



ACCOUNTICA

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Content :

1. [Assessment of international accounting harmonization](#) – Katarzyna Gierusz
Article discusses critically the need for international accounting harmonization and assesses the success of the attempts at international harmonization and standardization that have been made up to the present time.



Assessment of international accounting harmonization

Accounting is often called ‘the language of business’ and provides a means of communication between companies, shareholders and agencies. Originally it guarantees the intelligible and comparable financial information regardless of country, legal and economic system. However, in practice another ‘*Tower of Babel*’ (E. McDonald, 1998) seems to appear. This lack of harmonization in global accounting was not noticed till the 1950s, when the process of globalization started and the possibility of easy transfer of funds and people drew attention to the need of uniformity of accounting rules and practices. To do this the International Accounting Standards Committee was established in 1973 (International Accounting Standards Board since 2001) and forty- one standards were issued. Although the harmonization of global accounting has lasted for over thirty years, it has not been yet completed. In the course of time, some critical opinions have appeared which have made the accounting world to consider whether international accounting standardization is what we really need.

Defining of standardization and harmonization seems to be crucial to understand the idea of liquidating ‘*Tower of Babel*’ of global accounting. In literature those terms are used interchangeably; however there is a slight different between them. C.

Deegan and J. Unerman quote in ‘Financial Accounting Theory’ (2006, p.106) Nobel’s and Parker’s definitions of harmonization and standardization. According to them, harmonization is ‘*a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation*’ while standardization ‘*appears to imply the imposition of a more rigid and narrow set of rules [than harmonization]*’. Other sources such as ‘Global Harmonization of Accounting Standards’ (S. Uddin, 2005) go even further in distinction of those terms. Standardization along with mutual recognition and reconciliation are treated as alternatives to harmonization. This is because standardization seems to impose accounting methods of one country, while harmonization tries to reconcile different points of view. Despite those differences I will use the two terms synonymously because this is the most common approach.

The need of international harmonization came especially from accountants and users of financial statements. They wanted to simplify accounting practices, in order to make them more comparable, and facilitate the transfer of funds and staff between counties. Before the process of standardization has began companies having subsidiaries in a different country and listed on foreign stock exchange had to



make financial statements according to at least three different Generally Accepted Accounting Principles (GAAP). This generated more costs and time. Moreover, such financial information was not comparable and confused shareholders, who had to understand many different sets of accounting regulations. However, thanks to International Accounting Standards Board and European Union this situation has changed and since 2005 all EU listed companies have had to use ISA for consolidating their accounts. This regulation has increased the understandability and interpretation of financial accounting information and enabled investors to make effective international investment decisions. Moreover, for developing countries such as Nigeria, Malaysia and Singapore adoption of IASs was cheaper than preparing their own regulations.

On the other hand, in the first year after the complete harmonization process, financial information probably will still be incomparable and confusing. Financial statements can include deformations approximated to those presented by C. Deegan, J. Unerman in 'Financial Accounting Theory'. *'The Anglo-Swedish drug company AstraZenec in the 2000 produced a profit of £ 9, 521 million when reported under UK accounting rules, but the same set of transactions produced a reported profit of £ 29,707 million under US accounting rules'*. Such reports will mislead

investors and cause losses. The developing countries might also suffer from standardization. The cost connected with extensive disclosures that is required by IASs can exceed benefits in developing countries which have few listed companies. Moreover, those countries do not have suitable accounting personnel and educational facilities, so complying with IAS can become really difficult.

In the course of time other critical opinions have appeared which submitted the need of accounting harmonization to discussion. A 'one-size-fits-all' approach, which IASB appears to have adopted, is very often criticized because of cultural, religious, legal, historical, economic and accounting differences between countries and therefore standard financial statements are not able to meet all expectations of their users (P. Diaconu, 2003). *'If the predominant purposes of financial reporting vary by countries, it seems reasonable that the reporting should vary'* (C. Nobel, R. Parker, 2006, p.77). What is worse, according to J. Gierusz (2003, p.22) is that IASs are focused only on investors' needs and ignore other users of financial statements. This means that they have to use other recourses to gather information about companies. Moreover, the above approach has limited the accounting flexibility which always was the main feature of accounting. The fixed framework of IASs is not able to provide solutions for all potential



transactions in different legal and economic systems. Going further in this thought, global accounting harmonization might not be possible without major changes in legal systems or even without legal standardization. This issue was touched upon the problem of nationalism, which is another obstacle to harmonization. Many countries might be reluctant to accept compromises that involve changing national accounting regulations. Furthermore, some governments will not agree to cede power to international authorities, because this would mean loss of their autonomy. Especially countries which are hostile to globalization can view IASs as an imposition of rules of capital-market countries such as the UK. Indeed, accounting harmonization is the imposition of Anglo- Saxon accounting system, which is in conflict with Continental one. This means that international accounting is limited only to one point of view and reject outputs of other countries.

