THE ROLE OF ACCOUNTING SYSTEM CLASSIFICATION IN THE OPTIMIZATION OF INTERNATIONAL HARMONISATION PROCESS

PhD Student **Geanina MĂCIUCĂ**
Stefan cel Mare University of Suceava, Romania
geaninasth@gmail.com

Lecturer PhD **Marian SOCOLIUC**
Stefan cel Mare University of Suceava, Romania
marians@seap.usv.ro

Abstract:
The main objective of international accounting bodies is represented by worldwide accounting harmonisation. However, this process faces difficulties which arise from matters specific to each country, either from the complicated nature of international financial reporting standards, from interpretation, from language and terminology problems or from the different nature of the principles, procedures, methods and accounting practices nationwide. The degree of awareness of the differences and similarities between national accounting systems serves as a basis for the international accounting classifications, this classification being needed to better understand the difficulties faced by accounting experts related to the harmonisation process.

Key words: international accounting, accounting systems, harmonisation, international classification, accounting practices

JEL classification: M41

INTRODUCTION

Worldwide, there are no identical accounting practices in different countries. However, there are countries that have in common the same influences. Although studies and research on the administrative processes have undergone some serious changes, in parallel with the spreading of the process of accounting unification promoted in the European Union, with a particular acceleration in the last thirty years, there are still differences. Thus, relevant for the international context are the legal, cultural, historical differences even between the EU member states (Saita et al, 2012, p. 9). Awareness of this diversity and of the demands imposed by globalisation has led in recent years to the phenomenon of harmonisation of accounting standards by IASB and the European Community.

The classification of the accounting systems is first and foremost a tool for comparing different national accounting regulations and practices in order to group countries thus providing elements that characterize a country's accounting system, without needing to know all their rules and accounting practices. Although the starting points are different, (accounting classifications have as starting point the similarities between accounting rules and practices within countries, while accounting harmonisation is based on the differences existing between rules, accounting practices, in the same country or from different ones) the fundamental role the primary role of an accounting classification consists in assessing the difficulties of carrying out the international accounting harmonisation policies.

For this paper, we used, as a research method, qualitative research which is based on interpretation. In this respect, for this paper we studied articles and papers in the field with the motivation that in the "IFRS era" understanding the differences and similarities between national accounting systems is absolutely necessary for international accounting harmonisation. Starting from this assumption and from the fact that in any field classification "is a fundamental process in the better understanding of phenomena" (Nobes, 2011, p.267), we presented the main approaches accepted by the literature of the field. Furthermore, we considered that the most recent classification

made by Nobes in 2011 expresses the best the fact that international accounting harmonisation specialists still face problems arising from national practices.

LITERATURE REVIEW

We believe that before talking about the multitude of accounting systems, on an international level, we must define the notion of international accounting, in which these systems gain important meanings. Thus, international accounting is the science which studies the reasons for the differences between accounting systems as well as the functions associated with the international financial reporting system. The study approaches for the field can be summarised as follows: universal approach (according to which the accounting function is a common requirement, the objective being the development of the general typology), historical approach (according to which the objective of accounting is to study to study history to understand the causes of diversity), contingency approach (according to which the objective of accounting is to identify the external factors and the way in which they influence the characteristics of the accounting systems) (Aureli, p.4).

