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Accounting During the Austro-Hungarian Compromise and the Post-Communist Regime Change

"Respect the past so that you can understand the present and work towards the future."
István Széchenyi

SUMMARY: The purpose of the article is to present Hungarian accounting regulations in two very important periods of Hungarian history: during the period of the Austro-Hungarian Compromise of 1867 and after the fall of Communism. The study compares the two periods on the basis of the relevant domestic and international literature; it examines the economic history and legislative parallels, compares the recognition and measurement of asset components, and elaborates on the possibilities of accounting techniques with a focus on the lesser known first period. Key conclusions: the regulations have been adapted in both cases, taking special domestic features into consideration. Essentially, they were modern and delivered the requirement of presenting a true and fair view. At the same time, the regulation of the profession was greatly influenced by the contemporary system of socioeconomic institutions.

KEYWORDS: accounting history, regulation, balance sheet authenticity, Hungary
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Several well-known authors have examined the factors that influence accounting regulations from different points of view (Roberts – Weetman – Gordon, 1988; Nobes – Parker, 2012). While the first study presents the factors that have an impact at the national level, the second one already focuses on factors related to globalisation and harmonisation. The article presents the impact of historic and legislative events at two important crossroads of Hungarian history and accounting regulation; namely, after the Austro-Hungarian Compromise of 1867 and during the regime change after the fall of communism, effectively drawing parallels between the two.

The purpose of the article is to examine the breaking points (Borbély – Szlávik, 2012) within the history of the profession in two situations that show similarities despite the different time periods in which they took place,

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as well as comparing some of the most important characteristics of the accounting regulation implemented in those situations. The thesis statements of the article are that Hungary – like several other Central and Eastern European countries – adapted its commercial system and subsequently, its economic legal system, as well as the related accounting regulations. These regulations were modern and afforded the opportunity of fulfilling the most important accounting requirements. At the same time, however, the attitude within the profession, influenced by the legal system and other circumstances, drove these similar situations into distinctly different directions, and in many ways diverted them from the regulations of the antecedent country (Karai, 2007). Hungarian accounting – in the context of available legislation in the examined periods from the Austro-Hungarian Compromise to the beginning of the 20th century and in the last decade of the 20th century – can be considered an adaptive system even at the time of the regime change, which primarily builds on a German example. Both periods were witnesses to the beginnings of vigorous economic growth, with new forms of businesses and legislation entering into effect, which also led to a renewal of accounting regulation.

It is characteristic of the research methodology that the comparison is not only relevant to accounting but the selected influencing factors are compared as well, primarily through the use of domestic and international literature.

The study briefly presents the two turning points in history, highlighting the economic history, legislative parallels, comparing the recognition and measurement of asset components, and noting the possibilities of accounting techniques with a focus on the first period, as it is lesser-known.

The most important conclusion of the presentation and the comparison is that accounting – as the system of registration and information of the changes in wealth and profit occurring within the economy – is an integral part of the socioeconomic system of institutions, and cannot deviate from that system in terms of its basic characteristics. At the same time, however, it is an undeniable fact that there are several roads that can lead to the attainment of its most important tasks and requirements, the length and difficulty of which may be rather different.

RESEARCH METHODOLOGY

Typically, the tenets of accounting history research are that the regulation of any given period can only be studied together with the factors in the surrounding environment and institutional system (in this case, history, economy and legislation), as it is through these factors that contemporary accounting recommendations, possibilities and rules can be understood. In my research I rely on *Miranti's* article *Patterns of Analysis in Accounting History* (1993), which describes the different schools of thought in the field of accounting history research. The first school of thought approaches the issue from the perspective of information supply, where information supply is induced by the optimal allocation of resources and maximum return on investments. The second school focuses on the regulation of financial markets. According to its followers, the changes brought on by crises are often aligned with the interests of certain individuals or small groups, or occasionally larger organisations, removed from socioeconomic processes. Representatives of the third school look at the changes in accounting regulatory systems by considering accounting to be a part of culture in the broader sense of the word.

I also consider the research considerations applied by *Barbu – Facane – Popa* (2010, page 8) to be authoritative, meaning the use of constructivism, as a research philosophy, the use of the inductive approach; and with regard to the type of research the use of narrative, oral and interpreted written sources, and in terms of research methods its primary focus on content analytical procedures. The temporal scope of the research in the case of this article extends further. I used contemporary, current and secondary resources and works for the purposes of my data collection, and I also conducted an interview in connection with Act XVIII of 1991.

