



**Research Article**

**INTERNATIONAL ACCOUNTING SYSTEMS: CLASSIFICATION AND HARMONIZATION. AN EMPIRICAL STUDY OF COUNTRIES THAT DO NOT BELONG TO THE EUROPEAN UNION**

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**ABSTRACT**

International accounting harmonization of the various accounting systems brings together the efforts of several countries, particularly developed ones, and aims to reduce transaction costs in financial markets, by unifying the accounting language and eliminating the heavy and expensive accounting restatements operations. In a context that favors the globalization of the economy, environment characterized by enlargement of the European Union, the globalization of financial markets, a powerful privatization movement, and a fast development of multinational groups, the role of financial accounting has considerably evolved, and the need to speak the same accounting language is increasingly imposed. Thus, after many years of research and endless reform efforts, the international accounting harmonization of the accounting systems have finally emerged. In this paper we are trying to analyze the accounting systems of countries that do not belong to the European Union. The results indicate that differences in accounting practices, do exist and these differences cause problems for a wide variety of groups, organizations and individuals.

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**INTRODUCTION**

Many and different countries have contributed to the development of accounting and accounting systems over the centuries. The archaeologists many times discover ancient remains with writing and numbers on and they can be sure that also those societies had the need to keep account. The Romans developed a single-entry accounting and later Italy led to the emergence of the double entry-system due to the increasing business. The seventeenth century, we first meet the public subscription of share capital in Holland and next the growing separation of owner-ship from management raised the need for audit in nineteenth century in Britain.

Many European countries have contributed to the development of accounting: France led in the development of legal control over accounting, Scotland gave us the accountancy profession and Germany gave us standardized formats for financial statements. From the late nineteenth century, the United States has given us consolidation of financial statements, management accounting, and capitalization of leases and deferred tax accounting. Although international influences and similarities are clear, there are great differences among the accounting systems of the countries and particularly in Europe. Nowadays, it is known that the scenery of legal systems differs around the world and so on the accounting principles in companies among different countries.

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The globalization of markets and the extension of enterprises is a reality. We need a method that can be used in order to eliminate or to reduce these “difference” problems and to provide comparability in accounting information by using the similar accounting systems and particularly accounting standards. There were significant barriers in making more comparable accounting treatments due to differences in the cultural and economic conditions of different countries. In the early harmonization period (1960 to 1989) there was an interest in reducing the alternative manipulations of accounting practices and to make them more comparable. In the recent harmonization period (1989-today) researchers are subject to the need of IAS to serve comparisons between international and national generally accepted accounting principles, researching the relevant reasons for specific accounting options and measurements (Mamic 2015).

**Literature review on accounting harmonization**

Many researchers have written extensively for international harmonization, the benefits, costs, shortcomings and problems lying ahead of an agreed scope for harmonization and parameters which encourage the route (Chevalier 1977, Choi *et.al.* 1984, Gray 1988, McComb 1982, Moulin 1988, Nair *et.al.* 1981, Turley 1983, Turner 1983). The literature review of the earlier research will focus on studies directly related to the measurement of international harmonization (de facto or de jure) or to provide a wide-range of an applicable and newly created index for measuring international accounting harmonization.

Van der Tas (1988), in an exploratory article, differentiated between harmonization and compliance or observation of IAS. He also identified the quantification of harmony, highlighting when and to what extent harmonization understood and measured the impact of the involved organizations in international harmonization. Three indicators were created. The H - index, as the square number of the relevant frequencies from "each alternative measurement method". Various versions of the H-index have also been developed. The index - C as a ratio (non-aggregate ratio) was analyzed in component parts to express national harmonization and index - I for international harmonization. The C - index "may include the result of the degree of de facto measurement of the cross - information". It can also be "tested for its significance and to be correlated with gestures to interpret the variables".

