

## **HARMONIZATION OF THE INTERNATIONAL ACCOUNTING SYSTEM.**

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***Abstract:** Globalization is one of the biggest social processes which the humanity has facing since ever. That's why it's impact in the global economy is huge. Facing a global challenge financial information system has called for consistent financial information produced by accounting. One of the main international accounting processes on the actual period is the harmonization of the national accounting systems. There are the two main systems which are disputing the first stage of being the benchmark: GAAP and IFRS. Each of them has his pluses and minuses on being the choused one. Due to this fact a convergence of the two, joining the advantages and disadvantages of the two should be the solution for an unique international accounting solution. Is this idea realizabile, what steps has been made until now, what should be done in the future. These are the questions on which this paper is trying to answer.*

**Keywords: globalization harmonization, convergence, international accounting standards.**

### **INTRODUCTION**

The business community has admitted that the accounting is “the language of business”. They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for the economical entities. Financial information is a form of a language. And if the language of financial information is to be putted to use, so that investment and credit decisions can more readily be taken, it should not only be intelligible, it should also be comparable. Due to the fact that many companies follow the globalization process, so they go global the accounting needed to follow this process and to present financial situations using an unique accounting procedures which can be understand by the entire business community. Due to the fact that this process is following global trends, and the globalization is first of all a political process the starting point in creation of an unique accounting system needed to pass a difficult process where the main accounting systems will litigate to impose their accounting policies and practices. (Belkaoui 1994) These new environmental factors of the global economy, the international monetary system, the Multinational Corporation and foreign direct investment create an environment in which business transactions, their conduct, measurement and disclosure, takes new and distinctive form that call for a specific accounting sub discipline or the harmonization of accounting practices.

Despite of the difficult process as Anderson said (1993) “ a set of international accounting standards will allowed new horizons of evolution due to the fact that comparative analysis of the rates of returns established based on the balance sheets and profit and loss account between the companies being in competition become relevant”. The comparison, as the basic form of economical judgment can be realized, only if the

premises are accomplished: the basis of comparison are made using the same production methodology, or in other words, the accounting system is unique for all the companies involved in the analysis.

In order to accomplish this target the accounting profession proposed to the business environment to solutions: the American solution GAAP or the European solution (British solution to be read) IAS/IFRS. Foreign subsidiaries of U.S. multinationals use U.S. GAAP. Many foreign companies, attracted to international capital markets, have either adopted U.S. GAAP or reconcile their financial information with SEC requirements. However, IFRS is rapidly gaining acceptance as 70 countries around the world already use it. The European Commission (EC), which is the EU's permanent civil service, announced in June 2002 that all listed companies will be required to prepare consolidated financial statements in accordance with IFRS adopted by the EC from 1 January 2005. This will apply to almost 7000 listed companies in the EU. One way to get a single set of international accounting standards would be by the conjunction of the governments and securities regulators mandating that the only accounting system which is allowed to be used to be either U.S. GAAP or IFRS (but not both) be used. But international politics makes that extremely unlikely.

Another path might be to allow companies to use either U.S. GAAP or IFRS. The marketplace would eventually determine which one prevails. Unfortunately, due to the political influence we have all the reasons to believe that this would only add to confusion and costs.

Also, most capital markets participants have gravitated to the idea of "international convergence" between U.S. GAAP and IFRS as being the best solution. And so it is that at the U.S. Financial Accounting Standards Board (FASB), together with their counterparts at the IASB, have embarked on a systematic program to converge the standards. This is final task, since there are literally hundreds of areas of difference between the standards. Convergence necessitates compromises, but these will be also difficult to achieve. It must be avoided to achieve convergence for its own sake and develop high quality converged standards that also improve the current state of financial reporting here and around the world. The process must be careful, thorough and open, allowing participants sufficient time to adjust. Convergence will occur slowly but steadily. There will be short-term "pain" for just about everyone. Lets hope, however, that this effort promises significant long-term "gain" in the form of better, less costly and more comparable and consistent financial information. Harmonization is absolutely necessary because national standards of financial statements are virtually useless; financial markets in more regulated countries are threatened with a loss of market share; and multinational corporations must prepare multiple reports for different nations they do business in. (Nobes and Parker 1991) There is a need for harmonization for accounting standards in order to help the foreign investor to understand the financial statements of the foreign companies who's shares they might want to buy.(Iqbal, Melcher and Elmallah 1997).

