

Chapter 2 International Accounting Differences

• 1 You will notice that the answer to this question will be influenced to a large extent by the national background of the student. In the Anglo-Saxon world students will more easily argue that accounting is, in essence, economics based. In those countries, accounting standards are rather broad and derived from general principles. These principles are often derived from economic valuation concepts. Students living under a codified law system and in countries with a creditor orientation will argue more often that accounting is law based. If we consider IAS we might argue that IAS is economics based (e.g. substance over form).

• 2 The answer to this question is strongly influenced by the items put forward in the section 'national differences will they still play a role in the future?' in Chapter 2. As large companies become more global and seek multi-listings, they will be strongly in favour of harmonization and even uniformity. For small local firms the national environment will remain an important factor shaping their financial reporting practices.

3 Check for your own country:

- elements of the accounting environment
- the major sources of finance
- whether there is an active and important stock exchange
- is the legal system in your country more inspired by the common law system or the code law system. Did these systems 'originate' in your country or were they 'exported' to your country?
- the relation between accounting and taxation. Is taxable income in your country to a large extent determined by accounting income?
- elements of the accounting system
- sources of accounting regulation
- development of the accounting profession.

The importance of the different elements related to the accounting environment will differ in each country. Try to appraise the importance of these elements in your own country. If you list the important elements, you will be able to understand better your own national accounting standards and national reporting practices.

4 The cultural values that depict a country lie between the following extremes:

- individualism/collectivism
- large v. small power distance
- strong v. weak uncertainty
- masculinity v. femininity.

Appraise where your country is situated with regard to those four constructs. Make use of the explanations of the constructs given on page 26.

5 Changes in the accounting system could point to:

- changes in the standard-setting process, e.g. more input from the private sector or vice versa
- an evolution in the contents of the national GAAP (e.g. a move towards substance instead of legal form)
- changes in the organization of the accounting.

These changes could be driven by several possible forces.

For example:

- changes in the national accounting environment.
- changes in finance patterns, e.g. more companies become listed or go for multi-listings
- relation between accounting income and taxable income changes due to changes enacted by the government
- pressures from the business community
- changes introduced by EU legislation or other national legislation.

6 Gray's adaptation of Hofstede's cultural values is presented on page 30. The four accounting constructs are defined as follows:

- professionalism/statutory control
- investigate how corporate control and external control or audit are organized in your country
- uniformity v. flexibility
- appraise whether your national GAAP are rather uniform or do they allow many recognition and measurement alternatives? Do accounting regulations or standards in your country consist of detailed rules or do they comprise general principles?
- conservatism/optimism
- what are the important stakeholders in your country with regard to financial reporting (shareholders/creditors, the government?)
- how important is the prudence or the conservatism principle in your country?
- secrecy v. transparency
- appraise the disclosure levels of companies in your own country with disclosure levels of companies in other countries. Assess whether access to financial statements of companies is easy in your country. Do interested parties have to contact the company or are financial statements easily accessible with the use of organized databases?

7 This question builds on question 6. The construct secrecy v. transparency will, to a certain extent, explain the differences in levels of voluntary disclosure between different countries.

8 In different accounting journals (e.g. Journal of Accounting and Economics, Journal of Accounting Research, Accounting Review, Abacus, European Accounting Review, Accounting and Business Research) you will find articles which analyse whether or not accounting quality improves after the IFRS adoption. You will notice that the results will be different according to the characteristics of the research population (having adopted IFRS before on a voluntary basis), country differences etc.

9 The financial reporting infrastructure of a country is determined by the existing legal system, the organization of the accounting and audit profession, the risk of litigation, the degree of enforcement, the link between accounting and taxation and other variables discussed in chapter 2. These variables have an impact on the quality of the IFRS accounts.

- * in case of low risk of litigation or low degree of enforcement, the quality of IFRS accounts might be lower

- * the cultural values, in countries characterized by optimism, IFRS GAAP will be applied in a less conservative way. Although IFRS in itself does not pursue conservatism.

- * in countries characterized by more professional than statutory control, preparers and accountants and auditors will rely more on their own judgment for the preparation and the audit of the annual accounts. In countries characterized by statutory control, one will seek for more interpretations of IFRS which will then be complied with in a "detailed legalistic way".