In the remaining parts of the article I will shed light on the context of accounting regulation relying on legal historical facts and sources. I used Hungarian and some German language literature for that purpose. The part of Chapter 3 relevant to accounting is based on the accounting books of *Josef Schrott* (1870) and *Róbert Kuntner* (1914), which I have used to compare the recognition and measurement of assets, the most important related requirements and basic principles and the accounting technique requirements with the requirements of Act 1991 of XVIII – an act of legislation whose provisions and application I am familiar with (Borbély – Evans, 2006).

TURNING POINTS IN HISTORY AND THEIR ECONOMIC CONSEQUENCES

As we look at the economic changes and highlight a few important facts in the period following the Austro-Hungarian Compromise and after the fall of Communism, we can find many similarities.

According to *Berend* and *Ránki* (1976), after the Austro-Hungarian Compromise a very distinct and strong wave of factory establishments started (factory fever), primarily with foreign investors in the milling industry, heavy industry, machine manufacturing, and the sugar, spirits, and beer industries. Hungary's appeal lay in cheap commodities and labour. The development is well illustrated by the fact that from 1863 to 1884 the horsepower capacity of steam engines increased eightfold. The number of traders – and banks – increased significantly. By 1873 as many as 637 financial institutions had been established. Although the Austrian and Czech industries performed significantly better, it can be asserted that Hungarian industry underwent a period of fast development, even though the most important sector of the nation's economy was still agriculture.

Development undeniably hinged on the development of transportation. In the 1850s the Vienna Budapest railway connection was created, with the total length of the railway network tripling between 1867 and 1873. Railway shipments were mostly linked to the modernisation of agriculture and the entire process was characterised by a gigantic wave of capital influx, as guaranteed yields on capital invested went as high as 5%.

Founded in 1864, initially the Budapest stock exchange was booming. Between 1866 and 1872 the number of quoted companies rose from 28 to 115. However, the origin of the 1873 crisis can be traced back to the collapse of the Vienna and then the Budapest stock exchange, which were precipitated by strong mortgage market expansion and speculation. A significant ratio of large banks collapsed as well. By the turn of the century 55% of the capital of Budapest-based large banks were in the hands of foreigners (Berend – Ránki, 1976). Due to the fact that futures transactions were not allowed in Austria and Germany but were permitted in Hungary until 1907, the commodities exchange reached its pinnacle in this period (Mezey, 2004).

The economic development of Hungary started out on the path of capitalism, followed by another round of growth starting in 1879.

Despite and in parallel with these processes it would be no exaggeration to assert that the period from the Austro-Hungarian Compromise to the end of World War I brought economic liberalisation, modernisation, relative political, and large-scale social changes.

At the end of the 80s of the 20th century, Hungary was in an exceptional position compared to other transitional economies, as the basic characteristics that could later be aligned with a market economy had either already been established or were in the process of being established at the time of the fall of the communist regime. In his study, *Sárközy* (2005a) shows that legislation passed from the second half of the 80s onwards had already been compliant with the rules of a capitalist economy; the two-tier banking system had been established. Contrary to the period after the Austro-Hungarian Compromise when the other two member states of the monarchy (Austria and the Czech Republic) were more developed, Hungary was a step ahead compared to the other countries of the region. The other tasks related to the post-communist regime change, namely, the formulation of the tasks as well as the rules of operation of the privatisation process, the government and local governments had also started.

In addition to the general objectives of privatisation – which started immediately with the aim of returning former public property to its original owners while also ensuring their compensation –, significantly, the intention was to reduce the largest sovereign debt within the post-socialist block from the consideration received in exchange for the assets sold; as a result, very little of these monies was rechanneled into the economy.

At this time, although the structure of the Hungarian economy was broadly the same as that of other OECD countries, this did not translate into competitiveness and up-to-date assets. The machinery industry gained strength, and the situation of raw material production was only different in that new markets had to be found after the collapse of the Soviet markets. Agriculture was characterised by cheap land and labour cost. The employment structure of the country shifted toward services. The majority of the enterprises established – due to the lack of capital typical of the region at the time – were micro, small and medium-sized enterprises.