Adopting these indicators, Van der Tas measured the levels of harmonization regarding deferred taxation in the United Kingdom, the accounting for tax credits due to investment in the Netherlands and the USA and the investment tax in the Netherlands. However, a significant defect in the H- index was the absence of major change tests (Van der Tas, 1992).

Tay et al (1990), in a review of the surveys by Van der Tas (1988); Nair et al (1981); Evans et al (1982); McKinnon et al (1984); Douplik et al (1985); and Nobes (1987) on international harmonization (de facto harmonization), consider the following as significantly inadequate research points: data sources, applied statistical methods and differentiation in accounting practice due to compliance with standards from other causes, as concepts "involved in confusing and inconsistent results". They also suggest a method of measuring integration by mixing two approaches that are ideal for pooled indicators (primary) and non-parametric tests (regular data). Taplin (2003) analyze in depth the indexes H and C (Van der Tas, 1988) and proposed a formula for the permanent error of indexes which provides an estimation of the accuracy of any selected sample by a number of companies and allows comparisons between two or more different populations so that readers can carry out more detailed comparisons between reported values in different countries or different accounting practices.

In addition, Taplin (2003) proposed a new index, the T - Index, presenting a unified approach to the variations of the indicators explained earlier. This allows the selection of a plethora of options within the T-index to reach a specific index with the desired properties. Its structure is mathematically very flexible and theoretically the researchers will benefit from applying the T-index in terms of selecting an appropriate index from the many available options.

Nair et al (1981) attempted to confirm the results of IASC's harmonization efforts. They examined the result of IAS 1 to 10 on accounting practices from 35 countries, using the surveys of Price Waterhouse in the years 1973, 1975, 1979 and found that the period of existence of IASC was consistent with the harmonization of accounting standards between of the countries examined. However, Price Waterhouse's surveys used by Nair and Frank were limited due to their merit.

Evans et al (1982), in a similar context, investigated the results of IAS 2, 3, 4, 6 and 7 in financial reporting practices in France, Japan, United Kingdom, USA and West Germany. This survey was based on the financial reports of selected

companies from 1975 to 1988. Examining their data they resulted that IASC had very little influence on the accounting practices of the selected countries.

The Federation of Chartered Accountants of Europe (FEE) has also conducted significant surveys. In a research in 1989, the FEE dealt with the reports of 1987 and studied whether in the implementation of the Fourth European Commission directive on the annual reports there was harmonization of accounting practices within the Member countries. The data were collected from questionnaires and annual reports from 191 countries from nine nations of the European Commission: Belgium, Denmark, France, Germany, Greece, Ireland, Luxembourg, the Netherlands and the United Kingdom. The survey concluded that in the areas covered by the fourth directive, a high level of harmonization was observed. On the other hand, an obvious lack of harmonization can be observed in areas covered partly by the directive.

McLeay et al (1999) distinguishing harmonization and standardization, described a method for measuring harmonization where the accounting alternatives are not mutually exclusive. Using data from 242 to 286 listed companies from 1987 to 1993 showed that disharmony exists because of "the systemic disharmony attributed to local regulations and local practices".

Tower et al (1999) examined the compliance/harmony with de facto harmony in six countries in the Asia-Pacific region that are listed on stock exchanges. They analyzed 512 data elements of annual reports using multi variable regression analysis. They found that financial reporting rules are heavily influenced by site-related factors.

Emenyonu et al (1992) in a double survey they examined: the existence of a significant difference between the use of statistical tests of assets and practices of measuring profits and the extent of international harmonization, in the context of the fourth directive of the European Commission, through the I index. They chose data from the annual reports of 26 large companies from France, Germany and the United Kingdom (26 from each country), for the year 1989. The results showed that there were significant differences in the measurement process. This seems to confirm the view that the terms of measurement of the fourth directive are "structurally flexible". The same author, in a subsequent study (1996), dealt with the range of international accounting harmonization, analyzing the annual financial statements of 293 listed companies, which were disclosed during the periods 1971/72 and 1991/92 in five Stock markets, the markets of France, Germany, Japan, United Kingdom and USA. He applied Chi-squared tests for all companies and index I as a different version of the index H as a concentration measure. The findings show that IASC's efforts to reduce accounting divergence in a 20 year period remained, although there was a decrease in the accounting gap in terms of consolidation of balance sheets, business combinations and transactional disputes. There was also an increase in divergence in issues such as goodwill, depreciation, treatment of reserves.