The external factors can be divided according to the following typology: institutional (legal system, economic system), economic (financial system, the economic role of the state), socio-cultural (culture, linguistic differences, the role of doctrine and of occupation, the skills of the entrepreneurial team) (Aureli, p.6).
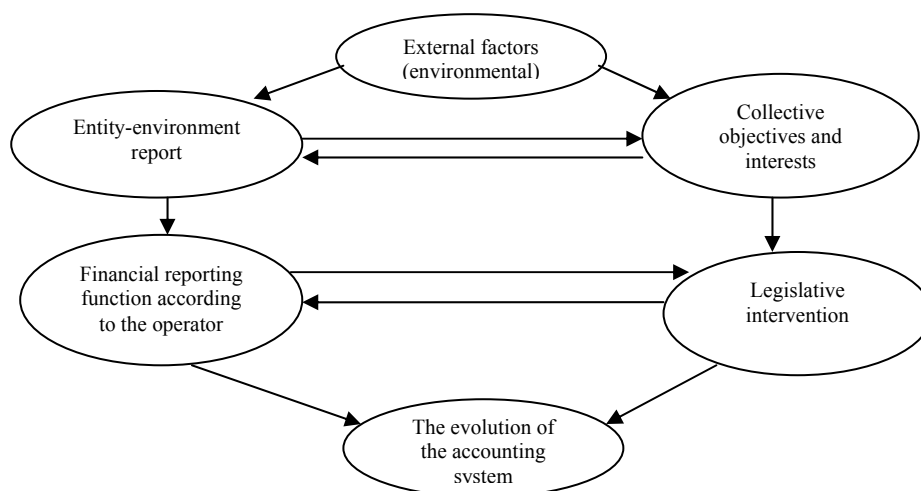
Source: Aureli, S., *Principi contabili internazionali*,Facolta di Economia, URBINO, p.5

Figure 1- The influence of the external factors on the evolution of the accounting system

One of the most important external factors is the legal system. On an international level, two systems are predominant: the common law system and the Roman legal system. The countries that are part of the common law system (the system has its roots in the United Kingdom but has been applied in many countries under English influence) have a system made up of a limited number of laws in which it is sought to satisfy a specific case rather than formulate a general rule for the future. In contrast, other cultures and nations have used a system based on the Roman legal system. Business law, which governs, on a wide scale, the financial reporting structure, takes shape from this culture. The differences between the legal approach of common law and the Roman legal system have influenced the accounting standards and accounting practices.

The first attempts to classify accounting systems goes back to over a century ago (in 1911 Hatfield's classification consisted of three groups: USA, the United Kingdom of Great Britain and Northern Ireland and continental Europe) but the researchers' interest in the field increased in the 60s. In the following decade emphasis was placed on the empirical grounding of the undertaken studies while in the 80s and 90s it constituted the most important part of international accounting research (Bogdan, 2004, p.88).

To better understand and describe the differences between the accounting systems, their classification can help. Nobes and Parker propose a classification of the accounting systems using the following taxonomy: extrinsic (deductive) and intrinsic (inductive). The deductive approach implies the classification of accounting systems based on the identification of the relevant environmental factors (legal system, tax system, culture, level of economic development, etc.). The inductive approach implies the classification of accounting systems based on the analysis of accounting practices (Nobes and Parker, 2008, pp.69-70).

The starting point in the deductive analysis of accounting systems is given, in 1967, by Mueller, when he identifies four development models for accounting systems: macroeconomic, microeconomic, accounting as an independent discipline, uniform accounting (Tabără et al., 2010, pp. 82-83).

The AAA (American Accounting Association) classification of 1977 is an attempt in describing all of the major characteristics which influence the accounting systems. The American Accounting Association identified eight influences called accounting system "parameters": political system, economic system, economic development, financial accounting objectives, the origins of accounting norms, education and accounting training, enforcement of ethical norms, the client (Roberts et al, 2005, pp.214-216). Based on this morphology, the American Accounting Association identified five influence zones (Bogdan, 2004, p.90): British, French-Spanish-Portuguese, German-Dutch, communist, American.

Between 1990 and 2000, other researchers have proposed other accounting system classifications. In this respect, we must emphasize Nobes' theory which establishes the differentiation factors that allow a more accurate classification of accounting systems: the typology of users of accounting information from financial reports of listed entities, the degree in which laws and standards impose details while excluding subjective judgements, the importance of taxation rules, the caution and precision in applying historical cost, writing practices of consolidated financial reporting, entity uniformity in rule application.

