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# THE DEVELOPMENT OF ACCOUNTING AND FINANCIAL REPORTING: A GLOBAL PERSPECTIVE

**Is universal acceptance of International Accounting Standards Imminent?**

**A thesis for the University Honors Program**

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**Abstract**

Accounting methodologies have been centuries in the making. As societies matured fiscally, so did corresponding accounting techniques. Since societies evolved independently, there is now a variety of extant reporting practices. The technological advances of the latter part of the twentieth century have taken trade to a new level. Competition for products and capital has increased exponentially. Investors depend upon the information recorded in financial reports to determine where they will invest their resources. The information derived from financial reports may be misunderstood when the reporting entity is from another country, however. This lack of "harmony" is one of the latest problems facing the accounting profession. Many think that the answer to this problem is to adopt a set of universal, generally accepted accounting principles (GAAP). However, while universal GAAP may make financial reports more compatible, the validity of legitimate current differences would be ignored.

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# Introduction

As the end of another century approaches, a common tendency is to reflect upon the past and speculate upon the future. The purpose of this paper is to note the forces influencing accounting processes throughout history and to examine those pressures for and against "harmonization" of accounting principles.

Accounting has been the tool for measuring economic events for more than six hundred years. Fiscal information--as determined through accounting methodologies--is necessary for businesses to function adequately. The United States has had an established body of accounting rule-makers since the late nineteenth century. The canon promulgated by these rule-makers has had to adapt to changes in economic circumstances and in the interests of the primary users of economic information. Such changes continue to develop as national boundaries are redefined and the accounting emphasis shifts from an insular to a global perspective. In order to remain effective, accounting dogma cannot be etched in stone or written in blood. The dynamism that has previously kept the accounting profession active can be expected to ensure its relevance in the new century. One can expect numerous changes--many seemingly predestined, with only the nature and timing unknown.

A major impetus toward accounting change is the confusion in preparing and reading financial reports for entities whose trade activities cross international borders. These transactions are reported differently in the various countries and sometimes within the same country. An informed user can usually understand the reports released in his own country, but may be unaware of differences which exist in reports from other nations. The lack of harmony among reporting standards presents a major stumbling block in understanding various financial reports. One cannot assume that the prevalent standards in one's domicile are those employed by the reporting entity. Differences in principles can drastically change the information derived from the reports. This lack of conformity to a unified code leads to a demand for restructuring today's accounting practices.

The trend toward globalized markets that depend on accurate and timely information can be expected to continue. Efforts toward a global market include the formation of the European community, the North American Free Trade Agreement, and the General Agreement on Trade and Tariffs. Many argue that a set of universally accepted accounting standards is needed to support this global market. Ultimately, these arguments for a set of universal, generally accepted accounting principles (GAAP) may prove valid. Steps to adopt uniform GAAP should not be taken before careful study of the impact upon all the nations involved as well as their readiness and ability to conform.

In order to fully appreciate, or anticipate, the changes occurring within the accounting arena, one must first determine the current status of the accounting profession and how that status came into being. Since accounting tools have not developed independently, but in reaction to the day-to-day changes in business environments, a condensed history of business and accounting

development seems to be the appropriate. Accounting has proven to be a dynamic field, evolving with the needs of the primary users as the following historical development will indicate.

## The Development of Accounting Principles

When man first walked upright and learned to use tools, his need for accounting practices and principles was nonexistent. As he accumulated more than he could eat, wear, or otherwise use at one time, he began to need and devise ways of keeping a record of those possessions which could not be accounted for with a quick glance. There was no need for standardization of methodologies. Whatever satisfied the individual was adequate. As tribal living became common and methods were needed for distributing wealth and responsibilities, it became necessary to record information in a way that was acceptable to a larger group of users.

Tribes became nations, and taxation became the principal tool used to distribute the communal wealth. Simple farms and businesses expanded into larger concerns and later corporations. As users of economic data became more and more numerous, the need for standardization in recordkeeping and reporting grew. This standardization was not universal, however. Recordkeeping methodologies varied according to political, religious, and economic factors. In some countries the standards were set by the private sector, while in others, standards were prescribed by the government. Some countries permitted only one method for recording certain transactions: others granted more flexibility. Although accounting techniques sometimes

varied within a country, informed users within that country could normally interpret the financial position of the reporting entity.

## Recordkeeping

While the earliest man had little need for recordkeeping, this lack of interest did not persist. The earliest methods for tracking possessions, income, and expenditures were probably nothing more than scratches on the wall or on a piece of wood. Between six and seven thousand years ago, Egyptian bailiffs recorded the measures of grain paid by a farmer on the walls of the farmer's house. Records were kept of everything from the health of a worker to the wages paid to him.

The Babylonians and the Egyptians had many common practices. Whether these practices were developed independently and shared, or derived simultaneously is unknown. By 2,000 B.C., trade had become an important part of Babylonian existence. King Hammurabi recognized this and instigated the first set of accounting principles. In his regulations, he required the recording, signing, and witnessing of documentation of every purchase, lease, loan, and mortgage. He stipulated income and expenditure bookkeeping accounts that were to be maintained by rulers and merchants. A balance sheet was sometimes prepared and used as a basis for a profit and loss statement. (Nystromer 61)

In the sixth century B.C., the coining of money added a new dimension to the bookkeeping systems. Prior to the coinage of money, transactions had been measured in terms of a commodity such as oxen or grain. These measurements would vary greatly in terms of value between the time of debt incurrence and repayment. Coins could be expected to have a more

consistent value and be more easily partitioned. A monetary valuation frequently came to be-- though not consistently-- used by both the Greeks and Romans (De Ste Croix 750).

Throughout history, advances made in trade and technologies have led to an increased reliance on financial information. The accounting dogma has proved flexible enough to adapt to these changing needs. The religious crusades during the eleventh, twelfth, and the thirteenth centuries increased trade opportunities. This increased potential could only be met through outside investors. Their investments were of a short-term nature lasting only as long as the "venture." Fixed assets were purchased at the beginning and sold along with the inventory at the end of the venture. Accounting was the tool used to verify the stewardship of the investments.

**Double-Entry Begins**

Accounting, at this point and for some time afterward, was merely recordkeeping. The growth of trade and its complexities required greater reliance on subordinates. This reliance resulted in an increased need for a control mechanism to ensure that mistakes were not made (or were, at least, found) and that assets were not misappropriated. This need was met by the introduction of the double-entry accounting systems around 1300 A.D. Double-entry accounting appeared in several Italian cities at about the same time. Fra Luca Pacioli recorded this system and is often acclaimed as its founder. Fra Luca Pacioli's book, *Summa de Arithmetica, Geometria, Proporcioni et Proporcionalita*, contained a section in which he described a method of recordkeeping which required two balancing entries for every transaction-- a debit and a credit. Although initial use of the double-entry accounting system was highly individualistic, and interpretations of events varied greatly, this double entry procedure was very well received and

was quickly translated into several different languages. This system and its balancing entries have become the basis for most modern accounting systems.

## The Industrial Revolution and Beyond

The Industrial Revolution led to a new understanding of capital investments-- that those investments could last beyond the scope of one "venture." This new perception was the impetus for several developments in the accounting discipline. The emphasis on financial reporting shifted from the balance sheet to the income statement. Investors wanted to know how well their funds were being utilized. This emphasis required a closer inspection of the components of income. The "going concern" concept accompanied the influx of capital committed to the new ventures. Prior to this, the assumption had been that all ventures were of short-term duration and did not need specialized treatment.

