

# ACCOUNTING AND ITS ENVIRONMENT IN TANZANIA

by

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## ABSTRACT

Accounting does not have to be the same in all countries. Accounting is a product of its environment in which it operates.

This paper tries to explore environmental factors that can influence accounting practices of a country. Tanzania being a case study. After giving a general introduction, factors that generally can make accounting of one country to differ from another have been explained. The paper also explored in depth the accounting in Tanzania. It started with the general information on the formation of the National Board of Accountants and Auditors (NBAA), legal status and main activities. The paper also briefly explained how NBAA contributed towards development of accounting in Tanzania. Lastly, but not least the paper explained the factors that contributed to the present accounting practices in Tanzania.

The data used were mainly, secondary data through library search. This paper will, not only widen the knowledge of the readers on the causes of the present accounting situation in Tanzania, but also will highlight the need for the profession to be active to the ever-changing environment (needs of society) if it wants the accounting to remain useful to the society.

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## 1. INTRODUCTION

1.1 Accounting can be defined as "the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events and interpreting the results thereof". It is a language of business. Affairs of a business unit are communicated to others as well as to those who own or manage it through accounting information which has to be suitably recorded, classified, summarised and presented. It is an ancient art, as old as money, however, become more useful for decision making in recent years' (Shukla and Grewal, 1989).

Accounting does not have to be the same in all countries. Perera (1989) argued that Accounting is a product of its environment, and a particular environment in unique to its time and locality. Existence of differences in Accounting practices between countries have been attributed, accordingly, to a variety of environmental factors under which these practices take place.

In society, accounting performs a service function. This function is put into jeopardy unless accounting remains particularly useful to society. It must respond to ever-changing needs of the society and must reflect the social, political and economic conditions within which it operates.

Mirghan (1982) suggested that the accounting information system is "an open system", and thus has the capability to adapt to changes in its environment. Environment in this paper refers to the surroundings in which accounting

operates. This includes users of accounting informations government influence, academic influence, international influence, accounting profession, nature of enterprises, historical background of the nation as well as local environment.

Using a system approach, we can represent accounting as a system (with inputs, throughout and outputs) interacting with its environment. The system takes its inputs from the environment and transforms them into outputs which go back to the environment.

From an environmental point of view, various developments in society affect accounting. For instance, the recommendations made by the National Board of Accountants and Auditors on the use of inflation accounting, to reflect the effects of changing prices, the introduction of the accounting journal "The Accountant", inauguration of the Institute of Accountancy Arusha, reflect how NBAA the sole Board of Accountants and Auditors in Tanzania respond to the growing needs of their environment.

Research in the area of international accounting has shown that, there is a world wide diversity in accounting practice between countries. It has also identified that, the accounting practices of any given country are largely determined by the factors influencing the environment in which accounting operates. Therefore, it is possible to explain the differences in accounting practices in terms of such environmental factors. Environmental factors that can influence accounting practice of a given country include historical background of a country, economical factors, education, profession, legal as well as international influences.

1.2 The purpose of this study is to conduct an examination of accounting and its environment in Tanzania. This will involve a review of environmental factors that influences the present accounting situation in Tanzania. Before doing so, factors which make accounting practices of one country to differ from another will be reviewed in order to understand the reason behind the differences in accounting practices in various countries.

2. CIRCUMSTANCES (FACTORS) WHICH MAKE ACCOUNTING OF ONE COUNTRY TO DIFFER FROM ANOTHER

With reference to environmental conditions, it is not possible to develop a conclusive list of those circumstances which make accounting of one country to differ from another. Some of the circumstances affecting accounting of a country discussed by Mueller, (1968), and Chastain, (1973) are:

2.1 Relative stability of the currency of account - if a currency is quite stable over time, historical cost accounting is generally indicated. Significant currency instability calls for some form of price index adjustment, a specific price accounting.

2.2 Degree of legislation in business - Tax legislation may require the application of certain accounting principles. This is the case in Sweden where some tax allowances must be entered in the accounts before they can be claimed for tax purposes; this is also the situation for LIFO inventory valuations in the United States.