Herrmann et al (1995) have studied the level of accounting harmony by examining the annual reports of companies from Germany, Ireland, Holland, Belgium, Denmark, France, Portugal and the United Kingdom for the financial year 1992/93. They found that "harmonization is greater among

countries that are oriented towards fair business valuation, than among countries with purely orientation the legal framework". Archer et al (1996), by applying a hierarchy of nested logarithmic models, allowed the distinction between two sets of systematic results, those of international harmony and the related changes over time and those of international disharmony attributed to national differences according to the accounting policy options. Deferred taxation and the treatments of goodwill from consolidations or acquisitions of enterprises were analyzed by the annual financial statements of 89 listed companies from 8 countries for the accounting period 1990/91, since the internationally traded shares of enterprises are governed by international and national factors, greatly influencing the choice of accounting methods. The findings revealed a low degree of harmonization implying that in the two accounting regions little progress has been made since the European Union directives showed the way to flexibility.

Consequently, Leonardo et al (2010) analyzed extensively the previous research on de facto harmonization accounting summarizing the methods used. They proposed a test of significance for the Cindex, insisting on its suitability. On the other hand, they calculated the C index for the periods 1991-1992 and 1996-1997 by examining annual financial reporting reports of 85 listed companies from thirteen European countries. The results confirmed the earlier empirical studies that "global players" have been involved in a "self-acting" de facto harmonization which takes place independently of formal harmonization.

In addition, Aisbitt (2001), based on the methodology of Archer et al (1996) and applying his methodology on data collected from annual financial reports from Scandinavian countries (Denmark, Finland, Sweden, Norway) revealed that "given the different regulations in each country, the level of harmony within the countries was higher than the level of harmony between countries". Researching the reasons for the lack of harmony between countries, he estimated that the causality of different legislative levels between countries cannot fully explain the relevant changes in harmony levels. Therefore, the factors under consideration must be examined thoroughly in a context different from that of the legislative factors. The general findings confirm that the legislative regulations do not affect the level of harmonization to an absolute extent.

A year earlier, Murphy Ann (2000) in a similar study, collected data from four countries, Switzerland, the United Kingdom, Japan and the USA through the Worldscope database from 1988 to 1995. He included four accounting practices: depreciation, inventory valuation, financial statements expressed in historical cost and consolidation practices. The findings, based on the index I, were aligned with what Van der Tas (1988) called as self tuning harmonization. In particular, the majority of the tests suggest that the resulting harmonization is not due to the adoption of IAS. Self tuning harmonization was noted in a previous survey by Zarzeski (1996), where data from 256 annual financial reports were examined in relation to the disclosures regarding culture at both local and international level. Evidence shows that when corporate shares are negotiated on the global financial markets, they are already willing to insist on an institutional set of accounting disclosure. "Alignment may be influenced by capital market players". This statement resonates in a study by Tarca (2003) where the data of 140 international

listed companies for 31/12/1999, 31 March 2000 and 30 June 2000 showed that, some companies will voluntarily harmonize their accounting policies and that their international stock market activity is an important factor in this action. Also, international companies that are not listed on various stock markets can handle national comparability.