If the venture required substantial investments in property and equipment and could be assumed to have a longer life, a way had to be devised to measure the impact of these expenditures on the enterprise. Breaking the life of the enterprise into smaller segments (such as years) and measuring the income and expenses of that period became very important. Careful definitions as to the components of income became the focus of the accounting profession. Answers had to be found to such questions as when a transaction results in income or an outlay becomes an expense, and when the income or expense should be recognized.

This evolution from guild to corporate industry is the point defined by A. C. Litttleton as the beginning of modern accounting (165). Corporations such as the East India Company required more funds (from more investors) for a longer period of time than had the earlier venture

investments. The concept of capital which resulted from shareholders' contributions was the final element of his seven antecedents to bookkeeping and accounting:

1. The art of writing
2. Arithmetic based on Arabic numerals
3. Private ownership of property
4. Money-based economies
5. Concept of credit
6. Extensive commercial activity
7. Concept of capital.

(Littleton 13)

As businesses grew, so did the need for more consistency. Accounting associations and government pronouncements served to standardize some of the practices. Throughout the centuries, new problems developed and new solutions were found. However, the double-entry system proved to be flexible enough to stand the test of time. Modern accounting systems differ because the situations or problems requiring accounting adjustments have occurred at different times or in differing degrees, and universally-accepted solutions were not found for many problems.

The twentieth century brought technological advances that previous generations believed could only exist in fiction. Improved transportation allowed faster delivery of products. Since World War II, trade between nations has increased substantially, and technological advances have made it easier to monitor events taking place anywhere on the globe. As a result, investors have found it profitable to increase their capital investments in nations other than their own, relying upon financial reports to make their investment decisions. Improved communication has permitted quicker knowledge of and response to market changes. In this latter part of the 1990s, information exchange is almost instantaneous. The global market is open twenty-four hours a day. This technological environment has led to tremendous investing opportunities for those who

can accurately decipher the wealth of accounting information available to them. The differences in accounting systems , however, are numerous and exist for a multitude of reasons.

## Reasons for Differences in Accounting and Reporting Systems

**Sources of Accounting Differences**

Since evolution occurs as a direct response to stimuli and these stimuli vary with demography and geography, the evolutionary processes that led to the development of current accounting standards have resulted in a variety of accounting systems. An understanding of the differences in these systems is needed in order for accounting harmony to be established. An appreciation of the reasons for the differences in accounting systems should also prove beneficial when attempting to analyze economic information from other nations.

Differences in sociological, economic, political, and religious outlooks have exerted significant influences on the nature of the user and, therefore, the accounting principles employed. Several accounting experts have examined and written about the impact of these variables upon accounting systems. Felix E. Amenkhienan has reported Choi and Mueller's earlier identification of as many as fifteen influences upon a nation's accounting development:

1. Type of economy
2. Legal system
3. Political system
4. Nature of business ownership
5. Differences in size and complexity of business firms

6. Social climate
7. Relative stability of the currency of account
8. Level of sophistication of business management and the financial community
9. Degree of legislative business interference
10. Presence of specific accounting legislation
11. Speed of business development
12. Stage of economic development
13. Growth pattern of an economy
14. Status of professional education and organization
15. General levels of education and facilitating processes

(Amenkhienan 14)

Different authors offer many variations on this list with additions, deletions, and reclassifications. Riahi-Belkaoui simplifies the variables into three major groups– the political environment, the economic environment, and the demographic environment (31). He notes that these environments are most influential in their effects upon the reporting and disclosure adequacy of a country.

An examination of Amenkhienan's list seems appropriate. The variations in accounting development, and therefore systems, become much higher than fifteen when the many variations under each heading are considered. Types of economy vary from decentralized markets to centralized markets to planned markets. Each of these economies is dependent upon accounting information. Information is the force that moves the decentralized market economies and the force that monitors the centralized and planned market economies. The legal systems based on common law, such as England's, tend to broadly define their accounting rules. The accounting rules of countries like Germany, which have legal systems based on Roman law, are codified and detailed. The extremely litigious environment of the United States requires detailed guidance from its rule setters in order to provide definitive evidence.

The nature of business ownership and differences is size and complexity of firms offer similar influences upon the accounting structures. Throughout the world the same major business

forms exist-- proprietorships, partnerships, and corporations-- with ownership varying from public sales of shares, as in the United States, to state owned, to family owned. A family-owned business is likely to be more secretive and consider accounting a bookkeeping tool. Larger state-owned or publicly traded organizations consider accounting to be a monitoring and forecasting tool.

The stability of the currency account refers to the need, or lack of need, for adjustments because of inflation. The United States enjoys a relatively stable economy and therefore has few rules concerning price-level adjustments. In countries such as Chile, and other Latin American countries, prices are routinely restated to reflect the high levels of inflation.

The level of sophistication of business management, financial communities, and the accounting profession within a country are major factors in the accounting system employed--as is the speed of business development. There is little need for an acceptance of detailed accounting rules if the users and preparers of such information are unable to comprehend the theory supporting the rules or the information contained in the reports. It is often easier to accept that which has already developed without examining its relevance to the particular situation at hand. This is even truer when business development is progressing too fast for the accounting profession to adapt.

J.D. Blake offers an analysis of several international variations in accounting. He notes the increased need for disclosure in the countries where the stock exchange is the major source of financing as opposed to those countries, such as Germany, where banks supply the capital. Blake's "economic consequences" variable notes two economic consequences of published accounts: judgmental and mechanistic. His judgmental consequence refers to the decisions made

from the information contained in reports. By mechanistic, he refers to certain contractual agreements such as "debt covenants," or restricted borrowing powers, which limit the amount which can be borrowed to a defined proportion of shareholders' equity. Knowledge that such consequences exist leads to many accounting variations. These variations are the result of the political systems, tax systems, and legal systems of the different countries. (7-10)

Nationalism is another variable offered by Blake. Many countries, through some form of patriotism, will not import accounting policies from certain other countries. His example of this form of nationalism is that certain Latin American countries adopt accounting ideas from the United States only after Mexico has done so. At that time, the adoption is from Mexico--not the USA. (10-11)

Blake continues his list with influences of other countries, tax accounting links, differences in user groups, language differences, influences of theorists and professional bodies, history, and the seldom considered ideology. The influence of other countries on a country's accounting system can be noted in the similarity among the systems of nations that were formerly a part of the British Empire. Spain used France as its accounting model; China used the USSR. In almost every country the tax laws influence the reports of its constituents. The amount of influence varies significantly. Germany requires preparation of financial and tax reports on the basis of the tax laws. The United Kingdom tax reporting varies significantly from financial reporting. User group differences vary from the investors in the USA, to the bankers in Germany, to the government of China and other centrally planned economies. (11-12)

The sociological, economic, and political environments of a country impact its accounting system. The motive behind all accounting systems is to provide the information needed by the

user. A country with little freedom to choose its leaders and laws would expect little information from its financial reports. A socialist country would devise accounting practices which would measure the successful completion of its goals. A capitalist economic system is driven by a high degree of thorough disclosure. A developing country would have neither the need nor the knowledge for such complete information. The more people within a country seek information, the more detailed such information is likely to be.

**User Differences**

One needs to remember that, regardless of the number of factors that exist and impact the accounting systems, the ultimate effect of the variables is upon the user of the financial statements. It is the user of the financial data generated by the accounting system who determines the type and form of the economic data. A communistic society's main interest in accounting information is to monitor usage and distribution of materials of governmental units, while a capitalistic society is interested in profits obtained and distributed. The reports would vary accordingly. The communist countries' reports could be expected to report the utilization of resources and to be closely held--not freely circulated. The capitalistic reports could be expected to report similar information but in much more detail and more publicly. An undeveloped or developing country may not need the degree of sophistication which can be found in the reports of world-class businesses.