- 2.3 Nature of business ownership - Widespread public ownership of corporate securities generally requires different financial reporting and disclosure principles from those applicable to predominantly family or bank-owned corporate equities.
- 2.4 Level of sophistication of business management - highly refined accounting principles have no place in an environment where they are misunderstood and misused. A technical report in cost variances is meaningless unless the reader understands cost accounting well. A sources and uses of funds statement should not be prepared unless it can be read competently.
- 2.5 Differences in sizes and complexity of business firms - A large firm mounting an extensive advertising campaign directed at a specific market or season may be justified in deferring part of the resultant expenditure, where as smaller programs in small firms may need to be expensed directly.
- 2.6 Speed of business innovations - Business combinations became popular in Europe only a few years ago. Before that, European countries had little need of accounting principles and practices for this type of business organisation. Also equipment leasing is not practiced in a number of countries with the consequent absence of a need for lease accounting principles.
- 2.7 Presence of specific accounting legislation - Companies Acts containing specific accounting provisions are found in many countries. While these acts change over time, their stipulations must be observed when in force and legally binding. For example, the German Companies Act requires setting aside certain earnings as a "legal.

reserve". It also stipulates when and how consolidated financial statements are to be prepared. Similarly the British Companies Act defines how the term "reserve" is to be used in accounting.

- 2.8 Type of economy involved - National economies differ considerably in many aspects. Some are purely agricultural, while others depend heavily on the exploration of natural resources. Some rely mainly on trade institutions, whereas others are highly diversified and touch on a great variety of economic and business activities. These are reasons for different principles regarding consolidations, accretion or discovery of natural resources, and inventory methods, among others.
- 2.9 Growing pattern of an economy - Companies and Industries grow, stabilize, or decline. Stable conditions intensify competition for existing markets, requiring restrictive credit and inventory methods. Declining conditions may indicate write-offs and adjustments not warranted in other situations.
- 2.10 Status of professional education and organisation - in the absence of organised accounting professionalism and native sources of accounting authority, principles from other areas or countries may be needed to fill existing voids. The process of adaptation, however, will be successful if it is modified to suit circumstantial factors of that country, examples of professional bodies found in Africa include Institute of Chartered Accountants of Nigeria, Institute of Chartered Accountants of Ghana, Institute of Chartered Accountants of Kenya and Institute of Registered Accountants of Uganda.

2.11 General level of education and tools facilitating accounting - statistical methods in accounting and auditing can not be used successfully where little or no knowledge of statistics and mathematics exists. Computer principles are not needed in the absence of working EDP installations. The French general accounting plan has enjoyed wide acceptance in France because it is easily understood and readily usable by those with average levels of education and without sophisticated accounting training.

### 3. TANZANIAN ACCOUNTING

3.1 Tanzanian's independence brought in its wake a chronic shortage of skills in many professions including accounting. The dramatic increase in the number of institutions, public enterprises and government departments, which was set in motion by accelerated development programmes widened the gap between demand for and supply of the qualified accountants at management levels.

Among other measures such as the training of Tanzanians overseas, establishment of National Education Institutions such as the Institute of Development Management (IDM), Mzumbe, The Institute of Finance Management (IFM), The Dar es Salaam School of Accountancy (DSA), and so on, the government took a bold step by establishing the National Board of Auditors and Accountants (NBAA) through the enactment of the Auditors and Accountants Legislation Act (Act No. 33) of 1972 (Enthoven, 1977).

No records on accounting situation during pre-colonial and the German rule were found in Tanzania. However, during the British rule and after independence before 1972, accounting was based on the U.K Companies

Act of 1948, where both examinations and qualifications for accountants were set according to British tests. In 1972, the Tanzanian Government enacted Act No. 33, which provided for the establishment of National Board of Auditors and Accountants (NBAA) (Enthoven, 1977; NBAA, 1988).

3.2 Section 4 of the above statute specified the goals and functions of the NBAA. The functions of NBAA include the following:

1. Promotion of the study of professional subjects;
2. Conducting examinations and granting awards and credentials in the accountancy field;
3. Maintaining an atmosphere of learning and research by organising seminars and conferences, and arranging for publications;
4. Registration of Accountants and Auditors, regulating their activities and conduct and maintenance of professional standard and disciplines (The Auditors and Accountants Registration No.33 1972).

The Act also requires the registrar of the Board to maintain in separate registers certain specified particulars of Authorised Auditors, Authorised Accountants, and Approved Accountants.

3.3 The NBAA has made remarkable progress since it became operational in 1973, and this is despite a serious shortage of physical facilities. Through its regular half yearly examinations, more than 12,500 Tanzanians have received certificates of National Accountancy Examination Scheme at the Professional level and technician levels.



The following are some of the current developments taken by NBAA:

1. The promulgation of Tanzanian Statements of Standard Accounting Practice (TSSAPs) which become effective on 1st January, 1984.
2. The development of the Code of conduct for registered accountants and auditors in 1987, and Tanzania Statement of Auditing Standards and Guidelines in 1990.
3. Introduction of Basic - Book-Keeping course (BBC) in 1987 which increased the number of accounting technician.
4. The birth of NBAA's bi-annual journal "The Accountant" in 1988 which aimed at bridging the communication gap which has been in existence.
5. The establishment of NBAA owned Institute of Accountancy, Arusha in 1988. The Institute is aiming at increasing the number of professional accountants as well as semi-professionals to fill up the existing gap between the demand and supply of accountants.
6. The expansion of its countinuing Professional Education (CPE) course Programme in 1989.
7. The birth of the accountancy library in 1989.
8. The major revision of the examinations syllabus which came into effect since July, 1990.