Garrido et al (2002) classifying the progress of IASC in three phases of "high flexibility" (1973-1988), "comparability of financial Reporting" (1989-1995), "Results of the IOSCO-IASC Agreement" (1995 and onwards), with titles A, B, C, have assessed the formal harmonization by applying a new measure based on the concept of Euclidean distance. The results indicated the success of formal harmonization through significant successes in the comparability of financial reporting, while more effective developments have been achieved in formal harmonization by defining Standards, Phase C. Through a similar approach, Fontes et al (2005) involving the coefficients of Jaccard's and Spearman's, measured the essential from the formal harmonization. They examined the level of convergence of Portuguese accounting standards with IAS and IFRS through 43 accounting areas, during the period 1977-2003. All the results indicated the convergence of Portuguese standards with IFRS which were mainly reinforced after 1991 where the Portuguese system was less affected by French influence.

The term "convergence" for true accounting harmony with respect to selected practices is also used by Astami, (2004), where the T-index (Taplin 2003) was applied to data collected from annual reports of 442 listed companies for the year 2000/2001 including five countries: Australia, Hong Kong, Indonesia, Malaysia and Singapore. The empirical findings of accounting treatments showed "high levels of disharmony" possibly due to ineffective market conditions or unnatural legal status that make these countries remain behind international "expectations".

The evolution of research into international accounting harmonization has been directed by an increasing level of globalization leading to demands for greater harmonization of accounting policies on an international basis, as well as by a growing interest in international accounting harmonization by accounting researchers (Barbu, 2004).

All the above academics are in the field of direct adoption of the measurement of international accounting harmonization, essentially through a number of empirical studies. We can only discern existing difficulties, which frame possible issues with hypotheses and suggest explanatory options. We argue that the idealization of international accounting harmonization is an opportunity to become the best in global investor society and the liberalization of national trade.

#### ***Environmental factors affecting accounting harmonization***

The Association for International Accounting argues that accounting harmonization is largely guided by the existing environment in different countries. The forces of market and culture constitute a high functional environment where the effectiveness of IAS becomes controversial. The international literature (Gray 1988, Zarzeski 1996, Gbenedio et al 1998, D'Arcy 2001, Barbu 2004) states that: the level of education is the essential element for modern, complex accounting systems. It was found that there is a positive link between educational level and the fluency of professional accountants (Gernon et al

1987). The application of IAS is a complex and critical decision, requiring a high level of education and skills to understand and interpret these standards. In a complicated process such as the framework of an IAS, the professional crisis must be done through certification and proven processes (Doupnik et al 1995, Street 2002). In fact, in countries where the level of education is low and the expertise is inadequate, there is an essential disadvantage when accepting an IAS (Deaconu, Buiga, 2011).

Economic conditions are another key determinant of the completion of a country's accounting system. In particular, it was found that the level of economic development of a country greatly affects the development of accounting policy (Adhikari et al 1992). Indeed, the higher the level of economic growth, the more important the social function of accounting is considered. Where information has been the cornerstone of economic life (Abdolmohammadi et al 2002, Nobes 1998), the accounting system undergoes significant changes in response to the evolving economic conditions of a more dynamic business environment. Thus, adopting IAS is likely to imply economic growth.

External economic opening and external circumstances could possibly affect the adoption of IAS. Investors, multinational companies, international accounting firms and financial institutions are the main components behind the development and adoption of IAS. Cooke et al (1990) and Bushee et al (2017), referred to the relevance of external environmental factors in the attempt to perceive accounting systems. For example, factors such as the degree of external "economic opening" are crucial, since the more open a country's economy is to the outside world, the more exposed the country is to the various global pressures. Such pressures that identify "global players" influence extensively the adoption of IAS.

The existence of a capital market is considered to be one of the main factors in the economic development of a country due to its role in the preferential distribution of resources between the various economic sectors and businesses. High-quality accounting information is a major element in the development of an efficiently functioning capital market. According to Gray et al (1984), investors require qualitative financial information to be able to act privileged, analyzing investment opportunities. Occasionally, experts are pushing for reforming of a country's accounting system. Thus, in developing capital markets, regulatory authorities tend to promote sophisticated accounting systems used by investors in decision making (Adhikari et al 1992).