In some states it is the government that acts as the primary user and dictator of accounting practices. Thus, a developing country might require documentation for tax purposes in situations in which no formal records would be otherwise kept. Some countries have highly

developed laws governing the accounting profession, while others allow the industry and the market to determine the practices. The type and nature of information reflected in the financial reports are reflected in the accounting system of the particular country.

The users of financial information have a major impact on the nature of its form and content. A communist country requires financial reports to determine the extent to which policy decisions are being completed. The Islamic tradition requires modifications to any accounting program to ensure compliance with the Qur'an. The investor in a capitalistic society requires information that must be timely, accurate, and complete. The influence of the user on accounting practices can be seen by reviewing different cultures and their accounting principles.

***China*** In 1949, the People's Republic of China adopted a "funds" method of accounting called the "uniform accounting system" (UAS), although the requirement to analyze the balance sheet into three separate funds was removed by the accounting reforms of 1989. The three "funds" included the "fixed fund," the "current fund," and the "special fund." The "fixed fund" represented the various fixed assets such as plant and equipment. The "current fund" was for the items being circulated during the course of production and operation-- raw materials, work in progress, deferred charges, and finished goods--and were measured against certain "norms" for state financing. The "special fund" was related to funds for objectives outside the operating cycle. These objectives included the renewal and renovation of assets, production development, and employees' welfare. These three funds were reported separately on the balance sheet showing a basic equality between applications and sources of funds. Applications were roughly equivalent to assets and sources referred to the source of the fund. This source could be from state investment,

appropriations of profit, loans, and outstanding amounts from trade activities. Information from the reports would then be used to compare the activity of the firm to the prescribed norms for state financing. (Blake 3-6)

*Soviet* The former Soviet financial system exemplified the distinct characteristics of a communistic system. A unified plan of accounts, uniform accounting records and returns, and standard procedures for classifying and processing information were the basic features of such a system. The results of activities were reported to the various ministries but were not opened to public scrutiny. One of the main reports is the accounting balance, a report similar to the balance sheet employed by the market systems. The accounting balance was typically composed of five lettered sections like the following:.

| Assets | Liabilities |
|---|---|
| (A) Fixed capital stock and nonworking assets | (A) Sources of an enterprise's own assets and equivalent assets |
| (B)Circulating capital for which norms are set | (B) Bank credits for circulating capital for which norms are set |
| (C)Cash, settlements, and other assets | (C) Various bank credits, payments, and other liabilities |
| (D)Assets and outlays for capital construction | (D) Sources for capital construction |
| (E) Outlays for the formation of the basic livestock herd | (E) Financing of outlays for formation of the basic livestock herd |

The first three sections were related to the basic activity of the enterprise. The fourth and fifth sections related to the outlays on capital investments. The Section A on the asset side of the accounting balance showed the fixed assets and perfectly corresponded with the source of the fixed assets reflected by Section A on the liability side. This symmetry was consistent throughout the remaining sections. Although the information presented by the Soviet balance sheet did not

convey the same information sought in a capitalistic environment, it was delineated in such a way as to be readable by outside users.

***Islamic*** The religious variable seems to be the most unlikely to influence accounting progress. It is, however, the largest impediment to a global accounting system. The Islamic tradition requires that financial activities be made in accordance with the Qur'an and the prophet Mohammed. Shari'a, the Islamic law of human conduct derived from the Qur'an, decrees that commerce is a matter of morality and that moral behavior forbids interest payments or acquisition. (Karem 285) Since interest reporting is a part of most advanced accounting systems, it is against Islamic law to acquiesce to demands for a global accounting program.

The Qur'an teaches that all ownership of property lies with God; humankind is given temporary stewardship over this property. God expects certain forms of behavior from his stewards. One of the most serious sins against God's law is any form of usuary. (Abdul-Rauf 11) As with many fundamentalist religions, the mandates require that deviations from the laws not be done in deed or in appearance. Acceptance of accounting standards which accept or encourage such interest collections can appear to be agreement with such practices.

The Islamic objections to capitalistic reporting are further reinforced by the strong ties between government and state. There is no separation of church and state. The government's doctrine is in complete compliance with the laws decreed in the Qur'an.

***United States*** The key words in complying with the accounting doctrine of the United States and other capitalist countries are "full and adequate disclosure." It is important to the user

that he has enough knowledge of the business activities to make an informed decision. Not only annual, but also quarterly reports as to the profit or loss activities, current balances of assets, liabilities, and equities, changes in owners' equity, and cash-flow activities are required from publicly traded firms. These reports can then be scrutinized as a basis for making investing decisions, whether the investments be in the form of stock or bond purchases or bank loans.

## Primary Models forAccounting Principles

The result of all the accounting differences is a world with a multitude of different ways of recording and reporting economic events. Businesses are dependent upon investing activity to support growth and continuity. It is necessary that these firms tailor their reports to give as much information as possible in order to entice new capital. There is less confusion when prospective investors are familiar with the accounting methods used. Now that trade is crossing international boundaries with increasing frequency, such expansion makes the variety of extant accounting practices confusing. Trade expansion ranges from purchasing supplies or inventory to investing in the capital structures of businesses within other countries. Making informed decisions is often difficult, but to be profitable, decisions must be informed. An important factor in making an informed decision is having an understanding of the accounting and reporting system employed.

In his attempt to find guidance for developing countries in their search for an accounting system, Amenkhienan identifies four major accounting models currently in operation. These models are derived from the twelve environmental variables and twenty-one accounting principles and reporting practices variables listed in Exhibit I. Through cluster and regression analysis Amenkhienan has derived four models of accounting practices that reflect the similarities among

**Exhibit I.**

Environmental Factors:

| | |
|---|---|
| Official language | Gross capital formation as a percentage of gross national product |
| Type of economy | Income per capita |
| Political system | Balance of trade as a percentage |
| Legal system | Agriculture output as a percentage of gross national product |
| Savings as a percentage of gross capital formation | Change in consumer price index |
| Change in foreign exchange rate | |

Accounting Principles and Practices:

| | |
|---|---|
| Historical cost convention | Going concern concept |
| Fair presentation | Consistency |
| Materiality | Accrual |
| Accounting policies | Realization concept |
| Balance sheet items | Matching concept |
| Income statement | Disclosure of departure from: |
| Diverse activities | Realization |
| Statement of changes in financial position | Historical cost |
| Consolidation and business combinations | Going concern |
| Foreign currencies | Consistency |
| | Accrual |
| | Matching |

the countries included in each model. These similarities are a reflection of both environmental factors and the established accounting principles. Shown in Exhibit II, the models include sixteen industrialized nations. The countries comprising the English Model are by far the most alike This is hardly surprising considering the fact that most of the countries associated with this model were formerly a part of the British Empire. The level of investment activity is high in these countries as is the sophistication of the accounting systems and the users of financial information. The emphasis in the financial reports of these entities is full and fair disclosure.

**Exhibit II.**

| The English Model | The German/Japanese Model |
|---|---|
| Australia | Denmark |
| Ireland | Germany |
| Netherlands | Norway |
| South Africa | Sweden |
| United Kingdom | |
| United States | |
| **The Spanish Model** | **The Continental European Model** |
| Greece | Belgium |
| Portugal | France |
| Spain | Italy |

The lines between the Continental European and the German/ Japanese Models are blurring as the European Community and GATT reach maturity. In these countries, the users of the financial reports with the most influence are the banks, the major investors. Since the banks prefer stability in their borrowers, the emphasis is on conservatism, with some countries having reserves on the financial statements and hidden, yet legal, reserves off the books. These hidden reserves can be used in slower years to make the companies seem more profitable. Little attention is given to disclosure to external parties.