In 1983, Christopher Nobes set up the first hierarchical classification based on the financial reporting system (Pântea, Cristea, 2009, p.38) identifying two orientations: micro and macro. In turn, they are grouped into subclasses, families and species.
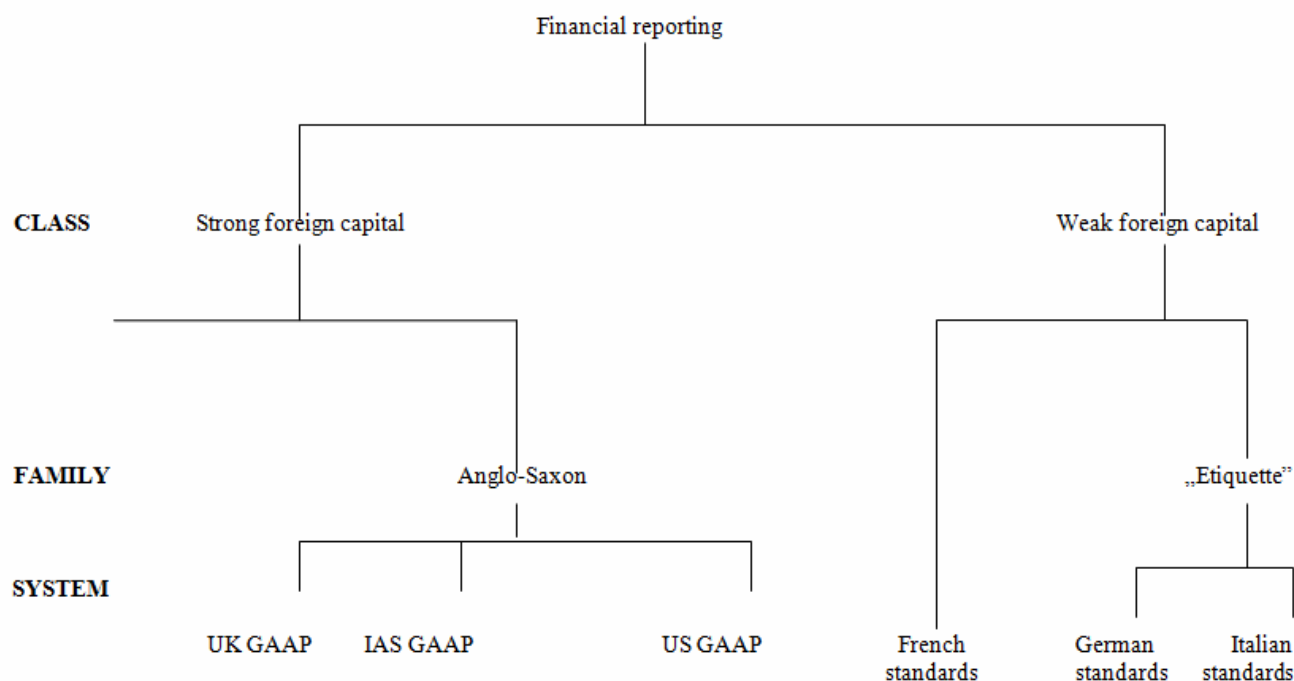
In the microeconomic-oriented countries, elements of judgement, the concept of fair view and the market-based economic adjustment prevail. Holland (which is strongly oriented towards business), Australia, New Zeeland, the United Kingdom and Ireland (with professional rules derived from business practices of British origin), Canada and the United States (with professional rules derived from business practices) are an example in this respect.

In the microeconomic-oriented countries, uniformity in the application of measurement methods is predominant (Tabără et al, 2010, p.90). Italy (with a system based on the Civil Code and international influences), France, Belgium and Spain (with an accounting system based on unified account plans), Germany and Japan (with an accounting system based on statutory rules), Sweden (with an accounting system based on economic control imposed by the tax system) are an example in this respect.

This classification was developed prior to the adoption of EU directives and before the adoption of IFRS by companies in any of the countries taken into consideration (Nobes, 2011, p.14).