Until 1996, Hungary received the largest influx of foreign direct investment in the region. Between 1992 and 1995 more than two thirds of the assets held by the asset management agency were privatised and more than half of the revenue was now in foreign hands (Sárközy, 2005b). That ratio increased further by the end of the privatisation process in 1999 to almost two thirds (Mihályi, 2000), in contrast with the one third observed in the period between the Austro-Hungarian compromise and World War I.

After activities in commerce, manufacturing, telecommunications and the energy sector, the pursuit of financial activities also became extremely lucrative. The role of banks became increasingly important. In 1995, there were 39 banks (of which 27 were privately owned) and 256 cooperative banks in Hungary (Wachtel, 1997). Due to the high interest margins, a large part of the revenues earned by these banks came from interests. Similarly to other countries in the region, enterprises are mostly financed through banks. If we compare this increase in the number and role of banks with the post-Compromise period, a similar trend emerges.

The post-communist regime change – as the period after the Austro-Hungarian Compromise – brought strong economic liberalisation as well as significant political and social changes.

LEGISLATION AND ACCOUNTING REGULATION

Commercial law was a necessary by-product of the birth and fast development of industry. Bulk goods, and their shipping and trade required the ability to close deals quickly; it required safety. Commercial law served and facilitated profit oriented business practices and afforded the opportunity to standardise transactions internationally, which in turn were characterised by a large degree of contracting freedom. In case of default, however, sanctions were far more stringent than in the case of private law, as legal disputes arose more frequently with bulk transactions (Mezey, 2004).

Regulation from the second half of the 19th century until the turn-of-the-century

German commercial law played the most important role in the development of Hungarian commercial law. In 1872, the Minister of Commerce commissioned *Mr. István Apáthy* to create a commercial code based on the German example, the adoption of which was preceded by wide-scale social and professional debate,; therefore, unique Hungarian specificities were taken into consideration at the time of its drafting, including the foundation fever after the Austro-Hungarian Compromise as well as the crisis of 1873.

Act XXXVII of 1875 contained wording on general company rules, applied forced company form and detailed four distinct company forms: general partnership, limited partnership, stock corporation and cooperative. The Commerce Act did not concern itself with the legal personality of companies, as company registration was entrusted to the courts from the start (Sárközy, 2005a).

Stock corporations were considered a particularly important company form, not only for the protection of stockholders and creditors; indeed, in this company form, the responsibilities and control of managers were prescribed and the publication of important business transactions also became a requirement. Considering that it was much easier for them to acquire capital compared to other types of companies, they were able to keep up with technological development and in terms of their number and equity capital, Hungarian stock corporations were among the top-ranking firms in Europe. Due to the separation of equity ownership and equity functioning, the leadership of these companies typically shifted to professionals. In contrast with the period after the regime change, the financial problems of these companies were kept under control by court judgments rather than by way of new acts of legislation (Mezey, 2004). There were no provisions in the Commerce Act on the principle of balance sheet authenticity; it was enforced if necessary at the courts, meaning that contemporary legislative development did not only take legislation into consideration but also court rulings for the protection of creditor and public interests. In this regard, it was not until 1925 that an act of legislation was passed – Decree No. 7000/1925 of the Minister of Finance on the restoration of the authenticity of commercial balance sheets –, which is revealing based on the title alone (Sárközy, 2005a). At the same time, the provisions of the Commerce Act of 1875 proved to be fairly stable. Commercial practices, judicial practice and case law were also taken into consideration, evidenced, according to *Mezey* (2004), by the fact that their role was not to detract from the law but rather to supplement it.

Finally, it should be noted that the limited liability company form was only introduced into the Hungarian legal system much later,

after 1930, even though in German regulation that company form was specifically intended to be a commercial institution.

Twelve sections of title four of Act XXXVII of 1875 deal with commercial books. Of these, six sections concern the use of such books as evidence in court proceedings. "*Merchants (entrepreneurs) shall maintain their books with sequentially numbered and bound pages which show the status of their transactions and assets; the merchant, nevertheless, shall have the freedom to use any method of bookkeeping and any living language for that purpose*" (Section 25). The book serving to record economic events had to be authenticated in advance at the competent tax authority (Kuntner, 1914). The Act set out strict provisions on the deletion and correction of entries. Inventory taking is an essential initial and reporting activity within business activities (Section 26) along with the preparation of a corresponding, appropriate balance sheet ("demonstrating the relationship of credits and debits").