The common determinant in the Spanish Model is inflation, for inflation has been rampant in Hispanic countries for years. The double-digit inflation makes a mockery of the "historical cost" concept, highly distorting the value of accounts reported on a historical cost basis. To adjust for this distortion, prices are restated periodically to reflect the current and not the historical cost. Another area of emphasis is on compliance with government-mandated accounting practices. Again the user--in this case the government--and the economic environment

determine the way accounting is done. The government in this case requires the preparation of financial documents in situations in which they would not otherwise be compiled.

Amenkhienan notes that the three countries comprising his Spanish model were often listed as developing countries at the time of his study (32-3). He also excludes a number of Latin American countries from analysis on the basis of their level of development (16). With the passage of time, it is not surprising to find that Greece, Portugal, and Spain are no longer considered representative of the Spanish model, but the Latin American nations of Argentina, Bolivia, Brazil, Chile, Ecuador, and Peru--previously dismissed by Amenkhienan--form a model which can be called the Latin American model.

Amenkhienan creates his four models to determine what he considers to be the best accounting frameworks for developing countries. Through the recognition of certain patterns, he suggests comparison of newly developing countries to those models derived in his study in order to guide the development of accounting standards. The countries used in his studies are presumed to be developed. But, if this many variations exist in developed economies, one has to wonder how one "correct" mechanism can be found for the variety of less-informed nations. While one correct mechanism probably cannot be found, the reality of the business environment dictates that one must understand the present difference of foreign accounting principles.

## Present Differences in Accounting Principles

In 1995, the Center for International Financial Analysis and Research, Inc. (CIFAR), published a fourth edition of its book *International Accounting and Auditing Trends* summarizing the major accounting principles followed by several different nations (see appendix). The technical differences described below are among the most frequently cited by CIFAR. Knowledge of the impact of these differences on financial reporting, and where the different methods are being employed, provides a key to interpreting and comparing financial reports.

### Technical Differences

***Depreciation*** Historically, along with the attention shift to the income statement and the redefining of income came the recognition that a one-time expenditure for large capital items did not impact just one year. A method for depreciation of limited-life assets was the answer. Depreciating the asset appeared to be a simple solution, but this was hardly the case. As soon as the need for depreciation methods was recognized, several different justifiable methods were suggested.

Accounting in the United States permits several methods of depreciation, with each method having certain advantages. Straight line depreciation, the most widely accepted method, spreads the cost equally over the period of usefulness. Many argue that greater benefits from an asset are realized in earlier years of ownership; therefore, methods such as sum-of-years digits and double- declining balance are advocated. Tax reporting of depreciation recognizes an accelerated system known as MACRS, modified accelerated cost recovery system, that permits increased depreciation expense during earlier years and therefore less tax.

***Inflation Accounting*** Such inconsistencies as the depreciation methods exist in every accounting system. In Brazil and several other South American countries, inflation has been in the double digits for prolonged periods. During a period of heavy inflation, the benefit received in a current year from depreciation or similar expenses based on the historical cost significantly distorts the income statement. In order to match income and expenses more accurately, such countries have routinely adjusted prices for inflation. Such reevaluations are also an approved method to compensate for changes in money valuations. Other countries do not make any adjustment to the financial statements but may provide supplementary price level adjusted information.

***Reserves*** Another common difference in accounting practices is the use of capital reserves. Many Latin American countries use capital reserves to protect and promote investing activity. German accounting also permits hidden reserves to protect future activities. The reserves permit income statement "smoothing," the holding profits of good years to mask the deficiencies of the not-so-profitable ones.

***Inventory*** The methods of inventory valuations that are employed significantly change the compatibility of different accounting systems. In several countries the application of the LIFO, last in first out, inventory method is not permitted. In Greece, Belgium, Venezuela, and Mexico, LIFO is the most widely used method. Many countries use averages or weighted averages of inventory purchases to determine the value of the ending inventory. Others prefer FIFO, first in, first out. The income figures derived from these differences vary significantly.

***Goodwill and Research and Development*** Goodwill is an asset representing the difference between the actual value of the assets of a purchased business and the price paid. Many accounting systems recognize that this asset does not have an indefinite life and amortize it over a period of years, thus reducing income in those years. Others fail to disclose goodwill at all. When examining economic performance of two similar operations, the goodwill expense could cause a wide disparity in reported income. In some countries where reserves are permitted, goodwill is taken to reserves.

Research and development is an expense that may enhance the profits of many years or yield no results whatsoever. Because of this uncertainty, the United States GAAP requires that research and development be expensed as it is incurred. A similar treatment is used in Brazil, Finland, and several other countries. In Thailand, Columbia, Hong Kong, and France, research and development expense is not disclosed. In India, the costs are capitalized and amortized.

***Disclosure and Reporting*** Three more areas of disparity among differing accounting principles are the degree of disclosure, uniformity in terminology, and uniformity in reports used. Disclosure is very important in industrialized nations and is therefore considered a priority in

preparing financial reports. Information not included on the face of the reports can be found in the notes that accompany the reports. Such supplementary information is not made public in the reports filed in Greece, a country with a low degree of disclosure. Even the terminology used within countries can be very confusing. Mexico utilizes as many as thirteen titles for the cash account (Elliot 36). Blake cites language differences as a variation among accounting systems. Even those countries attempting to conform to some international or regional accounting rules have difficulty when interpretations vary (14). The types of reports issued also present problems. The income statement which is considered so necessary in the United States is frequently not prepared in countries which place less emphasis on investment information.

The technical differences listed above do not exist in isolation. Each country employs a mixture of accounting tools. This variety is the cause of much of the confusion when doing business in nations other than one's own. By using the table in the appendix and the models suggested earlier, one can understand the variations more easily. Since the distinction between Amenkhienan's German/Japanese model and the Continental European model is fading, they have been combined to form a Continental model.

## The Continental Model

Amenkhienan assigned Greece and Spain to his Spanish model. With their inclusion in the European Community and compliance with the accounting rules designated by that body, their accounting practices now seem more in line with the Continental model. An examination of the accounting methods used by these two countries and the nations formerly listed as Continental and German/Japanese reveals that, for the most part, the degree of disclosure employed in

financial reports is usually good, with Greece being the exception. Greece's exception becomes understandable when one notices the number of items that Greek accounting does not require--the method of valuation of marketable securities, acquisition of investments, valuation of long-term investments with less than twenty-percent interest, and long term financial leases. The valuation used by the members of the continental model is usually historical cost with occasional adjustments. Depreciation and inventory costing varies widely. Pension costs are expensed currently in Germany and Greece and provided regularly in the other countries. Acquisitions are usually reported as a purchase, not as a pooling of interest.

Gains or losses on foreign currency translations may be taken to the income statement, shareholder's equity, or deferred. Goodwill is most frequently amortized but is usually taken to reserves in Denmark and often in Greece. In France and Belgium, research and development costs are not disclosed. All the other nations expense these costs as incurred. As indicated earlier, general purpose or specific reserves are permitted in all of the nations of the continental model.

**The English Model**

Hoyle includes Canada, Hong Kong, Israel, Mexico, and Panama in addition to the six countries Amenkhienan lists under the English model--Australia, Ireland, the Netherlands, South Africa, the United Kingdom, and the United States. These nations all employ a high degree of disclosure, historical cost conventions (with some price level adjustments and reevaluations), straight line depreciation, regularly provided pension costs, and cost reporting for long-term investments with less than twenty-percent interest.

