by Gorbachev and Yeltsin has not eased. Corruption was a destructive and damaging menace during all the years they ruled. Yeltsin is viewed by most Russians as both personally corrupt as well as a presidential enabler of all manner of corruption to include the de facto theft of incredible amounts of state property. All of these are sins in eyes of most contemporary Russians, and for these sins Gorbachev and Yeltsin are hated and reviled to this day.

One of the authors well remembers a one-meter high presidential election graffiti from 1996 which stated "Yeltsin is

responsible for everything!” This highlights the thinking of an increasing number of Russians during the 1990s of just who bore responsibility for the sad mess in Russia.

However, all the major decisions made by Gorbachev and Yeltsin had one commonality: they slowly but consistently diminished the power of the Russian state. The central themes of Gorbachev’s reforms evolved around his ideas of softening the USSR’s use of state power in the political arena and a direct reduction of country’s leadership influence in its command economy through the decentralization of economic decision making. An example of the softening of the use of state power in domestic USSR politics was the legal expression, often repeated by Gorbachev, that what is not explicitly forbidden is permitted. An international example of this approach was the quiet and unconditional consent of the USSR to the reunification of Germany.

Economically, under Gorbachev some state enterprise managers assumed responsibility for the acquisition of raw materials as well as assuming responsibility for production decisions. The goal was the resurrection of the socialist economic system of the USSR. In doing so, Gorbachev and his administration sought to preserve and improve the socialist system such that he could ensure a strong future for the Communist Party. The administration of Yeltsin wanted nothing to do with either preserving socialism in the USSR or preserving the Communist Party. Yeltsin and his administration wanted “shock therapy” of prices and the distribution of such massive amounts of state property to private persons such that it would be all but impossible for socialism to return or for the Communist Party to regain its lost power. Clearly the massive distribution of state property to private interests through various schemes reduced state power by greatly diminishing the assets under state ownership. Yeltsin also ceded significant power to the regional governments of Russia, further weakening the centralized structure of the state.

Accordingly, for their own reasons, Gorbachev and Yeltsin dramatically reduced the power of the state. Volkov (2002) states

that because of this erosion of state power, it was not possible to form a national consensus in the late 1990s. This consensus included the need for a more orderly business environment. This inability of the weakened Russian state to make needed and desired change will be a central point of the next section. The central argument affirms that the erosion of Russian state power was so severe that it made needed improvements in the business environment, such as accounting reform, difficult or impossible to implement. Volkov (2002) goes on to say that Putin in his 8 July 2000 address to the national legislature indicated that strengthening the state would be a top priority. According to Putin, decentralized state and weak central government was the main cause for the continuing economic problems of Russia. Neil Buckley (2005) writing in the *Financial Times* stated that Putin intended to use his first term to re-establish state power and the second term to modernize the economy. Buckley further states (Buckley 2005) that at some point, it was decided that the power of the Russian state, "was still too weak to implement modernization."

The previous sections have set out the historical, political and economic framework in which accounting reform can be best understood. The next three sections will discuss Russian accounting reform in the context of economic reform. Authors will also examine the accounting and other reforms of Peter the Great. His reform success will highlight the ability of a well-informed leadership empowered with strong state authority to successfully implement change. Later in the sixth section, the success of Peter the Great will be contrasted with the ineffectual accounting reform efforts of contemporary Russia.

### **Peter the Great: A Man and His Reforms**

The reign of Peter the Great (1682–1725) became a turning point in Russian history. The long-term impact of his actions, his role, and his short and long-term legacy were the result of his relentless drive toward westernization and globalization. Lacking sufficient indigenous expertise in many areas, Peter actively proceeded to remodel Russians and their institutions along European

lines. Peter had the will and the Russian state had the power to permit him his quest for modernization and westernization, despite significant and continuing resistance to change. Russians often were initially unhappy with Peter's reforms because they were comfortable with traditional Russian ways. Different segments of Russian society, especially *boyars* and nobles resisted such reforms, because these changes were typically imported from Europe without any alteration except translation into the Russian language. According to Raeff (1975), Peter the Great and his successors relied heavily on the Prussian and Austrian models of the regulated police state in their attempts to create an ordered social structure in Russia. However, Russian sovereigns encountered a different problem from the German monarchies in applying this model. They lacked the corporate institutions that already existed in the German states (Daniel, 1977, p.507).

