Reasons for International Accounting Differences and Diversification

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ABSTRACT

The history of accounting was traced to the period pre-lucapacioli era. Further emphases were placed on distinguishing domestic accounting from international accounting. Subsequently, various factors influencing accounting development globally were discussed we also looked at the concept of international accounting, origin of national differences in accounting, the causes of these differences, and some existing factors leading to its practices.

KEYWORDS: *Accounting, Diversification, Differences, and Standard*

INTRODUCTION

Although there is a universal purpose of financial reporting, there exists diversity in reporting processes. Accounting practices all over the world are influenced by national environmental factors and conditions, accounting practices are far apart between countries and in most times give rise to problems of understandability of these reports, as such, our focus would be on the reason and causes of international accounting differences and diversity in accounting practices and reporting in this research opinion paper.

HISTORY OF ACCOUNTING

Accounting is a language used for the communication in the business environment. Accounting is the process of recording, classifying financial data into a meaningful structured information and summarized financial information for decision making by users of this information. Tt is data scientifically concerned with organizing financial information organizations and individuals, the history of accounting and international accounting is interrelated, although accounting started before international accounting. Generally, it is believe that accounting history can be traced back to Lucas Pacioli in 1494, however, the history of accounting dates back to the period before the advent of the concept of money which is before Lucas Pacioli's Era (Layeoba & Ajibade, 2016). The formal book keeping and accounting process was first documented by Luca Pacioli in 1494. The evidence of accounting existence before the advent of the concept of money was supported by archaeologists and historians who discovered the oldest city of Jericho as a trade Centre for salt. It was evidenced in this city that no complete accounting was there but the artifacts revealed remains of a temple priest taking inventory of the village livestock using tokens to keep track of the herd size and count the grain harvest (Mattessich, 1989). It can be deduced from the fossil records discovered not only in Jericho but other parts of the world, that before men knew the concept of money, the process of stewardship was known.

Accounting therefore, can be said to be as old as civilization itself as writing developed over 5,000 years ago and archaeological findings revealed that writing was in fact developed by accountants (Salisu,2011). Looking further into the history, the development of the science of accounting has itself driven the evolution of commerce since it was only through the use of more precise accounting methods that modern business was able to grow, flourish and respond to the needs of its owners and the public (John,2002).

However, in the year 1494, Luca Pacioli published summa de Arithmetica, Geometrica, ProportionielProportionielte which was a summary existing mathematical knowledge of the time and cantained a section on ''Details of Accounting and Recording'' that described book keeping as used in Venice. Paciolis Summa was the first complete description of double entry book keeping (Geijsbeek,1914). The double entry book keeping was referred to as a memorandum book, journal, and ledger were required, with the journal and ledger similar to modern equivalents. A trial balance was used when the books were closed. The profit or loss was entered into the capital account to balance sheet (Lemarchnd,1999). This further gave rise to the dawn of modern accounting practices where professional bodies were formed, accounting standards setters were established. These were established to ensure uniformity, understand -ability, and transparency of financial reports and accounts prepared by accountants and ensure their compliance

REVIEW OF RELATED LITERATURE

CONCEPT OF INTERNATIONAL ACCOUNTING

From history, accounting and financial reporting grew up to some extend independently, and often very differently. On different countries, practice, regulation and indeed the mode and volume of regulation, differed often very greatly. With the global economy, instant communication and a global finance market, this situation has changed sharply and this process of change is continuing (Peragalio, 1938). The developments in various economies of the world paved the ways for cross border trading and foreign direct investments. As such, local preparers of financial statements have the mindset that their reports are been used globally. Thus, globalization brought about international accounting.

International accounting concept can be defined as the process of identifying, collecting, recording, measuring, classifying, summarizing, interpreting and communicating financial information to various users globally for meaningful financial decision making. The users of the financial statements globally separate international accounting from domestic accounting. The system of international accounting primarily connotes accounting in different types of environment.