There are differences in the way other items are treated within the nations of the English model. Gains and losses on foreign currency translations experienced by the countries of the English model are usually taken to either the income statement or shareholders' equity. These gains or losses are sometimes deferred in Hong Kong. Long-term investments with an interest between twenty and fifty percent are reported using the equity method in all these nations except Australia, where they are reported at cost. Long term financial leases are most frequently amortized, except in Mexico, where they are not disclosed. The use of reserves is not used in Canada, Israel, the Netherlands, or the United States. Consistent with the premise of full disclosure, this model's nations are the only ones to contain nations that do not permit the use of reserves.

**The Latin American Model**

The Latin American nations of Argentina, Bolivia, Brazil, Chile, Ecuador, and Peru comprise the model earlier called the Spanish model. As has been noted, these nations have only recently reached some kind of developed status and have begun to employ accounting techniques dealing with the impact of sustained double-digit inflation. Their newly arrived status may account for the high degree of similarity among their accounting systems. Disclosure is limited, and the cost convention is always adjusted to accommodate inflation. The acquisitions of subsidiary interests are not disclosed. Pension costs are reported regularly, and gains and losses from foreign currency translations are always taken to the income statement. Specific reserves are allowed and long term leases are not disclosed.

Differences in accounting practices among the countries of the Latin American model include a variety of inventory costing methods and marketable securities valuation. Some use current cost for inventory valuations; some use average cost. Marketable securities may be valued at current market value, the lower of cost or market, or not be disclosed. Goodwill is usually amortized, except in Peru, where it is not disclosed. Long-term investments are reported using both cost and equity methods, regardless of percentage owned. Research and development costs are expensed currently in Brazil, Chile, and Peru while remaining unreported in Argentina.

When one understands the "why" and "what" of differences in accounting systems and methods the significances of these differences must still be addressed. It is only when the differences are viewed in a global setting that the true impact can be determined.

## The Global Economy

Since World War II, trade has increased exponentially. Better methods of transportation and communication continue to develop. With each new technological advance, the possibilities for trade improve. There is no such thing as a completely insular economy today. Whether the purchase is inventory or stocks and bonds, trade is increasingly global.

Recognizing the potential, several European countries decided to unify their economic efforts in order to gain a larger share of the world market. Two trade associations, the European Community and the European Free Trade Association, were founded to unite the countries, abolish trade restrictions among them, and improve their economic positions. The efforts of these groups have been duplicated by the North American Free Trade Agreement and expanded by the General Agreement on Tariffs and Trade.

Trends toward a global market have increased the demand for more uniform standards. The desire for international harmonization is apparent in the provisions of trade agreements such as the General Agreement on Tariffs and Trade, the North American Free Trade Agreement, and the 1951 Treaty of Paris creating the European Economic Community.

**European Community**

The European Community (EC) is comprised of twelve Western European nations which have joined together to form a single market for their economic resources. Formation began in 1951 with six members united by the Treaty of Paris and an agreement to banish barriers to trade for coal, steel, iron ore, and scrap metal. These six nations--Belgium, France, Italy, the Netherlands, Luxembourg, and West Germany--were later joined by Denmark, Ireland, Great Britain, and Greece. The European Community has ended all trade barriers within its domain, established common controls on imports from other countries, established a set of harmonized accounting standards, and thereby, has become the first supranational body to have significant influence on financial reporting and disclosure. Control over member nations was further established when the two nations of the Iberian Peninsula, Portugal and Spain, united with the European community under the Single European Act in 1987.

The European Community's accounting harmonization is achieved through legally mandated directives. All of the parties concerned are involved in the negotiating process. The accounting profession, businesses, and governments work together in the formation of new directives. The three directives most relevant to international accounting are the Fourth, Fifth, and Seventh.

The Fourth Directive is the mainstay of the accounting harmonization legislation. The aim is not to standardize accounting methodologies but to establish equivalence and uniformity in the financial information published by limited companies. The Fourth Directive requires the publication of the balance sheet, the profit-and-loss account, and the notes on the accounts; it also specifies a particular layout for these reports. The accounting records are required to give a

true and fair view of a company's financial position by following specific valuation rules, audit requirements, and exemption requirements. The Fourth Directive also established a Contact Committee to facilitate harmonization efforts. (Hulle 3-10)

The Fifth Directive deals with the decision-making process of limited liability corporations employing more than one thousand workers in the EC. These corporations are required to allow employee participation in the decision-making structure. The Fifth Directive is also concerned with the adoption of the corporation's annual financial statements, and the appointment, compensation, and duties of the corporation's auditors. (Hulle 3-10)

The Seventh Directive is concerned with consolidated reports of corporations domiciled in, or having subsidiaries in, member countries. Guidelines for increased standardization of reports are the primary focus of this directive. (Hulle 3-10)

## European Free Trade Association

Austria, Norway, Sweden, Switzerland, Finland, and Iceland belong to a similar organization, the European Free Trade Association, which promotes trade within its group. The European Free Trade Association, like the EC, has banished tariffs and restrictions on the importation of manufactured goods among member nations. Unlike the European Community, trade from nations outside its domain are not monitored.

## North American Free Trade Agreement

The three countries of North America have recently joined in an effort similar to that of the European communities. The North American Free Trade Agreement (NAFTA)--ratified by

the United States, Mexico, and Canada in 1992--will create the largest free-trade zone in the world when fully implemented. Mexico's inclusion gives it the new status as a developed country. Provisions of NAFTA include eliminating all tariffs and customs duties on products originating in North America; removing barriers to investment across borders and assuring equal regulatory treatment of foreign and domestic investors; facilitating the transfer of earnings, loan repayments, sales proceeds, and other current payments across borders; permitting the flow of service industries in a nondiscriminatory manner among the countries; allowing managerial, professional, and technical personnel to freely cross the borders in connection with marketing and business activities; protecting intellectual property rights; reaffirming, yet monitoring, each country's right to set business and product standards; and opening each country's government procurement to suppliers from the other countries. (Heeter 70)

### General Agreement on Tariffs and Trade

Another treaty aimed at eliminating trade restrictions is the General Agreement on Tariffs and Trade (GATT). More than ninety countries have signed this agreement since its inception in 1947. Initially GATT's focus was on eliminating tariffs but now includes nontariff barriers. The underlying principles of GATT are nondiscrimination and transparency. Nondiscrimination requires that a country granting a trade advantage to one country must extend it to all contracting parties. Transparency requires that trade measures be made known to other contracting parties. GATT limits the use of import quotas and other restrictions to trade between member nations. It grants special privileges to developing nations and does not require these nations to adhere to all GATT rules.

How does one comprehend the differences delineated by these different groups and the accounting practices used by others outside these groups? Investors need information now, not at some time in the future when "harmonization" is a reality. There have been several methods proposed to accommodate accounting diversities.

## Frameworks for Accounting Harmonization

Amenkhienan identifies five frameworks for working with accounting diversities. These are the universal or world theory, the multinational theory, the comparative theory, the international transactions theory, and the translational theory (8).

The universal theory of "harmonization," which specifies that one accounting system be used by all countries, is popularly recommended by the International Accounting Standards Committee. Underlying support for this theory is that all the differences in current practices are superficial and technical, and that developing countries do not have the resources to develop their own standards. Obviously this theory would meet the need for uniformity in financial reports being analyzed for investment opportunities (8-13).