In 1988, Gray found that the importance of culture does not seem to be fully appreciated and, starting from Hofstede's study of 1980, identified four cultural values which influence accounting practices (Gray, 1988, pp.6-11): professionalism versus statutory control, uniformity versus

flexibility, conservatism versus optimism, secrecy versus transparency. The model proposed by Gray, based on cultural influences, was a way to show the impact of culture on accounting and the connection between culture, accounting values and accounting practices (Cigdem, Sonan, 2007, p.150).

Figure 2-Accounting system classification (Nobes, 1998)

On an international level we need to distinguish between credit countries/insider (countries financed mainly by banks) and equity countries/outsider (countries financed directly by investors). This aspect is important because these differences affect international financial reporting standards (Saita et al, 2012, p. 12). In 1998, Nobes believed that the most important factor in explaining the differences between accounting systems is the financing system which may vary from country to country.

Thus, he divides the financial reporting systems into two classes: A and B. In class A we can find the countries with strong funding through external equity, corresponding to the Anglo-Saxon systems: United Kingdom, New Zeeland. In class B we can find countries with low equity through external equity, corresponding to the continental Europe accounting systems (Nobes and Parker, 2008, pp.218-220).

In the international accounting literature, Gray's classification made in 1988, based on the analysis of cultural factors, and the classification made by Nobes in 1998, according to the influence of the funding system, play an important role.

The main criterion used in the inherent classification of accounting systems is the nature of accounting practices. Nair and Frank's research (1980) has, as a starting point, the data provided by Price Waterhouse in 1973 and 1975. The data on the assessment practices was separated from the data on accounting disclosure practices. The result of the research was the classification of accounting systems into two groups: a group based on assessment practices and a group based on accounting disclosure practices.

In 2008, Nobes wondered if the old accounting classifications are still relevant in the "IFRS era". In 2010, together with Erlend Kvaal, he performed a study in which the IFRS practices of five

countries were taken into account: Australia, France, Germany, Spain and Great Britain. Analysing the financial statements for the financial years 2005 and 2006 for the major companies listed in these countries (a number of 232 financial statements of various fields of activity), Kvaal and Nobes noted the existence of national practices different from the IFRS ones. Analysing, as well, the financial statements for the years 2008-2009, the two researchers have noticed the same occurrence. The 2011 research attempts to investigate whether the classification made in 1983 leading to the creation of two groups is still valid even after 30 years. Out of the 14 countries included in the classification, Nobes selected eight (Australia, France, Germany, Spain, the United Kingdom, Italy, Sweden and Holland). For 287 of the financial statements, 13 criteria were used: six referring to the presentation practices and seven referring to measurement practices.
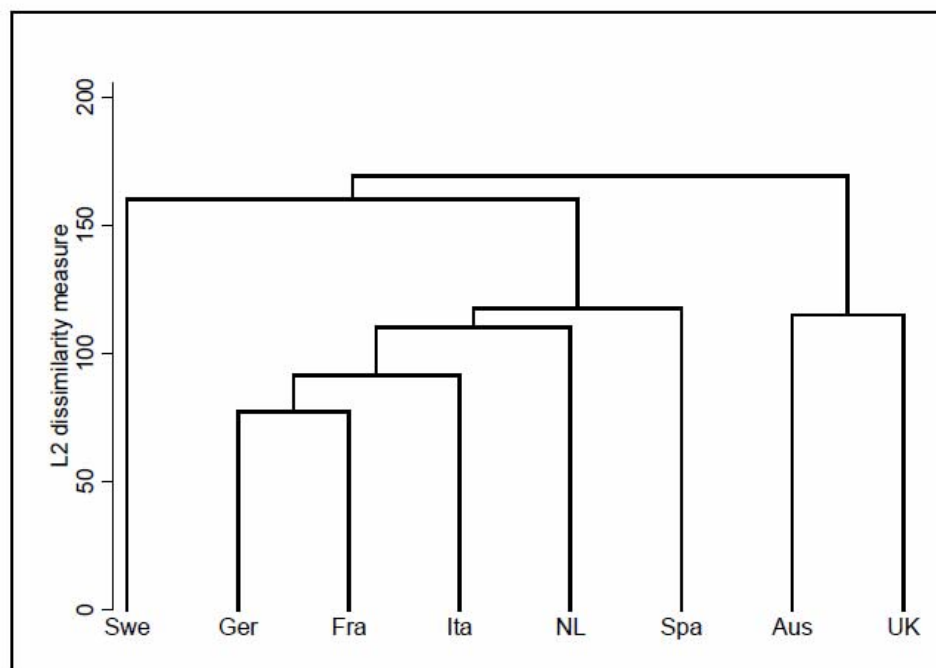
Source: Nobes, C., *An accounting Classification Based on IFRS Practice*, School of Management University of London, Seminar, 2011, p.24