Inventory and balance sheet documents must be authenticated with signatures and retained – as business documents – for a period of 10 years after the last entry.

The remaining part of the paper mainly focuses on asset valuation and the provisions of contemporary accounting practices relevant to Sections 25–28, and presents applicable bookkeeping techniques based on the works of *Schrott* (1872) and *Kuntner* (1914).

Schrott considers the study of accounting to be the totality of accounting and auditing, which presents assets, the changes thereof, the overview of profits and the methodology of record-keeping pertaining thereto. According to Kuntner's definition, *"accountancy is the recording of business events according to certain predetermined rules"* (Kuntner, 1914, p. 8), where the given business event changes the quantity or value of certain asset items.

"Assets, in the economic sense of the word, are to be understood as the sum of things (goods) that concern the property of a given person" (Schrott, 1872, p. 17). Two types of assets can be distinguished: assets and liabilities. Net assets can be derived from the relationship of these two (assets minus liabilities). Kuntner uses the terms active assets and passive assets and determines net assets as the difference of the two. Although German and Austrian accounting is clearly continental in nature; this aspect clearly shows the presence of one of the basic tenets of Anglo-Saxon accounting, according to which assets minus liabilities equal equity capital (i.e. net assets).

For the purposes of inventory taking, quantitative and qualitative criteria must be determined, and the value of the assets – i.e. the exchange value – is then to be determined on the basis of these criteria. Kuntner already mentions the principle of authenticity as a fundamental requirement and reminds the reader that if accurate inventory is not possible, an asset estimate must be made. It is worth mentioning that Hungarian accounting has not used and is not using estimates in any of its laws adapted to the market economy, which does not mean that it is not allowed to do so if necessary. However, it is a fact that this is one of the most frequently occurring, and at the same time, most critical points of accounting (Epstein – Mirza, 2002, p. 87). "*Appraisal determines the monetary value of asset components for the purposes of the marketing of the goods*". (Schrott, 1872, p. 30)

Monetary value, i.e. price, can be any of the following:

- general, a result of marketing relationships, which depends on the agreement of the seller and the buyer,
- production and market price (today's production cost and acquisition price),
- natural and artificial price (turnover has no effect on the latter).

The author names general price as the most

important principle of price determination. The determination of the general price is simple for any asset items where large amounts of products are sold on the market, but much more difficult in cases where turnover is low or nonexistent; or where certain acts of legislation prohibit the determination of a general price that can be used for the purposes of accounting. At the same time, however, the common feature that these asset items share is that they generate profit, meaning that the task is to calculate the "appropriate capital value" of the asset items (Schrott, 1872, p. 31.), by which the price that any buyer would pay can be determined, as such a price would result in income that would equal interest earnable on the amount at hand. The appraisal is based on how much income the given asset item can generate. The next task is to define the income and the income necessary to determine the capital value that can be calculated from it. Schrott defines several income concepts as well as describing their components and ways of calculation. *"Raw income is the sum of revenues, which the given asset (asset component) generates during the year, including any revenues that were used by the enterprise itself. Net income (or loss) is the difference between raw income and total expenditures. With regard to expenditures, raw expenditures are the costs that can be linked to raw income..."* (Schrott, 1872. p. 32). If the enterprise uses more than one asset, joint expenditures must be distributed among them.

Appraisals based on net income are only possible if data across multiple years is available, as well-substantiated conclusions cannot be drawn from data for a single year. Schrott recommends taking the average for a 3-year period, in line with typical accounting practice. Leased assets are mentioned in particular where Schrott recommends to perform the appraisal based on the daily average rent. If the revenue-generating capacity of the given "asset components" (Schrott, 1872, p. 33) is continuous, then the appraisal "*is to be calculated for the capital value based on the interest rate prevailing in the country*" (Schrott, 1872, p. 33). If, however, these revenues change, then he recommends the calculation (discounting) of the present value as at the time of the inventory.