The multinational theory of international accounting is formulated on the idea that the various differences in accounting methodologies exist because of basic differences in geographic, political, social, and economic features. It supports the idea that each country should have its own relevant accounting system, and companies should follow that system and prepare financial reports accordingly. Secondary reports should then be prepared specifically for interested external parties (13-14).

The comparative theory involves the identification of models, such as Amenkhienan's. These models reflect the similarities among the members of the groups and differences among the groups. Identification of a particular country's model and the model's accounting practices would be necessary for users of its economic data (15-18).

The international transactions theory requires a framework for accounting reporting for those companies involved in worldwide trade. It does not require all companies in all countries to use the same system. Its aim is to facilitate trade, investment, and capital flows between nations but puts no requirements on companies not active in international activities (18-19).

The translational theory's emphasis is on the accounting practices of parent companies with foreign subsidiaries. The view of this theory is that the economic data contained in financial reports are only relevant to a particular accounting framework. As a courtesy to interested parties in other countries, reports should be translated into the language of the prospective user without changing the reports' assumptions or information. It would be incumbent upon the user to have a knowledge of the accounting system of the company's domicile (19-20).

Each of these theories has its supporters and its opponents. Amenkhienan supports the multinational theory and developed the set of models identified earlier. The International Accounting Standards Committee's efforts toward harmonization have a great deal of support. It has the added advantage of providing an accounting system for developing countries. The comparative, international transactions, and translational theories have the benefit of recognizing the validity of current differences.

## Steps Toward International Accounting Harmonization

The different accounting standards used by various countries lead to confusion among investors and uneven opportunities for companies seeking investors. Distortions result from different valuations, depreciations, and amortizations. A uniform system would make it easier for users in other countries to understand the activities reflected in financial reports and hopefully stimulate more international investments. That is the primary argument used for universal generally accepted accounting principles (GAAP). Another argument is that it provides a ready-made framework for developing nations that have not previously developed one. The reporting harmonization process is being promulgated by groups such as the International Accounting Standards Committee (IASC), the International Federation of Accounting Committee (IFAC), the United Nations (UN), and the Organization for Economic Cooperation and Development (OECD).

### International Federation of Accounting Committee

The IFAC was organized in 1976 after the International Coordination Committee for the Accounting Profession was dissolved. The twelve stated purposes (listed in Table 1) of the

Table 1. Purposes of International Federation of Accountants

| |
|---|
| *Develop statements to be used as guidelines for international auditing practices |
| *Establish a minimum code of ethics |
| *Aid in professional education and training of accountants |
| *Evaluate, develop, and report on management accounting techniques and procedures |
| *Gather and distribute information on the management of public accounting practices with the intent of helping others manage their practices more effectively |
| *Undertake other studies of interest to accountants |
| *Foster closer relations with the users of financial statements |
| *Maintain close relations with regional bodies and consider the establishment of other regional bodies |
| *Establish regular communication with members and other interested groups through a newsletter |
| *Organize and promote the exchange of technical information, educational materials, and professional publications and other literature emanating from other bodies |
| *Organize and conduct an International Congress of Accountants approximately every five years |
| *Seek to expand the membership of the IFAC. |

Ahmed Belkaoui. *International Accounting.*

IFAC are accomplished through the efforts of seven standing committees: education, ethics, international auditing practices, international congresses, management accounting, planning, and regional organizations. The most active of these is the International Auditing Practices Committee. The IFAC has issued 570 International Statements on Accounting (ISAs) and hosted several congresses. The International Auditing Practices Committee (IAPC) has issued twenty-nine International Auditing Standards (IASs)--formerly called guidelines--to date and is in the process of updating these.

### United Nations

The United Nations' activities in the international accounting arena are currently limited to the work of one of its committees. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting reviews and discusses accounting and reporting standards and considers potential UN promulgation of accounting standards. (Riahi-Belkaoui 18)

### International Accounting Standards Committee

The International Accounting Standards Committee (IASC) was formed in 1973 to formulate and publish accounting standards and to promote worldwide acceptance and observance of these standards. The IASC has issued the thirty-two Statements on International Accounting Standards. Because of the diverse principles used in presenting financial data, the IASC has found it difficult to get a consensus on the chosen reporting methods for several events or transactions. It has dealt with this dilemma by permitting the two most accepted accounting principles for reporting the event or transaction. The IASC has now issued IAS 32 to deal with these variations, a ruling which should eliminate alternative treatments or identify the preferred method. (Refer to Appendix II.)

### Other Organizations

The International Organization of Securities Commissions (IOSCO), representing the major securities regulators around the world, has been working with the IAPC and the IASC to

encourage revisions of accounting and auditing practices. (Roussey 54-56) The OECD is a group of twenty-four industrialized noncommunist countries. One of the efforts of the OECD is the issuance of the Declaration on International Investment and Multinational Enterprises which contains guidelines for multinational reporting and disclosure. Although the IASC and the IFAC are powerless to enforce their edicts, they have issued a number of standards or statements that are growing in international acceptance.

Regardless of the future of accounting "harmonization," tools are needed to understand current financial statements. The most meaningful analysis is the one with which the user is familiar. With the help of such tools as CIFAR's manual or the table in the appendix, the differences can be minimized. By identifying those areas in which differences exist, the user can restate financial statements according to a familiar GAAP, either that of one's domicile or a universally established GAAP. These restated financial statements can then be used for comparison purposes in making financial decisions.

## Summary

Accounting methodologies have been developed to correct specific, current insufficiencies of previous recordkeeping systems. Scratches on the walls of huts became entries on clay tablets. Receipts became a requirement to document transactions, and general accounts became the recordkeeping norm. Coins replaced oxen or grain as a common measurement for debt and asset valuation. Double-entry replaced single-entry accounting in most capitalistic societies. Each of these changes was either the result of technological advances or in response to circumstances that were previously less important. The movement from guilds to partnerships, associations, and corporations typifies events which required reporting changes. The owner of a one-person business was more aware of the routine events affecting his concern. A partner in a business could be expected to be less aware. A corporate shareholder had almost no such knowledge. It was incumbent upon the accounting profession to devise more comprehensive tools in order to meet these needs.

Accounting is a dynamic field. It is constantly changing according to new needs and changes in the economic environment. Without this ability, the accounting profession would not have existed as long as it has. The IASC's effort toward harmonization seems to be the most accepted

method toward accounting change. A universally accepted accounting system would certainly be easier for the users of international reports. To accept that there is only one best way negates the variety of influences on accounting information. Many accounting differences exist because of valid differences. To arbitrarily deny those differences would diminish the accounting profession.

Of the theories listed by Amenkhienan, the international transactions theory seems to meet the needs of an increasingly global market. Only those companies involved in world trade would be affected. Others could adhere to the systems suitable for their countries' circumstances. A universal system would still be needed for the companies entering or participating in the world market.

One thing that can be certain about the future is that it will be different from the present. One can expect the trend toward a global market to increase. As new companies enter this market and their reporting needs change, the universal theory should become increasingly relevant. Developing countries need assistance in developing an accounting framework and it would seem probable that such a framework would not be the same as the one needed by a highly developed country. That framework would have to have some flexibility and could be expected to evolve into the more sophisticated systems employed by those in international activities.

Time has a way of diminishing differences. One can expect the same to be true of accounting practices. Accounting has been called the first international profession. In order to remain an international profession, it must remain flexible enough to evolve with the industries it serves.