Cultural symmetry in a group of countries and cultural justification is an important factor in the adoption of accounting institutions. Countries belonging to a cultural complex and adopting accounting policy are inspired by countries with similar cultural peculiarities (Nobes 1998). Abdelsalam et al (2003) stressed the contribution of experience and language to the process of implementing a new accounting framework. They showed that both factors, e.g. experience and knowledge, seem to work in favor of the countries of the Anglo-American group, mainly because of the mainstream area of Anglo-Americans in the implementation of IAS and also because English is the language of communication within the largest institutional authorities, IASB, FASB. Thus, the Anglo-American influence was falsely prevailing in the work

of IASB (Chamisa 2000, Hove 1986). Presumably, we consider that the adoption of IAS would be easier for countries that are closer to Anglo-American culture due to the easily resolution of interpreted conflicts.

### ***Comparison of IFRS with National Generally Accepted Accounting Principles***

We will try to compare the accounting systems of countries that are not in the European Union with IFRS. Different accounting principles produce different reports and statements. This means that accounting measures such as the book value of the share and the net profits will be different according to the IFRS than they will be under national generally accepted accounting principles. That point is very important for an analysis that examines the relevance of the value of such accounting variables.

#### **AUSTRALIA**

The accounting of Australia is mainly based on the Business Law of 2001 and the standards of Australian Accounting Standards Board. The main differences between Australian accounting standards and IFRSs are as follows: The main difference is that under the Australian accounting rules, trade, available-for-sale and derivative financial products, as well as their obligations, are not recognized at fair value. Also profits and losses that are resulting from the change in the value of the tradable are not recognized in income. In Australia the Hedge accounting is allowed to a greater extent. Moreover deferred taxation is based on time differences rather than temporary differences. One other important difference is that when a foreign entity is liquidated, the accumulated amount resulting from deferred exchange differences in equity is not required to be calculated on income. In addition investment assets may remain at cost price without being depreciated and the forecasts for bad debtors may be greater than under IFRS. Finally no primary or secondary basis for segment reporting is used and in the context of business cooperation, forecasts for bad debts are widely recognized.

#### **CHINA**

China's financial reporting requirements are mainly based on the accounting law and the standards and regulations of the Ministry of Finance. The following differences are distinguished between IFRS and Chinese standards. Under the Chinese regulations we have that in the environment of most business combinations, the acquired identifiable assets and liabilities are valued based on their book value. Also Stock Trading and derivative financial products and liabilities are not registered at fair value. In China's accounting system deferred taxation is based on temporal differences and the methods of postponement or obligations are being allowed. The identification of extraordinary results is wider. Finally specific disclosures are related to information by sector and there are no rules on the association of business entities with a specific purpose.

#### **TURKEY**

The Turkish accounting system is based on accounting standards issued by the Capital Markets Council which is applying only to companies that agree with the terms of its regulations. There is no set of generally accepted accounting principles that applies equally to all companies that are

operating in Turkey (beyond the general regulations that control the aspects of accounting in the tax Code process and the Board of Chartered Accountants, which dictate specific basic accounting principles, a code for accounts and a provision for the presentation of accounting statements). There are some inconsistencies between Turkish regulations and international accounting standards that could lead to differences in many areas for several companies.

First of all stock trading, available-for-sale and derivative financial products are not recognized at fair value and also stock trading transactions and liabilities from derivative financial products are not recognized in the fair value. Under certain circumstances, losses from foreign exchange operations can be capitalized as part of the cost of assets and financial leases are not capitalized. The Turkish accounting system states that deferred tax liabilities are partly calculated on the basis of time differences rather than temporary differences and the determination of extraordinary results is broader. Finally Cash flow statements contain a different classification of items.

#### **ICELAND**

The financial reporting requirements of Iceland were reworded in the law of 1994 which reflects the EU directives, and the standards issued by the Accounting Standards Board and the Accounting Committee of the Icelandic Accounting Body Federation. The main differences between IFRS and standards of Icelandic of the accounting system are described below.