Peter, in effect began the industrialization of Russia. In this regard he placed an emphasis on the prompt implementation of administrative and economic reforms. This included rudimentary forms of business organization and inception and development of corporate governance in Russia. However, in the case of Russia, the mechanisms of corporate governance even in their rudimentary forms represented economic and legal institutions that altered the political process-sometimes for the better (Shleifer, 1997, p.738). According to Paul Grady (Grady, 1948, p.267), in fundamental research the coverage of the story of modern industrialism and of accounting which necessarily travels a parallel orbit, would have to be presented on a world-wide basis. Consequently, the rapid implementation of economic reforms directly resulted in the introduction of the first system of accounting rules in Russia.

Before Peter the Great's accession to the throne in 1682, Russian tsars designated governmental ministries called "*prikazy*" to run affairs in the rapidly growing empire. *Prikaz* is an ordinary Russian word meaning order or command. In most European states *prikazy* evolved from royal household offices. Some of them performed governmental and administrative duties. For example the "*Posolsky* (Ambassador) *prikaz*" administered international

relations. Other *prikazy* administered different parts of the government. For example, “*Siberian prikaz*” managed the exploration and development of the lands of the Russian Empire to the east of Urals. “*Income prikaz*” collected and enforced tax collection (Kotishikhin, 1972, p.5). By the end of the 17th century, about 50 *prikazys* existed in Russia. According to Mazdorov (1972, p.5), the birth of accounting and bookkeeping in Russia took place in the middle of the 17<sup>th</sup> century when a special *Prikaz* for Accounting Affairs (*Schetny Prikaz*) was established. This ministry was in charge of accounting for collection, disbursement and auditing of state funds and other state offices and departments. All necessary information was drawn from relevant accounting journals and books of other *prikazys*. The establishment of *Schetny prikaz* and beginning of accounting for state funds began before the time of Peter the Great. Upon his accession to the throne Peter the Great employed the existing *prikazy* system. In his attempts to improve this system, Peter focused on financial accounting reform. He published new accounting rules as federal acts. Peter the Great was determined to understand and control the total amount of available funds spread throughout different *prikazys*. After briefly abolishing the *Schetny Prikaz*, Peter restored it in 1699. However, this time the *Schetny Prikaz* assumed broader functions and utilized reports from different ministries in order to create a consolidated income statement (Klyuchevsky, 1937, p.156).

The first official federal act where Peter the Great addressed issues related to financial accounting is dated January 22, 1714. According to this regulation, it was required that government officials and state enterprises record economic transactions in a timely matter, safe-guard income-expense books and to uphold a strict subordination between individuals involved in accounting for government offices. In the Military Code issued in March of 1716 Peter the Great enacted the most important Russian national legislation on financial accounting up until that time. This document should be considered the first authentic accounting code in the Russian Empire. In chapter IV of this document was a special section “On merchant books and journals” (Polnoe Sobranie

Zakonov Rossiiskoy Imperii, pp.400-403). This material on merchant books and journals is often considered to be the first significant professional accounting document that underline accounting standards of the Russian state.

Peter the Great's most aggressive reforms of Russian financial accounting took place on April 5<sup>th</sup>, 1722. Peter rejected the old archaic institution of *Schetny Prikaz* and began an accelerated transition to a more progressive European system of accounting. Unknown before, the Balance Sheet was introduced in Russia. The objective of this new accounting reform was to ensure accountability, facilitate decision making, and permit the evaluation of completed projects. The system was initiated for governmental purposes to accelerate the timely implementation of the many other reforms of Peter the Great. It should be remembered that Peter created a new Russian capital (Saint Petersburg), the Russian Navy, and other institutions such as colleges and universities. These new creations of the Russian Empire, especially the ship-building program of the fledgling Russian Navy greatly benefited from the accounting reforms of Peter the Great. The successful application of accounting systems by government authorities promoted the adaptation of similar procedures among private entrepreneurs, especially in the newly built factories in the Urals and the textile mills of central Russia.

Following the well-tested route of borrowing progressive ideas and practices from overseas, principles of financial accounting imported to Russia had their origins in the West. In addition, to accounting standards, the accounting profession was also introduced to Russia during the reign of Peter the Great. Russians had their first encounter with accounting professionals during the war with Sweden. According to Sokolov (2003, p.12), in 1710 during the Northern Wars, near the city of Vyborg, Russian troops among other Swedish prisoners captured one individual who defined his occupation as "*bukhgalter*". "*Bukhgalter*" is the Russian word for "accountant" and it has Swedish and German origins (Sokolov, 2003; Peterson, 1979). The word referred to a set of skills involved in budgeting, accounting, tax collections, fiscal planning. In 1710 in

“The Newspaper on War and Other Affairs” a word “*bukhgalter*” began to appear regularly (Sokolov, 2003).