## **LITERATURE REVIEW**

Anderson, A. (1993) in 'The Globalization GAAP' published in Management Accounting, is approaching the advantages of a common set of international accounting system and the added value created by a such system. Belkaoui, A.R., (1994) in International and Multinational Accounting, is presenting the factors which may affect the creation of an international accounting system. Berton, Lee (2000), in "The Evolution of Research on International Accounting Harmonization" published in Journal of Accounting Literature, presents in figures the development of the harmonization process over the world. Choi, Frederich, D.S. Frost, Carol A. and Meek, Gary K, (1999) in "International Accounting", presented between others the conflicts related to the implementation of an unique international accounting system Dunn, Philip, (2002) in "International Accounting Standards" published in Journal of Accounting Literature presented that the cultural and political barriers are the most important enemies in the harmonization of the accounting. Iqbal, Melcher and Elmallah (1997), in "International accounting: A global perspective" presented the need of a global harmonization in the accounting. Mednick, Robert (1991), in "Barriers to International Accounting Harmonization" published in Journal of Accounting Literature is insisting on cultural discrepancies between the countries and its impact on interpretation of the economical phenomena. Nobes Christopher and Parker, Robert (2002) in "Comparative International Accounting" presented between other ideas that advantages of the developing countries to access directly the international accounting system. O'Malley (1993) in "Comparative International Accounting. A Survey" is presenting the relationship between the international accounting system and taxation of managerial decisions for financial managers. Parker R H (2002) in "Comparative international Accounting" presented also the dangers of implementing the international accounting standards without special preparations. Roberts Alan, Weetman H, Gordon, H (2002) in "Comparative International Accounting : Europe including the European Union" published in Abacus indicate the evolution in Europe regarding the subject since the international accounting system has been lunched. Samuels John M., and A. G. Piper. (1985) in "International Accounting: A Survey" presented the benefits for the financial markets if implementation of international accounting standards are succeeding. Salin Victoria (2001) in "National Treatment and Tax Harmonization in North America" published in American Journal of Accounting presented the idea that an international accounting system is preventing the intervention of the governments in the accounting policies. Saudagaran Shahrokh M (2001) in "International Accounting: A User Perspective " presented the forces which can affect the creation of an international accounting system and the sub optimization due to the political influence of some dominant accounting bodies.

## **METHODOLOGY**

The paper is trying to present the advantages and disadvantages of implementing an international accounting system analyzing the opinions of some reputable accounting researchers during the time. The paper is a compilation of all these materials in a constructivist approach trying to reach valuable conclusions regarding the harmonization subject.

## **WHY HARMONIZATION IS BENEFICAL**

The greatest benefit that would flow from harmonization would be the comparability of international financial information. Such comparability would eliminate the current misunderstandings about the reliability of foreign financial statements and would remove one of the most important impediments to the flow of international investment. Harmonization would save time and money that is currently spent to consolidate divergent financial information when more than one set of reports is required to comply with the different national laws or practice. It will also improve the tendency for accounting standards throughout the world to be raised to the highest possible level and to be consistent with local economic, legal and social conditions. (Choi, Frost and Meek 1999). The harmonization would be beneficial to those countries, which do not have adequate codified standards of accounting and auditing, and to international accountancy firms with clients of firms, which have at least one foreign subsidiary. (Nobes and Parker 2002) because will allowed the comparisons without any other compilations. The benefit of International Accounting firms regarding the harmonization of accounting practices will be the movement of staff across national boundaries will become easier and it will be less expensive to provide training to their staff.

It would also help in raising foreign capital as investors, financial analysts and foreign lenders will be able to understand the financial statements of foreign companies (Samuels and Piper 1985) and they would be able to compare the investment opportunities which will help them to make the right investment decision.

As taxes are levied on the total global income of an organization, it would be of great assistance to the national tax authorities around the world if net income was computed on similar accounting principles and practices. International accounting and disclosure standards would make it easier to conduct the competitive and operational analyses needed to run businesses. It will also make it easier for financial executives to manage critical relationships with customers, suppliers and others. (O'Malley 1993)The group that would benefit the most out of the harmonization of accounting standard would be the Multi-national companies as the communication of financial information within the groups would become easier.

With the harmonization of reporting standards it would be easier for multinational companies to fulfill the disclosure requirement for stock exchanges around the world.

## **OBSTACLES IN HARMONIZATION PROCESS**

The most fundamental of obstacles to harmonization are (Nobes & Parker 2002):

1. the size of the present differences between the accounting practices of different countries,

2. the lack of strong professional accountancy bodies in some countries, and
3. the differences in political and economic systems.

If accounting measurement rules were the only difference among countries, then straightforward translations would be sufficient to enable reports to be universally understood and interpreted (Mednick 1991). However, countries also exhibit substantial economic and cultural differences that preclude simple interpretations, even when the figures are generated using the same accounting principles. Accounting standards in any society are an outgrowth of that society's needs and perspectives. For example, British and U.S. accounting rules reflect the concepts of fairness and substance over form as opposed to the French Commercial Code, which is much more compliance-oriented. Nationalism also generate a threat to harmonization as countries are wary of ceding control of their accounting regulation to outsiders, especially if it is perceived as replacing their own accounting regulations with those of other countries. (Saudagaran 2001) The degree to which the government is involved in standard-setting also varies from country to country. Whereas professional organizations set the standards in Britain, for example, the government assumes this responsibility in France. In U.S.A an independent organization were mandated by the SEC to manage the accounting standards (FASB). There the standards are basically set by professional organizations, but with the government acting as the ultimate enforcer. In any event, close government scrutiny of accounting standards adds an additional political dimension to any effort to change those standards. (Salin 2001) Another barrier that the governments of different countries will have to face is the coordination of their accounting policies with policies prevailing in other countries in order to minimize negative influences from abroad and to maximize positive influences from abroad. There are other barriers to harmonization as well. For example, users might have different needs in different nations (e.g., debtor vs. creditor nations; countries that have very active stock markets and those where banks primarily accumulate and invest capital; investor vs. investor countries; etc.). Further, states that the divergence between the needs of large multinationals and smaller business entities in developing countries might affect the harmonization of accounting standards. In addition, there may be different levels of sophistication and influence among different national accounting professions. Finally, there is the high cost of requiring issuers to change accounting principles, or to keep a "separate set of books" for multinational offerings. The existence of these barriers reinforces the belief of some that active public policy initiatives to set international accounting principles may not be desirable; and that harmonization of accounting principles and financial disclosure has an overstated benefit. It has been asserted that, for instance, if a particular financial market requires too much accounting information or has too many regulatory burdens; firms will migrate to another region. On the other hand, if a financial market provides too little accounting information or regulatory guidance, private firms will find it in their interests to supply more.