# Accounting and Financial Reporting Past and Present: A Global Perspective

## Appendix I.

In 1995, the Center for International Financial Analysis and Research, Inc. (CIFAR), published a fourth edition of *CIFAR's International Accounting and Auditing Trends.* This two-volume edition contains information compiled from CIFAR's Accounting and Auditing Database and the annual reports of over 25,000 companies. In the first volume, the focus is on accounting practices used in different countries. This information is very useful when one is attempting to reconcile financial reports prepared in other nations. By identifying where differences in accounting principles exist between two countries, one can restate financial statements under different generally accepted accounting principles.

The following pages contain a summary of the principal accounting methods followed by forty-six nations in fourteen accounting areas. This table is an extension of one prepared by CIFAR with more areas of diversity and more nations included. This summary serves to identify areas of differences and similarities among the covered nations. A review of the contents can only serve to increase one's awareness of the complexity of financial decision making.

## Summary of Principal Accounting Methods Followed

| | Degree of Disclosure | Cost Convention | Depreciation | Inventory Costing | Marketable Securities Valuation | Pension Costs | Acquisition |
|---|---|---|---|---|---|---|---|
| Argentina | Moderate | Readjusted | Straight Line | Mixed | Current Market Value | Provided regularly | Not Disclosed |
| Australia | Good | Historical Cost Some Revaluations | Straight Line | FIFO | Historical Cost/ LCM | Provided regularly | Purchase/ Pooling |
| Austria | Moderate | Historical Cost | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Belgium | Moderate | Historical Cost Some Revaluations | Straight Line | LIFO | LCM | Provided regularly | Purchase |
| Brazil | Low | Readjusted | Straight Line | Average | LCM | Provided regularly | Not Disclosed |
| Canada | Good | Historical Cost | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Chile | Moderate | Price-level Adjusted | Straight Line | Average | LCM | Provided regularly | Not Disclosed |
| Columbia | Low | Price-level Adjusted | Straight Line | FIFO | LCM | Provided regularly | Not Disclosed |
| Denmark | Good | Historical Cost Some Revaluations | Straight Line | FIFO | Current Market Value | Provided regularly | Purchase |
| Finland | Good | Historical Cost Some Revaluations | Straight Line | FIFO | Not Disclosed | Provided regularly | Purchase |
| France | Good | Historical Cost Some Revaluations | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Germany | Good | Historical Cost | Mixed | Mixed | LCM | Expensed currently | Purchase |
| Greece | Low | Historical Cost | Straight Line | LIFO/Weighted Average | Not Disclosed | Expensed currently | Not Disclosed |
| Hong Kong | Moderate | Historical Cost Some Revaluations | Straight Line | FIFO/Weighted Average | LCM | Provided regularly | Purchase |
| India | Moderate | Historical Cost | Straight Line | Weighted Ave./ Average | Historical Cost | Provided regularly | Not Disclosed |
| Ireland | Good | Historical Cost Some Revaluations | Straight Line | FIFO | LCM | Provided regularly | Purchase |
| Israel | Good | Price-level Adjusted | Straight Line | Mixed | Current Market Value | Provided regularly | Purchase |
| Italy | Good | Historical Cost Some Revaluations | Straight Line | FIFO | LCM | Provided regularly | Purchase |
| Japan | Good | Historical Cost | Reducing Balance | Mixed | LCM with Moving Ave. | Provided regularly | Purchase |
| Kenya | Moderate | Historical Cost Some Revaluations | Straight Line | Mixed | Not Disclosed | Provided regularly | Not Disclosed |
| Korea (South) | Moderate | Historical Cost Some Revaluations | Straight Line/ Reducing Bal. | Mixed | Moving Ave./ Weighted Ave. | Provided regularly | Purchase |
| Luxembourg | Moderate | Historical Cost Some Revaluations | Straight Line | Mixed | Not Disclosed | Provided regularly | Not Disclosed |

Ave.= Average
LCM= Lower Cost or Market
I/S= Income Statement
S/E= Shareholder's Equity

Bal.= Balance
FIFO= First In, First Out
LIFO= Last In, First Out
Dep.= Depreciation

Gen.= General
PLA= Price Level Adjusted
LCIV= Lower of Cost or Intrinsic Value

## Summary of Principal Accounting Methods Followed

| Foreign Currency Translation Gain/Loss | Accounting for Goodwill | Research & Development Cost | Long term Investments 20-50% | Long term Investments <20% | Reserves | Long Term Financial Leases | |
|---|---|---|---|---|---|---|---|
| I/S | Amortized | Not Disclosed | Equity | Cost/Equity | Specific | Not Disclosed | Argentina |
| I/S &/or S/E | Amortized | Expensed or Capitalized | Cost | Cost | Specific | Amortized | Australia |
| Not Disclosed | Amortized | Expensed currently | Not Disclosed | Not Disclosed | General Purpose | Not Disclosed | Austria |
| I/S &/or S/E | Amortized | Not Disclosed | Equity | Equity | General Purpose | Amortized | Belgium |
| I/S | Amortized | Expensed currently | Equity | Cost | Specific | Not Allowed | Brazil |
| I/S, S/E,&/or deferred | Amortized | Expensed currently | Equity | Cost | Not Used | Amortized | Canada |
| I/S | Amortized | Expensed currently | Equity | Cost | Specific | Not Disclosed | Chile |
| I/S | Not Disclosed | Not Disclosed | Not Disclosed | Not Disclosed | General Purpose | Not Disclosed | Columbia |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | General Purpose | Amortized | Denmark |
| I/S &/or S/E | Amortized | Expensed currently | Equity | Cost | General Purpose | Amortized | Finland |
| I/S &/or S/E | Amortized | Not Disclosed | Equity | Cost | Specific | Not Allowed | France |
| I/S | Amortized | Expensed currently | Equity | Cost | General Purpose | Amortized | Germany |
| I/S | Reserves/ Amortized | Expensed currently | Equity | Not Disclosed | Specific | Not Disclosed | Greece |
| I/S &/or S/E | Taken to Reserves | Not Disclosed | Equity | Cost | Specific | Amortized | Hong Kong |
| I/S &/or Other Assets/Liabilities | Amortized | Expensed or Capitalized | Cost | Cost | Specific | Amortized | India |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Specific | Amortized | Ireland |
| S/E | Amortized | Expensed currently | Equity | Cost | Not Used | Amortized | Israel |
| S/E | Amortized | Expensed currently | Equity | Cost | General Purpose | Not Disclosed | Italy |
| I/S, S/E,&/or deferred | Amortized | Expensed currently | Equity | Cost | General Purpose | Amortized | Japan |
| I/S &/or S/E | Taken to Reserves | Not Disclosed | Cost | Cost | Not Disclosed | Amortized | Kenya |
| I/S &/or S/E | Amortized | Not Disclosed | Cost/ Equity | Cost | Used by Many | Amortized | Korea (South) |
| S/E | Amortized | Not Disclosed | Equity | Cost | Specific | Capitalized | Luxembourg |