Even today, Russia’s accounting borrowings from Western Europe under Peter the Great form the basic fabric of Russian accounting. There is virtually no evidence for any accounting basics, terminology, methods, principles or ideas being invented in Russia during the early stages. Names and terminologies came from Germany and Sweden, the first known Russian accountant arrived from Holland, and accounting documents on shipbuilding were translated to Russian from the Dutch language. The first Russian texts on accounting theory were nothing more than an exact translation of English textbooks. Without such fundamental borrowings from the West, Russia would have to follow an alternative path of inventing its national financial accounting science from scratch. Since “*bukhgalter*” was a foreign word Russian traditionalists rejected its wide application. Instead of “*bukhgalter*” they proposed a Russian equivalent of “*knigoderzhatel*” (Accountants’ corner, 2003), which literally translates as a “keeper of books”. However, “*knigoderzhatel*” as a term, didn’t generate a broad appeal among the Russian nobles and was forgotten.

The adaptation of progressive European accounting ideas, techniques and technologies during the reign of Peter the Great became so common and widespread that Russian nobility didn’t even attempt to create an alternative homegrown accounting system. The Russian government brought in accounting standards, regulations and related documents from the Western Europe and simply translated them into Russian. On April 5th, 1722 Peter the Great introduced “Regulations on Admiralty and the Navy” “Directives on Admiralty” or “Instructions for the *Admiralteisskaya Kollegiia*” (*Reglament po Admiralteistvu I Flotu*) which significantly extended Military Code’s section on Accounting and Bookkeeping. This document was published on April 22, 1722 and it is probably the most important document in the early history of Russian financial accounting. In addition to innovations in naval architecture and shipbuilding technology, “Regulations on the

Admiralty and the Navy”, introduced strict accounting procedures for recording reporting expenditures for raw materials, parts and labor. The accounting part of “Directives on Admiralty” influenced the growth of accounting system all over Russia.

Sometimes, it is said that accountants don’t create economic activities on their own, they just simply reflect on events mentioned in the primary documents. Therefore, accounting reform during the reign of Peter the Great became an important complimentary tool for his comprehensive economic reforms. Some consider the naval accounting rules to be the first Russian accounting regulations, while other contemporary Russian scholars argue against calling “Directives on Admiralty” as first accounting standards in Russia because these regulations didn’t have a common measuring unit; some items were accounted for in non-monetary terms such as quantity, weight, length etc. The system was income-statement oriented and designed to serve the immediate needs of the Russian state. And, as it mentioned above, its forms incorporated monetary and non-monetary transactions. The reason for the simultaneous use of monetary and non-monetary measurements was to ensure the proper collection, disbursement, recording and control of certain state revenues and expenses.

Regardless of different interpretations of accounting origins in Russia, Peter the Great implemented a comprehensive state industrial policy for the first time in Russian history. A ruthless, imaginative, and dynamic leader, who thought big and acted decisively, Peter was well equipped to wield autocratic power effectively in the massive task of remolding a nation along Western lines (Blackwell, 1970, p.9). The story of a powerful Russian leader using the power of a strong Russian state to successfully implement totally comprehensive nation-building and accounting reform will not be repeated in the next section. In this section we examine the failure of Russia during the last twenty years to achieve financial accounting reform. We argue this is in large part due to the choices made by Gorbachev and Yeltsin in diminishing the power of the Russian state, and as yet incomplete success that Putin has had in rebuilding the Russian state. We consider that fundamental

economic reform, such as financial accounting reform, can only be accomplished by a Russian state with sufficient power and will.

### **Efforts at Accounting Reform Under Gorbachev, Yeltsin and Putin**

Gorbachev sought the decentralization of economic decision making in order to revive the failing economy. This was to include changes in accounting. However, *Perestroika's* limited accounting reforms were not successful. Alnajjar (1991) blamed Gorbachev's failed accounting reforms on the desire of the Soviet Union to maintain its highly uniform accounting system. The idea was that it was never intended that decentralized economic decision making ever be so decentralized as to enable managers to decide on their own accounting systems.