Figure 4-Accounting system classification (Nobes, 2011)

All statistical techniques have led to the same conclusion: the Anglo and continental European groups can be identified in the IFRS practices of large companies (Figure 4), the national accounting practices being resistant to the harmonisation process. Nobes used in his research the average linkage between groups method, this procedure identifying the congruence in policies between each pair of countries (Nobes, 2011, p.277). Germany and France form the first pair and together form a single unit which, together with Italy, form another pair. They, in turn, form another unit which, coupled with Holland, form another pair. Thus, another unit is formed which, together with Spain, form another pair. Australia and Great Britain form a pair in the Anglo group.

Although Romania is not part of the study, we can imagine that it would form a pair with France.

RESULT OF RESEARCH: APPEAL ON THE HISTORICAL APPROACH ON THE ACCOUNTING SYSTEMS CLASSIFICATION

The financial information of companies from different countries has been and continues to be the driving forces behind the movement of international accounting harmonisation. Creating an

accounting system classification can favour the analysis of the international harmonisation process, irrespective of the realization of this process, "either through mutual recognition, through convergence between different referential or through standardizing these referential". (Bogdan, 2005, p.93)

The origin of the differences and the similarities, as far as the financial information content provided by companies is concerned, is focused on the analysis of accounting systems. As shown above, most researches on the classification of accounting systems were based on parameters such as socio-economic environment or on accounting practices, but in the current context of globalisation, changes occur in both the social and the cultural environment, which greatly influences the accounting systems. These changes cause an evolution in the accounting systems and therefore require constant updating.

Without minimizing the efforts made by the researchers until now in the field of international accounting classification we believe that the contingent approach won at the expense of the historical approach. The manner of financing remains the most important criterion in the classification of accounting systems, but in our opinion, one based on the historical (traditional) character of national accounting regulations, could be a criterion that should be considered in the future. "Whether out of deep-seated tradition, indifference born of economic power, or resistance to intrusion of foreign influence, some say that national entities will not bow to any international body" (Beresford, 1988, pp 79-80). For example, since 2002, FASB and IASB have been working on the convergence with U.S. GAAP IAS / IFRS. After a ten-year convergence process between two international referential, in 2015, the US will have to give up on about 100 years of history in accounting normalisation and apply IFRS.

We consider, in this case, that out of nationalisation and respect for the history of its regulations, it will be difficult for U.S. companies to abandon the national accounting practices, which could be an obstacle in the process of harmonization.

CONCLUSION

In 1999, professor Feleagă stated that the national differences persist (Feleagă, 1999, pp. 19-23), and after 12 years, in 2011, professor Nobes claimed the same. The two groups, Anglo-Saxon and continental European, still exist which reinforces the idea that "an international accounting harmonisation … is a delicate enterprise if not an impossible one. It is, at least, a long term endeavour."

Accounting classification of accounting systems is not subject to harmonization process, but between them there is an interdependent relationship in the sense that through classification positioning of a country to the others would be achieved, thus emphasizing the progress made by it in comparison to another of the same category. Unfortunately, this classification is easier to achieve in terms of theory and harder in practice because it is harder to anticipate the responses of the economic environment. But this does not mean that the importance of research must not be underestimated. Research in the international classification of accounting and reporting systems is important because it helps us to better understand the complex realities regarding accounting practices around the world (Selhorn and Tomaszewski, 2006, pg. 188) and can favour the analysis of the international harmonisation process, its logic and its challenges.