9. The issue of Tanzania Statement of Recommended practice No. 1 on "Accounting for the Effects of Inflation" in 1990 to Cope with the growing inflation in Tanzania.

#### 4. ENVIRONMENTAL FACTORS THAT INFLUENCED ACCOUNTING IN TANZANIA

There are many factors recognized by various authors and international organisations which can influence the accounting system of a country. Those factors have been explained under part 2 above. The factors that influenced accounting in Tanzania are discussed below:

##### 4.1 International Influence

###### (a) Colonial History

Although Tanzania recognised the need to establish a relevant accounting system which would meet its national accounting needs, the accounting practice found in Tanzania today is mainly similar to British accounting, the former colonial master.

During British rule and the first ten years after independence Tanzanians had to take the qualifying examinations of the Institute of Chartered Accountants of England and Wales. Those first few indigenous Tanzanian Accountants who got their training in U.K. were among the first members of NBAA. In many ways those accountants influenced the accounting practice as well as the examinations structure of NBAA. The Companies Act of 1955 which is a guiding factors for company's accounting, to a very great extent, is a copy of the British Companies Act of 1948. The

books in use to train accountants at all levels are British books, and in few areas, American books. All these together made the present accounting practices in Tanzania, such as the books of accounting kept by various enterprises and accounting education to be more of British oriented.

(b) Foreign Expertises

In trying to be consistent with international accounting practices, NBAA on many occasions invites expertises from overseas to give their expertise in various areas of accounting in Tanzania. For example in 1988 NBAA invited the Irish expertises to review the NBAA syllabus and examinations schemes. This resulted into a major revision of the NBAA examination syllabus which came into use since July, 1990. This big change in the NBAA examinations scheme will have big impact to accounting education as well as practices from the graduates of the new syllabus.

(c) Regional Cooperation:

The accounting practice in Tanzania in one way or another is also influenced by regional cooperation. The Society of Accountants in East Africa (Kenya, Uganda and Tanzania) was one of the vehicles for exchanging information between the three countries. This Society provides harmonization of accounting in the region.

Another example of regional influences is before the break of East African Community (Tanzania, Kenya and Uganda) in 1977. Some of the legislation of

these three countries had to take into consideration the interest of other partner states. For instance a tax liability of a Tanzanian resident person before the current amendments were extended up to the income received from the partner states.

Tanzania is a member state of the Southern Africa Development Coordination Conference (SADCC). The SADCC Regional Training Council (RTC) is considering training accountants of the region in Tanzania. The NBAA Institute of Accountancy Arusha is expected to train accountants from all member states. Therefore if this programme succeeds, it will mean that NBAA has to adjust its programmes to suit the needs of the region.

(d) International Accounting Standards Committee (AISC) and Other Countries Professional Bodies Influences

One of the objectives of the AISC is to work generally in the improvement and harmonization of accounting standards and procedures relating to the presentation of the financial statements.

In some countries where accounting standards have not previously been laid down, International standards are adopted wholesale as the country's own standards. In other countries, the principles set out in International Accounting Standards are adopted as a basis for national standards. Tanzania falls under the second category. In 1981, the NBAA came up with the first Exposure draft which led to the Tanzanian Statement of Standard

Accounting Practice-(TSSAP), dealing with three related areas; Recording Standards, Reporting Standards and Accounting Principles and Policies.

The Accounting Standards in Tanzania are prepared in accordance with the accounting standards issued by International and other professional bodies. For example in the NBAA first exposure draft which led to the TSSAP it has stated that "...Tanzanian statements of standard accounting practice are drawn on lines identical to those issued by professional bodies in other countries", (NBAA, 1981, pp.1).

Another example is, in preparing the Tanzanian Statement of Recommended Practice No.1. "Accounting for the effects of Inflation", The NBAA in several occasions referred to International Accounting Standards such as, "The restated amount of the monetary items is reduced in accordance with appropriate International Accounting Standards....." (NBAA, 1990), pp. 5; "International Accounting Standard 21, Accounting for Effects of changes in Foreign Exchange Rates, permit an enterprise to include foreign exchange differences on borrowings...." (NBAA, 1990), pp.5

"....These differences are accounted for in accordance with International Accounting Standard 12, Accounting for Taxes on Income", (NBAA, 1990), pp.6 and "... The financial Statements of sub-sidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance

with IAS 21, Accounting for the effects of changes in Foreign Exchange Rates", (NBAA, 1990), pp.7.