## **WHY NOT WITOUT HARMONIZATION**

First criticism is that underdeveloped countries and developing countries see

harmonization of international accounting standards as an imposition of standards by economically superior countries. Another criticism is that the fact that accounting is flexible in nature and can adopt to different number of situations but if accounting standards are harmonized it is believed that they won't be flexible enough and the standards set internationally cannot possibly fit for the wide range of national circumstances, legal systems, stages of economic development, and cultural differences. Further more the international committee of standard-setters (IASB) may find it difficult to reach unanimous agreement on some of the accounting standards and they might have to make compromises so that these accounting practices are accepted globally. This implies that these standards will be permissive and inadequate. Harmonization of accounting standard could prove dangerous to the companies as the standards could cut profits and inject volatility into the balance sheets of the companies. (Parker 2002) Therefore the companies must educate there investors about the effects harmonization will have on their reported profits and liabilities. In support of this states that harmonization of accounting standards will change the complexion and quality of financial information in ways not seen before, therefore it is vital that companies understand the extent of the impact and ensure stakeholder understand it too. Moreover, others have expressed the view that international harmonisation may create "standard overload" (Choi, Frost and Meek 1999). This implies that corporation that have to deal with the national, social, political and economic pressure will be more hard pressed to comply with additional complex and costly international requirements. Harmonization of international accounting principles is unlikely to come about because too many different national groups have vested interests in maintaining their own standards and practices which have developed from widely different perspectives.

## **CONCLUSIONS**

(Berton 2000) Harmonization of accounting standards has been worked on for 26 years by IASC now know as the IASB, it has representatives from 70 countries and the research shows that a large number of companies are complying with International Accounting Standards (IAS) issued by the IASB. (Roberts, Weetman and Gordon 2002) The European Union Commission has also declared that all the EU listed companies will use IAS for consolidating their accounts from 2005, but it still has a long way to go. There are a number of barriers and hurdles discussed earlier in the paper that the IASB needs to overcome in order to bring about the harmonization of international accounting standards. (Dunn 2002) In order to ensure the uniform application of accounting standards across cultural and political boundaries IASB needs to ensure that there are strong audit practices in order to bring about the integrity of the standards. Much has been achieved already in converging the standards. Modifications have been made in accounting for business combinations. There has been progress in changing standards for tabulating "share-based payments," despite attempts by some parties in the U.S. to delay or overturn accounting for employee stock options. Overall, the IASB has amended many of its standards, and, to a lesser degree, in FASB they have modified some of them. They currently are working together in other major areas, including revenue recognition and reporting on financial performance. USA is also heavily involved in developing international accounting standards with

IASB. Most of the countries which trade with USA prepare their accounts according to US GAAP this in turn makes US GAAP accepted not only in USA but in other countries as well. As USA being the biggest and the strongest economy in the world and its ability to control a large part of the capital market poses a great challenge for the IASB because the companies in USA using IAS issued by the IASB need reconciliation with the US GAAP. This implies that IAS cannot be adopted without the approval of FASB. Furthermore IASB will have difficulties in refusing the proposals made by USA because of its heavy involvement. This will hinder the harmonization of account standards. One can argue that countries, which are economically superior to other countries, will have their way out in setting the international accounting standards. However there are a number of benefits as well which will come with the harmonization of international accounting standards. It will bring uniformity in the preparation of accounts and will make the accounts of companies more transparent and comparable which in turn will help the investors to make the right investment decision.

As a final conclusion the harmonization and the convergence which is the method chosen by the harmonization to fulfill its goals it will be realized slowly but steady. This will occur supplementary costs and efforts for everybody. That's why, in the following period The Romanian accounting profession will be obliged to stay together with the international organization IASB and to adjust the Romanian legislation in order to upgrade the Romanian system with the last knowledge's in the accounting field.

Despite of the fact that FASB-s standards look to be the most advanced one's and the IASB need profound reevaluation, due to the European synergic process to apply for IASB's standards, we need to chose the long way to an unique international accounting system and set of standards.

Any way we, the Romanian accounting profession is used with the permanent changes in the accounting, change being the most suitable adjective for the Romanian accountant in the last fifteen years.

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