Yeltsin indicated early-on an interest in accounting reform consistent with his market reform ideas. According to Ernst & Young (2002) the Russian government had developed a program to transition to international standards. The program was never implemented. In 1995 major legislation implementing a transition to international accounting standards was passed by the State Duma and signed by President Yeltsin. Again, this legislated reform was not implemented.

In considering accounting reform pursued under the Putin Administration, Balyasny, (2004) asserted that a bureaucratic foul-up was responsible for the failure to achieve accounting reform. There is a common thought that the Russian failure to achieve accounting reform is due to the Russian bureaucracy. This idea was also voiced by Irina Khakamda in 2003, then the Deputy Speaker of the Russian State Duma.

We argue that is the Russian bureaucracy in large part is responsible for the failure of Russian accounting reform to date. The bureaucrats simply don't believe it is to their personal benefit nor is it in Russia's national interest to adopt without modification international accounting standards from the International Accounting Standards Committee. If this is so, then an obvious solution is the application of sufficient state power such that it

overwhelms such bureaucratic interference. Thus, in the next section we will suggest that successful accounting reform can be achieved only after the Russian state has accumulated sufficient power, and the will to use that power. The alternative is only more delayed accounting reform. For example, Sergey Moderov, a partner in a Russian accounting practice is reported in the United Kingdom newsletter *The Accountant* (October, 2004) as saying that the current stated goal of the Russian government to achieve accounting reform is only “Wishful Thinking.”

### **Conclusion and Suggestions on Russian Accounting Reform**

Russian accounting reform seems to be proceeding very slowly. Every deadline for achieving harmonization with international standards has been broken. Considering the difficult times Russia has experienced in the last twenty years, slow progress in accounting reform is understandable. Russian history is important to Russians. Russians and others often use Russian history as an aid to better understand current events in Russia. This paper seeks to use Russian history to better understand the current situation in Russian accounting reform. This is done by comparing recent Russian history with the Russian history of the late 16<sup>th</sup> and most of the 17<sup>th</sup> centuries. During this time the Rurik dynasty ended and Russia experienced a very destructive and chaotic period that is well-known as the “Time of Troubles.” This was followed by the beginning of the Romanov dynasty that ended in 1917. The first two Romanov czars stabilized Russia and strengthened the power of the state. This interim period of strengthening the Russian state set the stage for the third Romanov czar, Peter the Great. Peter used the power of state to reform Russia in a comprehensive way, to include significant accounting reforms.

The Gorbachev-Yeltsin period (1985-1999) of Russian history was, like the “Time of Troubles,” (1598-1613) a fifteen year period of chaos, suffering and destruction. It is reasonable and useful to label the Gorbachev-Yeltsin period a second time of troubles for Russia. With this as a starting point, it becomes clearer why Russia has failed to harmonize its accounting standards with international

accounting standards over the last twenty years. For the period 1985-1999 the chaos and economic nightmare was obviously a suboptimal time in which to accomplish difficult reforms such as accounting reform. Because the 1985-1999 period so significantly weakened then power of the Russian state it is arguable that it is reasonable to expect that it would perhaps take some time after the weakening of state power before state power might strengthen significantly enough to enable a government to be in a position to achieve significant accounting reform. This is our explanation of why accounting reform has proceeded as it has under the Putin administration. We believe that the president who succeeds president Putin will at some point be in position to accomplish accounting reform. This new Russian president would benefit from the strengthening of the Russian state accomplished under the administration of Vladimir Putin.

Given these historical insights, what might be suggested to policy makers or others seeking to accelerate Russian accounting reform? We suggest that as soon as the Russian state is strong enough, it should mandate the complete harmonization of Russian accounting standards to IFRS within one year. Russian accounting standard setters should customize Russian national accounting standards within the choices available in the IFRS. Our suggestion is consistent with Irina Khakamada (2003) who suggested that accounting reform might be accomplished by simply passing a law that requires all companies to change to international accounting standards in one year. She opines that the companies would find a way to make it happen. We agree, although we suggest that two or years might be more appropriate. This is because of the shortage of Russian accountants trained in the international accounting standards. Step-by-step alternatives where only certain international accounting standards take effect would likely founder on a myriad of implementation issues. Having only a fraction of the companies change in any one year would also be problematic in our opinion.

Again we view sufficient state power and its deliberate and strong application as necessary for successful accounting reform. If sufficient state power is not applied in the implementation of reform,

the result might be something like the failed adoption of the metric system by the United States of America.

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