REFERENCES

1. Alexander, D., Nobes C., (2010), *Financial accounting. An International Introduction*, Prentice Hall, London;
2. Aureli, S., *Principi contabili internazionali*, Facolta di Economia, URBINO;
3. Beresford, D.R., (1988), *Accounting for International Operations*, CPA Journal;
4. Bogdan, V., (2004) *Armonizarea contabilă internaţională*, Editura Economică, Bucureşti, 2004;

5.   Buckley, J.W., Buckley, M.H., *The accounting profession*, Melville, Los Angeles (1974);

6.   Choi, F., Meeh, G., (2011), *International accounting*, Prentice Hall, London;

7. Cigdem, S., Sinan A., (2007)*, The historical evolution of accounting in China: the effects of culture,* Revista Española de Historia de la Contabilidad, decembrie 2007, p.146-173;

8.   Doupnik, T., Perera H., (2007), *Contabilidad internacional*, McGraw-Hill Interamericana;

9. Feleagă, N., (1999), *Sisteme contabile comparate – contabilităţile anglo-saxone*, vol.I, ediţia a II-a, Editura Economică, Bucureşti;

10. Feleagă, N., (2000), *Sisteme contabile comparate - Normele contabile internaţionale*, vol.II, ediţia a II-a, Editura Economică, Bucureşti;

11. Gorgan, C., (2013), *Convergenţa contabilă internaţională. Implicaţii asupra raportării financiare*, Editura ASE, Bucureşti;

12. Gray, S.J., (1988), *Towards a Theory of Cultural Influence on the Development of Accounting Systems Internationally*, Abacus;

13. Hofstede, G., Hofstede, G.J., Minkov, M., (2012), *Culturi şi organizaţii. Softul mintal. Cooperarea interculturală şi importanţa ei pentru supravieţuire*, Editura Humanitas, Bucureşti,

14. Kvaal, E., Nobes, C., (2010), *International differences in IFRS policy choice: a research note*, Accounting and Business Research, Vol.40, No.2, pp.173-187;

15. Morales, F.P., Jarne, J.J.I, (2006), *Clasificación Internacional de los de Argentina, Brasil y Chile Sistemas Contables,* Panorama Socioeconomica, anul 24, Nº 32, p. 90-95 (Ianuarie – Iunie 2006) ;

16. Nair, R.D.,Werner G. F.,*(1980), The Impact of Disclosure and Measurement Practices on International Accounting Classifications*, The Accounting Review, Vol. 55, No. 3 (Jul., 1980), pp. 426-450;

17. Nobes, C., (2011), *An accounting Classification Based on IFRS Practice*, School of Management University of London, Seminar;

18. Nobes, C., (2011), *IFRS Practices and the Persistence of Accounting System Classification*, Abacus, vol.47,nr.3;

19. Nobes, C., (2011), *International Variations in IFRS Adoption and Practice*, ACCA;

20. Nobes, C., Parker R., (2008), *Comparative International accounting*, Prentice Hall;

21. Pântea, I.P., Cristea Ş., (2009), *Importanţa clasificărilor internaţionale în domeniul raportării financiare în contextul procesului de armonizare contabilă*, Revista Audit Financiar nr.1/2009;

22. Roberts, C., Weetman, P., Gordon, P., (2005), *International Financial Accounting. A Comparative Approach*, Prentice Hall;

23. Saita, M., Saracino, P., Provasi, R., Messaggi, S., *Evoluzione dei principi contabile nel contesto internazionale*, Franco Angeli, 2012;

24. Selhorn, T., Tomaszewski, S., *Implications of the 'IAS Regulation' for Research into the International Differences in Accounting Systems,* Accounting in Europe, vol.3, pp. 187-217;

25. Tabără, N., Horomnea, E., Mircea M. C., (2010), *Contabilitate Internaţională*, Editura TipoMoldova, Iaşi, ediţia a 2-a;