Schrott's definition of price conforms to the most modern valuation principles, which are also accepted internationally. Schrott's definitions of profit increasing and profit reducing factors are exact; in terms of the appraisal, emphasis is also placed on the division of reducing factors (i.e. cost distribution), which suggests that he considered it possible to generate an exact cost calculation from accounting data. Hungarian accounting terminology distinguishes between expenditure, expense, and cost. In the Hungarian translation of the quoted work, these concepts are not featured with the meaning that they hold today. The author and/or the translator uses the concepts of expense and cost, using expense in today's sense of expenditure.

Schrott and Kuntner also present the possible techniques of double-entry bookkeeping, the German (German–French) method where several books of accounts are used and the Italian method where only one book of accounts is used. Both types of bookkeeping are similar in that both make use of historical and account specific entries. Kuntner also mentioned the so-called table based or American method, where one book is used to record both historical and account specific entries. In relation to accounting, Kuntner already references the principle of completeness.

In summary, we can conclude that the definitions of profit-earning capacity and market value are undoubtedly aligned with the principle of balance sheet authenticity, a less frequently applied principle in Hungary at the time. That this was difficult to enforce

can presumably be attributed to the fact that it was not stipulated by the applicable legal regulation and that, as Kuntner states, legal consequences were not sufficiently strict.

These latter two facts also allowed for so-called creative accounting, which during this particular period did not primarily mean tax evasion only, but also the generation of hidden provisions and the subsequent admittance into assets thereof, depending on the given company's interests. Regulations of the era did not provide market players with financial statements presenting a true and fair view. The threat arising from this only became apparent after WWI, when legislators – deviating from practice – set out these requirements and introduced the prohibition of creative accounting in Decree No. 7000/1925.

Period of the Post-Communist Regime Change

As I have mentioned before when referencing Sárközy, the legal environment changed and adapted to the market economy at the end of the eighties when a series of new laws and measures were adopted. Act VI of 1988 on Economic Associations was passed, which set out auditing obligations. Legislation was adopted on involuntary liquidation and on the related accounting tasks. Act II of 1979 was amended by Act XIV of 1988, which contained rules on accounting and the preparation of reports. The same year saw acts on value added tax and personal income tax passed. It was at this time that foreign auditing firms started their operations in Hungary (Nagy, 1997).

The role of the Act on Economic Associations was highly significant as it was on the basis of its provisions that the private entrepreneur sector in Hungary was established to the burden of collective property. According to Sárközy (2005a), its starting point was the earlier Act on Commerce and its formulation applied the comparative law method; therefore, the German Handelsgesetzbuch may be considered as the act's predecessor. The Act – as per the legislator's intent – is market compliant and sector neutral. It was based on the freedom of partnership and favoured small private businesses, which is also corroborated by the fact that dispositiveness was the cardinal rule, with the exception of stock corporations (where cogent rules were predominant). As experiences on the operation of the market economy were few and far between, "airy" solutions approximating the provisions of the framework act were applied (Sárközy, 2005a, p. 23), allowing for the legislative development powers of practice to take effect.

The so-called Enterprises Act (Act on Economic Associations) was a "program defining" act (Sárközy, 2005a, p. 25), and it had an influence on the creation of the standardised taxation system, the establishment of the stock exchange, the development of competition rules and the formulation of Act XVIII of 1991 on Accounting. The creation and scope of the Act on Accounting came too late from one very important aspect. The establishment and transformation of economic associations and the start of privatisation came to be on the basis of the accounting regulation of Socialism, which gave rise to serious problems during the so-called "balance sheet transition" of 1 January 1992.

Examining the state and processes of the Hungarian economy and accounting, *Gray* and *Roberts* (1991) considered the establishment of market economy and the creation of corresponding accounting regulations – and in parallel, the harmonisation thereof – to be the most important; in other words, the Central European adaptation of Western European accounting regulation. How this would be possible in that particular cultural, political,

social and economic situation was a question they themselves were unable to answer, and as such, they championed neither French-German nor Anglo-Saxon regulation. Another problem – in their view – was the existing entrepreneurial structure, which was characterised by the high number of micro and small businesses.