The subsidiaries companies are determined by majority ownership instead of the "de facto" control and the inflationary adjustments to tangible fixed assets are made using the consumer price index rather than being valued at a fair price. Stock trading, available-for-sale and derivative financial products are not recognized at fair value and also stock trading transactions and liabilities from derivative financial products are not recognized in the fair value. In addition Hedge accounting is allowed to a greater extent and the predictions for bad debtors are created more extensively and generally are not discounted. Finally, although Iceland does not have a hyper-inflationary economy, there are inflationary applications in revenue and research costs, pre-operational costs and start-up costs can be capitalized.

#### **UKRAINE**

The Ukrainian accounting requirements are based on the Accounting and Financial Reporting law and on accounting standards issued by the Ministry of Finance. There are inconsistencies between Ukrainian regulations and international accounting standards that can lead to differences in specific sectors for many businesses. And for Ukraine's accounting system, as in many other systems, stock trading, available-for-sale and derivative financial products are not recognized at fair value and also stock trading transactions and liabilities from derivative financial products are not recognized in the fair value. The presumption of significant influence is based on 25%, instead of 20%, of the voting rights and internally produced brands and in particular other intangible goods can be capitalized.

#### **USA**

The US accounting system consists of a very detailed framework of generally accepted accounting principles (US

GAAP). It is based on accounting standards and guidelines from the Board of Financial and Accounting standards and predecessors. It's also based on statements of position and interpretations by the American Institute of Certified Public Accountants and, the majority opinions of Emergency group. In addition, listed companies must comply with the regulations, legislation and notices issued by the Securities and Exchange Commission (SEC). Many differences are distinguished between US regulations and international accounting standards which are analyzed below.

In the context of a business acquisition, part of the purchase price must be allocated to research and development costs of the acquired enterprise, which can be recognized and measured. By 30 June 2001, the categorization of business combinations between acquisition and concentration of interest rights was based on compliance with a set of requirements, rather than whether the acquirer can be identified and the resulting combinations are treated as acquisitions. Regarding forecasts, they can be made more broadly than IFRSs and they can be recognized based on the probability of outflows of the sources while a corresponding liability may not be present in the balance sheet. Finally, impairment tests use non discounted cash flows and the impairments are calculated on a basis of fair value instead of the recoverable amount (A common effort of Andersen, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG and Pricewaterhousecoupers, GAAP 2001).

#### **CONCLUSION**

It's more than obvious that nowadays the phenomenon of globalization affects almost all areas, and creates a controversy over its effects on the world. In particular, accounting and financial globalization, advocated by some, responsible for all the evils for others is at the heart of political and economic debates (H. Rey, 2013). Indeed, presented as a multifaceted process, accounting globalization is certainly related to the opening of borders between countries of the world, promoting trade and investment, and homogenizing the economic sphere of the world. Moreover, one of the potential virtues of financial globalization is that it connects national economic actors and foreign economic actors, resulting in a beneficial process of exchange of know-how.

In the European Union, the international accounting standards were recorded in 2002 by the European Regulation No 1606/2002 and were implemented from 1 January 2005 for European companies making public offerings and publishing consolidated financial statements since 1 January 2007 for companies with only listed securities other than shares. However, the choice of accounting homogenization of the different accounting systems has not affected all countries of the world. Indeed, despite the universal consciousness of the challenges of such a globalist Action, many countries remain reluctant and are still applying their local accounting standards to their economic entities. Moreover, in practice, the harmonization process faces cultural resistance in the concrete situations of accounting reforms either they are international, national, or even micro-scale level of an economic entity. Thus, the accounting can't be changed without affecting certain social, cultural, institutional variables. Our analysis indicated that differences in accounting practices in countries that do not belong to the European Union do exist and these

differences cause problems for a wide variety of groups, organizations and individuals.

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