FACTORS INFLUENCING INTERNATIONAL ACCOUNTIG DEVELOPMENT

History has already shown it clear that nations differ in values and political systems, they also have different ways of developing financial accounting systems. Therefore, it is in the light of this that this research work discusses further those factors that influences accounting development in different parts of the world.

1. **External Finance**

The sources of finance to and organization differs in various countries and this influence their accounting profession. In situation where a company grows from private ownership to public ownership due to the need for capital increase, the first observation is that shareholders group becomes large and diverse. The second observation is that ownership is separate from management. Owners of the business (shareholders) essentially uninvolved in the daily management of the company. In such a situation, in order to know how well a company Is faring, financial accounting information becomes an important source of information. This was how the industrial revolution in the United States and Britain aided the development of accounting.

Another point to note in external financing is the credit system. Where banks are primarily the source of capital, financial accounting is oriented build around creditors protection. There are close ties between companies and banks personal. The information needs of the resource providers are satisfied in a relatively straightforward way through personal contacts and direct visits. Since the business enterprises have to deal with only a few creditors and sometimes even one, direct access in an efficient and practical way to have the company's financial health monitored. Another consideration in external financing is to what extent the government gets involved in company investment. Like in France and Sweden where the National Governments play a strong role in managing their resources and business enterprises are expected to accomplish the governments' policies and macro-economic plans. Governments also actively ensure that businesses have adequate capital and will lend or even invest in companies if necessary. Financial accounting is oriented toward decision making by government planners. Firms follow uniform accounting procedures and reporting practices, which facilitate better government decisions finance must be satisfied. This would call for going beyond domestic expectations and customs in providing financial reports.

2. **Legal System**

A major factor that influences the development of accounting is the legal system that operates in that country. Many dissect the accounting world into those countries with a 'legalistic' orientation toward accounting and those with a 'non legalistic' orientation. They explained that the legalistic approach to accounting is predominantly represented by the so called code law countries while the non-legalistic approach is the so-called common law countries.

Laws in code law countries stipulate the minimum standard of behavior expected. Citizens are obligated to comply with the letter of the law. In most code law countries, accounting principles are codified much as the tax code is in the United States. Thus, financial accounting is administered by government bodies. Accounting practices and rules tend to be highly prescriptive, detailed and procedural. A primary role of financial accounting in these countries is to determine how much income tax a company owes the government. For example, such countries are Argentina, France and Germany.

The non-legalistic approach found in common law countries establishes the limits beyond which it is illegal to venture. However, within this limits, latitude and judgment are permitted and encouraged. Accounting practices in common law countries are largely determined by accountants in the private sector and they evolve by becoming commonly accepted in practice. Thus, accounting tends to be more adaptive and innovative. Examples of common law countries that adopt non-legalistic approach are the United States and the United Kingdom.

3. **Political and Economic ties with other Countries**

One factor that has shaped accounting development is the political and economic ties that exist among nations. The United States has influenced accounting in Canada due to geographic proximity and friendly economic ties and because a number of Canadian companies routinely sell shares of common stock or borrow money in the United States. The United States is Mexico's principal trading partner: and also because of proximity, accounting in Mexico is very much like that in the United States.

Another significant force in international accounting has been the United Kingdom. Almost every former British colony has an accounting profession and financial accounting practices patterned after the UK model. These countries include Australia, New Zealand, Malaysia, Pakistan, India, South Africa and Nigeria. The British did not only export their brand of accounting but also exported many accountants. Most early US accountants also came from Britain, seeking the job opportunities associated with the economic expansion that was occurring in the United States around the turn of the 20th century.

The political and economic ties among nations have forced accounting practices to become more similar. Consequently, this has led to the rise of the International Accounting Standards Committee (IASC) which has become the driving force globally to develop international financial accounting standards and sought for their widest possible acceptance and use. Similarly, the International Federation of Accountants Committee (IFAC), among many other activities, develops and issues international auditing standards which were accepted in 1992 for financial reporting in international financial market.