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| | Degree of Disclosure | Cost Convention | Depreciation | Inventory Costing | Marketable Securities Valuation | Pension Costs | Acquisition |
|---|---|---|---|---|---|---|---|
| Malaysia | Good | Price-level Adjusted | Straight Line | Weighted Ave./ FIFO | LCM | Provided regularly | Purchase |
| Mexico | Moderate | Price-level Adjusted | Straight Line | LIFO/ FIFO | Current Market Value | Provided regularly | Pooling of Interest |
| Netherlands | Good | Historical Cost/ PLA | Straight Line | Average/FIFO | LCM | Provided regularly | Purchase |
| New Zealand | Good | Historical Cost Some Revaluations | Straight Line | FIFO/ Average | LCM | Provided regularly | Purchase |
| Nigeria | Moderate | Historical Cost Some Revaluations | Straight Line/ Reducing Bal. | Mixed | LCM | Provided regularly | Purchase |
| Norway | Good | Historical Cost Some Revaluations | Straight Line | FIFO | LCM | Provided regularly | Purchase |
| Pakistan | Moderate | Historical Cost | Straight Line | Mixed | LCM | Provided regularly | Not Disclosed |
| Peru | Moderate | Historical Cost/ PLA | Straight Line | Current Cost | Not Disclosed | Provided regularly | Not Disclosed |
| Phillipines | Moderate | Historical Cost Some Revaluations | Straight Line | Moving Average | LCM | Provided regularly | Purchase |
| Portugal | Moderate | Historical Cost Some Revaluations | Straight Line | Mixed | LCM | Provided regularly | Not Disclosed |
| Singapore | Good | Historical Cost Some Revaluations | Straight Line | Weighted Ave./ FIFO | LCM | Provided regularly | Purchase |
| South Africa | Good | Historical Cost Some Revaluations | Straight Line | FIFO | Not Disclosed | Provided regularly | Purchase |
| Spain | Moderate | Historical Cost Some Revaluations | Straight Line | Average | LCM | Provided regularly | Purchase |
| Sri Lanka | Low | Historical Cost | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Sweden | Good | Historical Cost Some Revaluations | Straight Line / Excess Dep | FIFO | LCM | Provided regularly | Purchase |
| Switzerland | Good | Historical Cost Some Revaluations | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Taiwan | Low | Historical Cost Some Revaluations | Straight Line | Mixed | Historical Cost | Provided regularly | Purchase |
| Thailand | Moderate | Historical Cost | Straight Line | Mixed | LCM | Provided regularly | Not Disclosed |
| Turkey | Low | Historical Cost/ PLA | Straight Line | Weighted Average | Current Market Value | Provided regularly | Purchase |
| United Kingdom | Good | Historical Cost Some Revaluations | Straight Line | FIFO | LCM | Provided regularly | Purchase |
| United States | Good | Historical Cost Some Revaluations | Straight Line | Mixed | LCM | Provided regularly | Purchase |
| Uruguay | Low | Historical Cost/ PLA | Straight Line | Not Disclosed | Not Disclosed | Not Disclosed | Not Disclosed |
| Venezuela | Moderate | Historical Cost/ PLA | Straight Line | LIFO | Not Disclosed | Provided regularly | Not Disclosed |
| Zimbabwe | Moderate | Historical Cost Some Revaluations | Straight Line | Average/ FIFO | Not Disclosed | Provided regularly | Not Disclosed |

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| Foreign Currency Translation Gain/Loss | Accounting for Goodwill | Research & Development Cost | Long term Investments 20-50% | Long term Investments <20% | Reserves | Long Term Financial Leases | |
|---|---|---|---|---|---|---|---|
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Specific | Amortized | Malaysia |
| I/S | Amortized/ Reserves | Expensed currently | Equity | Cost | Specific | Not Disclosed | Mexico |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Not Used | Amortized | Netherlands |
| I/S &/or S/E | Amortized | Expensed/ Capitalized | Equity | Cost | Specific | Amortized | New Zealand |
| I/S | Amortized | Expensed/ Capitalized | Cost/ Equity | Cost | Specific/ Gen. Purpose | Amortized | Nigeria |
| I/S &/or S/E | Amortized | Expensed currently | Equity | Cost | General Purpose | Not Disclosed | Norway |
| I/S &/or S/E | Not Disclosed | Expensed currently | Cost | Cost | Not Used | Amortized | Pakistan |
| I/S | Not Disclosed | Expensed currently | Cost | Cost | Specific | Not Disclosed | Peru |
| I/S &/or S/E | Amortized | Expensed or Capitalized | Equity | Cost | Not Disclosed | Amortized | Phillipines |
| I/S &/or S/E | Amortized | Expensed currently | Cost/Equity | Cost | Specific | Not Disclosed | Portugal |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Specific | Amortized | Singapore |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Specific | Amortized | South Africa |
| I/S &/or Deferred | Amortized | Expensed currently | Equity | Cost | Specific | Amortized | Spain |
| I/S | Taken to Reserves | Expensed currently | Equity | Cost | ot Applicabl | Amortized | Sri Lanka |
| I/S &/or S/E | Amortized | Expensed currently | Equity | Cost | General Purpose | Amortized | Sweden |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost/ LCIV | General Purpose | Amortized | Switzerland |
| I/S | Amortized | Expensed currently | Cost | Cost | Not Used | Amortized | Taiwan |
| I/S &/or S/E | Not Disclosed | Not Disclosed | Cost | Cost | Not Disclosed | Amortized | Thailand |
| I/S | Capitalized; ot Amortized | Expensed currently | Cost | Cost | General Purpose | Not Disclosed | Turkey |
| I/S &/or S/E | Taken to Reserves | Expensed currently | Equity | Cost | Specific | Amortized | United Kingdom |
| I/S &/or S/E | Amortized | Expensed currently | Equity | Cost | Not Allowed | Amortized | United States |
| S/E | Not Disclosed | Not Disclosed | Not Disclosed | Not Disclosed | Specific | Not Disclosed | Uruguay |
| S/E | Not Disclosed | Expensed currently | Equity | Cost | Specific | Not Disclosed | Venezuela |
| I/S | Not Disclosed | Expensed currently | Equity | Cost | Specific | Amortized | Zimbabwe |

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LCM= Lower Cost or Market
I/S= Income Statement
S/E= Shareholder's Equity

Bal.= Balance
FIFO= First In, First Out
LIFO= Last In, First Out
Dep.= Depreciation

Gen.= General
PLA= Price Level Adjusted
LCIV= Lower of Cost or Intrinsic Value

## Appendix II. International Accounting Standards

IAS 1
Disclosure of Accounting Policies

IAS 2
Inventories

IAS 3
No longer Applicable

IAS 4
Depreciation Accounting

IAS 5
Information to be Disclosed in Financial Statements

IAS 6
No longer Applicable

IAS 7
Cash Flow Statements

IAS 8
Net Profit or Loss for the Period; Fundamental Errors and Changes in Accounting Policies

IAS 9
Research and Development Costs

IAS 10
Contingencies and Events Occurring after the Balance Sheet Date

IAS 11
Construction Contracts

IAS 12
No longer Applicable

IAS 13
Presentation of Current Assets and Current Liabilities

IAS 14
No longer Applicable

IAS 15
Information Reflecting the Effects of Changing Prices

IAS 16
Property, Plant, and Equipment

IAS 17
Accounting for Leases

IAS 18
Revenue

IAS 19
Retirement Benefit Costs

IAS 20
Accounting for Government Grants and Government Assistance

IAS 21
The Effects of Changes in Foreign Exchange Rates

IAS 22
Business Combinations

IAS 23
Borrowing Costs

IAS 24
Related Party Disclosures

IAS 25
No longer Applicable

IAS 26
Accounting and Reporting by Retirement Benefit Plans

IAS 27
Consolidated Financial Statements and Accounting for Investments in Subsidiaries

IAS 28
Accounting for Investments in Associates

IAS 29
Financial Reporting in Hyper-inflationary Economies

IAS 30
Disclosures in the Financial Statements of Banks and Similar Financial Institutions

IAS 31
Financial Reporting of Interests in Joint Ventures

IAS 32
Financial Instruments: Disclosure and Presentation Joint Effort: Joint Project With Accounting Standards Board of CICA

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