This approach of using International Accounting Standards as basis for setting national standards is preferred by the IASC, as it reduces both the time and the development costs required to produce a national standard, and at the same time this approach enables a country to follow a programme of standard-setting more rapidly than local resources would otherwise permit.

Therefore, IASC and other International bodies to a great extent influence accountancy in Tanzania, especially taking into account that all parastatals have been ordered by the president of the country to comply with the accounting standards set by NBAA.

#### 4.2 Legal Influence

Basically there are three main legislations that influence accounting practice in Tanzania.

The company's Act of 1955; the Auditors and Accountants Act No. 3 of 1972; and the Income Tax Act of 1973.

The companies Act sets guidelines for company accounting while the Auditors and Accountants Act which, provide for establishment of the NBAA, specified goals and functions of the NBAA, and the particulars required for a person to be Authorised Auditor, Authorised Accountant or Approved Accountant. The Income Tax Act spells out how accounts should be prepared for taxation purposes. These three legislations have a great influence on the

present accounting situation in Tanzania.

#### 4.3 Professional Influence:

The NBAA which is the only professional accounting body in Tanzania did have a very big influence on the present accounting practice in Tanzania. It sets the accounting standards and practices to be followed by all organisation in Tanzania.

It sets the syllabus and examinations for all accounting levels. It reviews and up grades the syllabus and qualifications rendered by other institutions training accountants, including higher training institutions such as the University of Dar es Salaam, Institute of Finance Management and Institute of Development Management. Therefore one can argue that accounting practice in Tanzania is dictated by the NBAA.

#### 4.4 Political and Government Influence:

As a result of the Arusha Declaration of 1967, which declared Tanzania as a socialist country, the economy was centrally planned and dominated by the public sector. The need for self sufficiency both in education and manpower, made Tanzanian government to conduct the study of manpower requirements of the economy. The demand for professional accountants and auditors, semi-professionals as well as accounting technicians exceeds by far the supply. The task of filling up the gap was left to the Ministry of Finance. The Minister of Finance (Msuya) in 1988 set up a task force in accounting whose purpose was to assist the NBAA to implement the National programme for Accountants and Auditors; evaluate and coordinate the efforts of all training institutions in accountancy and allied fields; assess the operations of the

various institutions engaged in accountancy and management training and to help obtain necessary financial, staff and other resources; and determine the nature of the new institutions necessary to achieve the planned manpower supply and to consider the steps needed for their creation (Msuya 1988).

Therefore, this government involvement has contributed a lot to accounting education, supply of accountants in the country as well as to the compliance with accounting standards.

#### 4.5 Economic Influence

The Tanzanian economy depends mainly on agriculture dominated by small individual farmers in the villages and Cooperative Societies. These sectors of the economy raise the question of accounting practice that will suit the needs of these sectors. To train accountants for Co-operative and Village Sectors, Co-operative Colleges and Village Schools have been organised. This has contributed a lot towards accounting practice in the small sectors of economy where the NBAA standards are not suitable.

Another economic factor that influenced accounting in Tanzania is inflation (instability of the currency). Generally the Tanzanian currency is not stable and the inflation rate in Tanzania is increasing year after year. The need to recognise the effects of rising prices in the accounts started in 1982 through a seminar organised by NBAA. NBAA has addressed the issue of accounting for price level changes through the issue of a document of Tanzania Statement of Recommended Practice No. 1



Accounting for Effects of Inflation (RPI) in 1990 (NBAA 1990 Killagane, 1991).

5. CONCLUSION

Accounting systems found in Tanzania, like other countries have been greatly influenced by its environment. Like many developing countries accounting in Tanzania took a productive role in promoting and assisting economic development, in view of the need to achieve rapid economic development within the shortest possible time.

Before independence and first ten (10) years after independence accounting found in Tanzanian were mainly similar to that of United Kingdom, the former colonial master. The formation of NBAA in 1972 however brought the new era of accounting in Tanzania. Through NBAA various development in accounting occurred to suit the needs of society such as setting examinations, awarding accounting certificates as well as issuing accounting and auditing standards and guidelines to be followed by accountants and auditors. Establishment of NBAA and other Institutions offering accounting certificates is a bold step taken by the government towards reducing the gap between demand and supply of accountants existed in the country.

Apart from NBAA and Government influence accounting practices in Tanzania are also influenced by International influence such as International Standards and Regional Cooperation and legal influences such as companies Act and Taxation Acts. Therefore, as stated earlier accounting is an open system. It needs to take its inputs from its environment and transforms them into outputs which go back to environment.

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