4. **Level of Inflation**

Another factor that influences the development of accounting development is the level of inflation. Accounting in many countries is based on the historical cost principle. The principle is based on an assumption that the currency unit used to report financial results is reasonably stable. The historical cost principle holds that the recording of transactions at prices when they occur should be done and there should not be changes in the prices at later date. Generally, historical cost principle affects accounting most significantly in the area of assets values that the company keeps for a long time such as land and buildings. The reasonableness of the historical cost principle varies inversely with the level of inflation.

Germany and Japan hold strictly to historical cost principle because they have historically experienced very little inflation. However, some South American countries, ravaged by inflation problem for years, long age abandoned any attachment to strict historical cost. Companies in these countries routinely write up the values of their assets based on changes in general price levels.

5. **Size and Complexity of Organizations**

The size and complexity of businesses in a country determine the country's accounting sophistication. Larger and more complex business enterprises have more difficult accounting problems. Highly trained accountant are needed to handle these more difficult problems, accounting cannot be highly developed in a country where general education levels are low, unless that country imports accounting talent or sends bright citizens elsewhere for the necessary training. At the same time, the users of a company's financial reports must themselves be sophisticated- or else there will be no demand for sophisticated accounting reports.

Most multinational corporations are headquartered in the wealthy, industrialized nations (e.g Japan, Germany, Great Britain and the United States). These countries have sophisticated accounting systems and highly qualified professional accountants. In contrast, education levels in most developing countries are low and businesses are small. As a result, accounting is primitive. From earlier discussion however, it may occur to you that if accounting responds to information needs, then accounting in developing countries may very well be at an appropriate level of sophistication under the circumstances. While many accountants hold this view, some feel that the lack of sophisticated accounting ability in less developed countries actually impedes their potential for economic progress

ORIGIN OF NATIONAL DIFFERENCES IN ACCOUNTING

The evolution of financial reporting from internal reporting to external reporting can be traced to the separation of the roles of owners and managers of the business. Early financial reports can hardly be called external; they were a means by which the owners could get an insight into their income and capital. The company was apart of and managed by its owners. One could hardly distinguish between internal and external financial reports. From early 1800s on, the increasing scale of companies resulted in finance problems and the need for a disconnection of management and capital supply, private capital alone was insufficient to finance business activities, so capital was gathered from people outside the company. The separation of ownership and management makes it possible to have the company managed by people specializing in management. The owners delegate control and the evaluation of the management to the board of directors. As such, financial reports evolved from internal to external reporting, but for a long time external reporting meant providing information within the borders of a specific country. Thus, because national authorities perceive that there are alternatives for recognition and measurement and presentation they have chosen those recognition, measurement, consolidation and presentation policies which best fitted their national environments. The annual report, for example, provides information on the financial position of a company and its results. Although the general purpose is similar in most countries, many differences occur resulting from different environmental and cultural influences in the individual countries

CAUSES OF INTERNATIONAL ACCOUNTING DIFFERENCES

The likely causes of the differences in financial reporting internationally are discussed according to Nobes and Parker (2003):

1. Culture: Cultural differences between nations are identified as an important influencing factor on reporting and disclosure behavior with regard to financial statements e.g. secrecy versus transparency, uniformity versus flexibility. Accounting is affected by its environment, including the culture of the country in which it operates. One of the prominent researchers on cultural differences is Hofstede (1980).Gray (1988) applies these cultural differences to explain international differences in the behavior of accountants and therefore in the nature of accounting practices. For example, Gray suggests that a country with high uncertainty avoidance and low individualism will be more likely to exhibit conservative measurement of income and a preference to limit disclosure to those closely involved in the business. (Hofstede1980) developed a model of culture as '*the collective programming of the mind that distinguishes the members of one human group from another*'. Hofstede (1984) defined the following four constructs to classify countries according to the cultural differences, he observed in his empirical research:

- **Individualism versus Collectivism**: Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. The fundamental issue addressed by this dimension is the degree of interdependence that a society maintains among individuals. This influence the choice of accounting system of secrecy versus transparency in disclosure requirements.