As demonstrated, in terms of its legal system and accounting regulations, Hungary followed the German example (Roberts, Weetman and Gordon, 1988), but at the same time, when preparing the act, it also utilised practical experiences from Austria and Germany. In the questionnaire survey conducted in Hungary in 1993, *Boross, Clarkson, Fraser* and *Weetman* (1995) specified the following characteristics and determinants:

- the fiscal approach, which closely links accounting profit and corporate tax base,
- potential EU membership,
- the development of the stock exchange,
- attracting foreign capital,
- the establishment of the chamber of accountants, and thereby the strengthening of professional control,
- the strong need of the government for information and the information needs of shareholders and creditors.

As revealed in the preamble to Act XVIII of 1991, legislators performing the preparatory works submitted a bill for adoption in line with international accounting principles. In terms of structure and content, the law was very similar to the Fourth Directive of the EEC. The act was a framework law (in line with the Act on Commerce) and primarily contained provisions on the preparation of statements; it did not include detailed rules pertaining to bookkeeping and was not accompanied by an implementing decree. The intention of the experts creating the accounting regulation was to publish professional literature that would provide assistance in the uniform interpretation of the act, thereby facilitating the accounting of businesses and the preparation of their financial statements, although adherence to such literature would not have been mandatory. Relevant international literature emphasises the role of the so-called blue books[1], which are similar to the German institution of the Grundsätze ordnungsmäßiger Buchführung (GoB).

The act provides a simple definition for the concept of accounting and bookkeeping, where it also defines economic events: *"Accounting is the activity where an enterprise keeps records on a continuous basis – pursuant to the provisions herein – of any events arising during its activity that affects its assets, financial standing and income position, and closes these records at the end of the calendar year"* (Section 12 (1)).

What was different in Hungarian accounting from anything that happened previously was the definition of the eleven accounting principles – as rules of professional conduct applicable in the professional field of accounting –, which corresponded to the above-mentioned Fourth Directive and to the framework related to the international accounting standards valid at that time.

For the purpose of valuating items in the balance sheet, legislators provide guideline rules in Sections 35–36, then proceed to interpret these rules in detail for each asset item and to set out balance-sheet values. *"Acquisition cost is the expenditure that is incurred for the purposes of the acquisition, establishment, commissioning of the asset until the commissioning, or shipment of the asset to storage; which can be uniquely linked to the asset."* *"Assets may not be entered into the balance sheet at a price that is higher than their procurement, or production cost".* (Section 31). In contrast with the provisions of the international accounting standards in effect at the time, there is no mention of the appraisal of the value of the asset items or the methods thereof. In the

case of different economic events (for example, in kind contributions, handovers without exchange or consideration, receipt), original value is also set, and although the act makes use of market value in necessary cases, no definition of market value is included. A separate mention is made of foreign exchange items, the valuation of listed and over-the-counter securities, and the types of depreciation and impairment are also defined for the purpose of the determination of balance sheet values. Supporting balance sheet items with inventories is compulsory, and the act sets out possible times for such inventories. The term "balance sheet date" is already mentioned here, which has persisted ever since then, a term which in my opinion, in no way serves comparability either with previous periods or other enterprises.

These acts of legislation went significantly beyond the provisions laid down by previous accounting regulations and also deviated from those; therefore, accounting professionals had to be very careful in their performance of the so-called "balance sheet transitioning" in order to ensure that based on the new requirements, opening balance sheets were available on 1 January 1992. On account of the substantial changes, in this period Hungarian experts were forced to master a significant amount of new know-how and skills, and especially, new approaches.

The regulation envisaged and created, including the act, failed to live up to expectations despite the fact that it had a highly modern approach and was largely EU compliant. Without being exhaustive, at least two reasons must be mentioned which were typical not just of Hungary, but most transition economies. Firstly, the process of the development of the Hungarian market economy could not be predicted. As a result, legislators had to follow a "reactive strategy", which did away with the clear structure and framework nature of the act and created a regulation that was considerably asymmetric (Borbély, 2013). The other factor has to do with the past. After the strict provisions of four and a half decades, Hungarian accounting experts were unwilling and unable to implement a paradigm shift that was in line with the original ideas of legislators and would have placed focus on individual interpretation and as such, the change in the direction of legislation was ultimately a favourable one for them.

CONCLUSIONS

The paper compares periods of Hungarian history from an economic, legislative and accounting perspective and clearly concludes that there are similarities in all three aspects examined.