The attempt at accounting harmonization can be assessed in two ways. The first approach examines this issue of four groups of countries: developing countries, emerging nations, Western European countries and capital- market countries. This method gives only brief information about IAS adoption on account of economical and historical reasons. It is widely presented by C. Nobel and R. Parker in 'Comparative International Accounting' (pp. 83- 87). The second approach, more

complicated and complex, is connected with deep analysis of accounting practises in each country. This research shows similarities and differences between national GAAPs and IASs. Only this examination gives a true view about degree of accounting standardization. This method will be presented on the case of Poland.

According to J. Gierusz (2002) the main discrepancy between Polish GAAPs and IAS are related to: financial instruments, fair value, long-term contracts, impairment of assets and intangible assets). This means that Polish regulations present the same point of view in about 90% of cases which seems to be satisfactory, however, in practise only large and international companies comply with IAS. The small and medium enterprises always put national GAAPs and Polish accounting standards over global standards (this is a common approach also in other countries). They can comply with IAS in situations when Polish standards do not regulate particular transaction. However, it is not an obligation. The extent to which Poland (or any other country) can comply with international standards depends on its institutional framework. Unfortunately, the weakness of this framework often makes compliance impossible. For example, even if Polish accountants want to accept the fair value they can not because in Poland there are not any reliable resources of such valuation.



The idea of accounting harmonization is supported by many international, regional and even non-accounting bodies such as European Union, International Federation of Accountants, International Organisation of Securities Commissions, Inter-American Accounting Association and Organisation for Economic Co-operation and Development. Although, their contribution to accounting standardisation is unquestionable (they recommend IAS to their members), the degree of international harmonization is not completely satisfactory. Four reasons of this situation can be outlined. First of all, compliance with IAS is voluntary and the board is not powerful enough to enforce it. Secondly, for many years the alternative solutions have been promoted by international standards. It meant that theoretically firms comply with IAS but in practice still use different solutions. That approach did not improve the comparability of financial statements. Thirdly, there are still some discrepancies between EU and IASB. International standards promote fair value while directives recommend historical cost (K. Winiarska, 2007). The unanimity in this issue would surely accelerate the process of harmonization. The US attitude towards IAS is the last reason. Despite the fact that international standards are so widespread, the US still requires the reconciliation with the US GAAP of companies which use IASs or national GAAP. *'This attitude is*

often justified in terms of protecting investors and maintaining an equality of treatment with US issuers' (C. Hoarau, 1995). However, the truth is that this aversion is caused by an aspiration to establish the US GAAP as the international regulations. Comparison of IAS and US GAAP reveals an American advantage where not only are US standards more detailed in methodology, but they are also more specific about principles and more complete in terms of disclosure. They attract foreign investors and companies on the American stock market. The US does not want to lose them and this is why the US hinders the implementation of IAS (M. Jones, 2006, p. 395). In practice companies listed in the US's regulated markets (NYSE or NASDAQ) comply with US GAAP, while firms traded in OTC market chose IAS (A. Tarca, 2004). However, the stock exchanges in main European capital cities still accept financial statements prepared according to national GAAP which has a bad influence on standardization. The agreement between IASB and stock exchanges seem to be crucial for the success of accounting harmonization.

The accounting harmonization became the main directive of accounting evolution. The activities of accounting bodies were subordinated to this aim. However, this fascination was quickly replaced by critical opinions. The obstacles and limitations showed that harmonization can not be the only



signpost of accounting transformation and development, and is not the only thing which is expected by publicity. Otherwise, it would mean that the reaction to new phenomenon and processes is limited and accounting does not reflect reality any more. On the other hand, it should be emphasized that accounting harmonization has increased the comparability of financial statements and quality of accounting services. However, the process itself has not gone smoothly. Some shortcomings such as the lack of unanimity and rivalry between IAS and US GAAP, which hinder

the accounting harmonization, have been presented above. The tense atmosphere submits the standardization to discussion and has negative influence on its assessment, so much so it may be time to give up. International standards as supplement of domestic regulations might be also very useful. Moreover, this approach would allow the differences between countries to be emphasized, which are rare in times of globalization and therefore, foster flexibility of accounting. Such standpoint would do more good than complete accounting harmonization.



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