- **Large Versus Small Power Distance**: Power distance is the extent to which the members of a society accept that power in institutions and organizations is distributed unequally. People in societies that have large power distance accept a hierarchical order in which everybody has a place which needs no further justification. The fundamental issue addressed by this dimension is how society handles inequalities among people when they occur. This is linked to the choice of the developers of accounting standards between professional bodies and statutory regulators.

- **Strong Versus Weak Uncertainty Avoidance**: Uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to beliefs promising certainty and to maintain institutions protecting conformity. Strong uncertainty avoidance societies maintain rigid codes of belief and behavior and are intolerant towards deviant persons and ideas. Weak uncertainty avoidance societies maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. A fundamental issue addressed by this dimension is how a society reacts to the fact that time runs only one way and that the future is unknown: whether it tries to control the future or lets it happen. This influence the disclosure practices in the accounting system and the choice between conservatism and optimism.

- **Masculinity Versus Femininity**: Masculinity stands for a preference in society for achievement, heroism, assertiveness (boldness) and material success. Its opposite, femininity, stands for a preference for relationships, modesty, caring for the weak, and the quality of life. This affects the degree of uniformity and flexibility of the accounting system in a society.

2. Legal System: Some countries have a legal system that relies upon a limited amount of statute law, which is then interpreted by courts, which build up large amounts of case law to supplement the statutes. In the past two types of legal systems have developed in the West:

- **The Common Law System**: The common law system originated in England, primarily after the Norman Conquest, by judges acting on the king's behalf. Common law is characterized as a legal system which develops case by case and which does not prescribe general rules, which could be applied to all cases. In common law countries accounting regulation is in the hands of professional organizations in the private sector. Company law is kept to a minimum and detailed regulation is produced by the private standard setter. Although this common law system emanates from England, it may be found in similar forms in many countries influenced by England. Thus, the federal law of the United States, the laws of Ireland, India, Australia, Nigeria and so on, are to a greater or lesser extent modeled on English common law. There seems to be an association of common law countries with particular types of accounting practices.
- **The Code Law System**. The code law system originated in Roman law and has developed in continental Europe. It is characterized by a wide set of rules which attempt to give guidance in all situations. In the code law countries, the company law is very

detailed and accounting standards are often embodied in the company law. Accounting regulation in code law countries is in the hands of the government and financial reporting is in those circumstances often reduced to complying with a set of very detailed legal rules.

3. Providers of Finance (Source of Finance): The difference in providers of finance (creditors/insiders) versus (equity/owners/outsiders) is the key cause for international differences in financial reporting (Nobes& Parker, 2003). Companies in different countries respond differently to the increased need for finance. In Germany, France, Italy, Belgium, banks became the major supplier of additional funds. Thus companies relied more on debt financing. On the contrary, in the UK and in the US shareholders provided extra funds. This has given rise to active stock exchanges.
In most continental European countries and in Japan, the traditional paucity of 'outsider' shareholders has meant that external financial reporting has been largely invented for the purposes of protecting creditors and for governments, as tax collectors or controllers of the economy. This has not encouraged the development of flexibility, judgment, fairness or experimentation. However, it does lead to precision, uniformity and stability. It also seems likely that the greater importance of creditors in these countries leads to more careful (prudent, conservative) accounting. This is because creditors are interested in whether, in the worst case, they are likely to get their money back, whereas shareholders may be interested in an unbiased estimate of future prospects.
4. Taxation: In some countries fiscal authorities use information provided in the financial statements to determine taxable income. In some countries the costs are only tax deductible if they are also recognized in the profit and loss account. This may lead to the danger, that financial reporting becomes tax influenced or even tax biased.In the UK and Nigeria the link between taxes and accounting is much weaker. Separate accounts are filed for tax purposes.