Based on the comparison of the facts, processes and record-keeping systems examined, it can be stated that on the basis of economic history data, both periods began with a "factory fever", along with an influx of capital that was considered high even by regional standards. The structure of the economy was transformed. The first period saw a stimulated industry with strong agricultural dominance, while the second an impressive development in the service sector following the forced industrialisation of Socialism. The first passed in a member state of a complex state organisation, while the second directly after the break-up of a tight political and economic alliance. At the same time, both periods were characterised by liberalisation.

From a legislative aspect, Sárközy clearly demonstrates that in both cases, German and Austrian regulation served as a foundation for the (commercial) legal regulations pertaining to companies; in other words, Hungary adapted an existing system, both times fortuitously taking the country's unique fea-

tures into account. In the first case, intermediation by Austria played a significant role, something that cannot be said of the second period. Legislation passed framework laws in both the first and the second period. At the time of the monarchy, the Act on Commerce of 1875 only drew up rules on bookkeeping and the closing of books, but failed to formulate the principle of balance sheet authenticity. Consequently, Decree No. 7000/1925, the so-called "pengő balance sheet" decree, aimed at restoring balance sheet authenticity, linked to (and in some instances overwriting) the applicable provisions of the Act on Commerce. The situation, undoubtedly, must have been very bad indeed, as in the introduction to the Decree, *Szende* (1926, p. III) writes: *"Enough with the balance sheet lies, enough of the darkness. Let there be light."* The accounting law of the regime change period was modern and clear, and was largely in line with international requirements. It was due to the above mentioned reasons that the updating of the act removed its framework nature and drove it in a different direction. After a period of eight years, the Hungarian Act on Accounting no longer resembled the German regulation that was considered to be its predecessor (Karai, 2007): its volume considerably exceeded the original, it was contradictory in many places and no longer functioned as a framework law.

Similarities that are most important in respect of the accounting regulation include the fact that both periods started of with a modern framework law and that bookkeeping was "only" determined by relevant literature, on the basis of professional traditions. In the first case, the example mentioned is Josef Schrott's manual on the study of accounting and Kuntner's study on bookkeeping, while in the second case this example was (would have been) the aforementioned "blue book". If we examine these turning points from the perspective of *Gray's* (1988) dimension of uniformity versus flexibility, both regulatory systems can be considered more flexible, despite the fact that the accounting regulation was based on a codified legal system. Signs of over-regulation or over-regulatedness can hardly be detected in the two periods.

Although the Act of 1875 did not require compliance with the principle of balance sheet authenticity with regard to the capitalisation or deferral of asset items, it can be regarded as modern – especially in respect of their appraisal –, which can be most notably underscored by the term "appraisal value" mentioned in Schrott's work and by the term net wealth (active asset liabilities) mentioned by Kuntner. The given capitalisation and deferral rules with relevance to a balance sheet date and the possibilities of profit determination and measurement remind the reader of international standards and related frameworks. Act XVIII of 1991 on Accounting sets out more detailed rules in respect of valuation, which is only natural given the complexity of the economy, but is considerably more outdated after the initial and subsequent measurement, and has difficulty distinguishing between accounting date and balance-sheet date. For harmonisation history reasons, the requirement of a true and fair view already appears here; however, in contrast with the Fourth Directive of the EEC, the Hungarian regulation does not provide for exceptional cases.

The paper only deals with the regulation of these two periods, and does not review the professional events of the years that follow. Both cases allow us to conclude, however, that the establishment and basic features of the regulation – owing to well-applied adaptation – conform to the requirements of the era and provide possibilities to enforce the principle of balance sheet authenticity.

This clearly reveals that in both cases the Hungarian accounting profession had the

option of starting off in the direction of the Anglo-Saxon accounting philosophy. The fact that ultimately this did not happen can be chalked down to the influencing powers of the socio-economic institutional system (Borbély, 2012) and goes to support the statement that accounting is an integral part of this system.

Note

[1] Könyvvezetés a kettős könyvvitel rendszerében (Módszertani útmutató a vállalkozások számára) (Bookkeeping in the double-entry system - A methodological guide for businesses) (1993), ed.: Dudás Jánosné. Saldo, Budapest („Blue Books" – Author's note)

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