3.3 SOME EXISTING ACCOUNTING PRACTICE DIFFERENCES

- **Conservatism and Accruals**: The word 'conservatism' in the accounting literature has two different meanings. It is explained as the tendency to understate profit and assets. This is associated with the state's desire to limit dividends in order to protect creditors, and with a company's desire to limit taxable income. It is also the speed with which losses are reported. Perhaps because of the different mix of users in differing countries, conservatism (in the former sense) is of different strengths. For example, the importance of banks in Germany may be a reason for greater conservatism in reporting. It is widely held that bankers are more interested in 'rock-bottom' figures in order to satisfy themselves that long-term loans are safe. At the same time, the consequent lack of interest in a 'fair' view reduces the need to modify conservatism. IFRS refers to the concept of 'prudence' rather than 'conservatism'. In many cases, accounting standards are the compromise treaties that settle a battle between prudence and the accruals concept.

- **Provisions and Reserves**: The area of 'provisions' and 'reserves' is fraught with linguistic difficulties. For example, in American English the word 'reserve' always means 'provision' in UK English. UK English will be used here, but this still leaves another difficulty in that the word 'provision' means two things: (i) a liability of uncertain timing or amount (e.g. 'provision for pensions') and (ii) an allowance against (or impairment of) the value of an asset (e.g. 'bad debt provision' or 'provision for depreciation'). The IFRS usage is 'provision' to mean the first of these, and 'impairment' to mean the second. Setting up a provision or making impairment involves a charge against income, but there is an important distinction. Making impairment is a matter of measurement relating to an asset which has already been recognized. By contrast, setting up a provision requires three stages of consideration: is there a liability? Should it be recognized? How should it be measured? The distinction between provisions and reserves is important for financial reporting because provisions are liabilities recognized by charges against profit, whereas reserves are elements of equity caused by undistributed gains.

- **Measurement of Assets**: There is great international variation in the degree to which departures from a cost basis are allowed or required. In a country with detailed legal rules and a coincidence of tax and commercial accounting the predominant valuation system will involve as little judgment as possible. Flexibility and judgment would make it difficult for auditors to determine whether the law had been obeyed and might lead to arbitrary taxation demands. Now IFRS and UK rules allow revaluation of tangible and some intangible assets, as long as it is continuous and applies to all assets of the same sort.

- **Financial Statement Formats**: Balance sheets vary in two main ways under domestic rules. First, in some countries, assets are displayed in order of decreasing liquidity (cash first), whereas in other countries there is an increasing order of liquidity (intangible fixed assets come first). The key to predicting is that the decreasing order is used by countries influenced by the United States, and the increasing order is used by countries in the EU. The other main variation in balance sheets is the shape of them. Some combine together all the debits and then all the credits. Such balance sheets are either two-sided (with assets on the left) or in 'report form' on a single page (with assets at the top). Other companies arrange the items in order to calculate totals of net current assets and net assets; this may be called a 'financial position format'. These three shapes (with assets in order of increasing liquidity) are all allowed in the EU. There is no US requirement on the shape of balance sheets. For income statements, the variety is rather more of a problem for users of financial statements. In this research opinion paper, we have discussed the concept of international and universal accounting it's origin, national differences in accounting, and the reasons and causes of this differences and diversifications.

4.0 CONCLUSION AND RECOMMENDATION

Although there is a universal purpose of financial reporting, there exists diversity in reporting processes. Accounting practices all over the world are influenced by national environmental factors and conditions as discussed in this research paper. However, when accounting practices between countries are far apart there will be problems of understandability of these reports. As such, the focus of global harmonization of accounting practice should be made for uniformity, understandability and easy communication accounting language to all users of accounting information.

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