

Comparative Analyses in International accounting information systems

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Abstract

The comparative analyses of international accounting information systems should help to describe and compare different clusters in a way that will promote improved understanding of the complex realities of accounting practice. Classification should also help policymakers assess the prospects and problems of international harmonization. The differences in international reporting practice prior to accounting systems constituted a palpable barrier to efficient international investment, monitoring and contracting. And the literature suggest that being confined to small segmented capital markets imposes a substantially larger cost of capital on firms and transaction costs on investors, which would inhibit much worthwhile investment. The purpose of this study was the measuring the differences between the national rules and the international methods by countries, then the valuing and analyzing their affects on the business environments. This survey contains information on how local GAAP differs from IAS on incorporating recognition, measurement, and disclosure rules. In the study sixteen international standards content and characteristic were compared with the international accounting regulations inside and outside of the European Union. The research results can record the following notes according to the standards: IAS 2 Inventories standard: in case of using LIFO asset-management and valuation method there were no disclosures of the related values at FIFO asset-management and valuation method; IAS 7 Statement of Cash Flow: cash flow itself missing from some countries account regulation; IAS 14 Segment reporting: segment reporting is not at all or just partly compulsory; IAS 17 Leases: the activation of the leases is missing or just partly; IAS 38 Intangible Assets: the activation of Research and Development, Trademarks and Brand names. There is a sufficient basis to endorse international accounting information systems and begin the challenging task of educating users, auditors, and regulators. Educators and practicing accountants alike have significant roles to play in this exciting future.

Keywords: international accounting classification, European accounting regulation, comparative analyses, accounting standards.

Introduction

The purpose of the use of international accounting information systems is that similar accounting transactions are treated the same by companies around the world, resulting in globally comparable financial statements. However, using the unified accounting information system consistently by firms we will find that they are changeable, because they are depend on the varying economic, political, and cultural conditions in one state. Accountants, auditors and information scientists around the globe are planning to harmonize accounting information systems with the goal of creating one set of high-quality accounting rules to be applied around the world.

With increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting systems and procedures. Investors constantly face economic choices that require a comparison of financial information. Without harmonization in the underlying methodology of financial reports, real economic differences cannot be separated from alternative accounting systems and procedures. Harmonization is used as a reconciliation of different points of view, which is more practical than uniformity, which may impose one country's accounting point of view on all others. With the growth of international business transactions by private and public entities, the need to coordinate different investment decisions has increased. This would also lead to the reduction of the information diversity between managers and investors. The information diversity is a costly and can be blamed for the decrease of the managers' bonus, the increase of the equity's cost and the inaccuracy of the economical and the financial forecasts

Historically, harmonization of the international accounting information systems has tended to follow the integration of the markets served by the accounts. For example, the move to unified national accounting system in the US in the early 20th century followed the integration of the national economy. Similarly, the present impetus for global accounting information system follows the accelerating integration of the world economy. Without the common accounting system the cross-border portfolio and direct investment may be distorted, the monitoring of management by shareholders obstructed, the contracting inhibited and the cost of these activities may be needlessly inflated by complex translation (Meeks and Swann, 2009).

According to the business practice it is obvious that the usage of harmonized international accounting systems leads to a reduction of the information asymmetry between the owners and the managers. By this information asymmetry are growing the costs of equities and are less accurate the economical and financial forecasts. This requires the development and review of the national accounting rules, the separate validation of the tax and accounting regulation, the repeal of the subordinate role of accounting, issuing international standards with the help of practical and theoretical accounting experts.

Since in case such multinational companies like Daimler Chrysler owning more than 900 subsidiaries, operating in 5 continents in more than 60 countries, the

published financial results according to international accounting system is 1.5 times of the one according to German accounting rules. If earning after taxation (EAT) – deducted actual tax burdens - according to US GAAP (Generally Accepted Accounting Principles) is taken as 100 percent, due to differences between national accounting rules, EAT would be 25% more in UK, 3% less in France, 23% less in Germany and 34% less in Japan (Barth et al., 2007).

Previous related literature review

International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman and Piotroski, 2006) and international capital mobility (Guenther and Young, 2002).

Epstein (2009) compared characteristics of accounting amounts for companies that adopted IFRS (International Financial Reporting Standards) to a matched sample of companies that did not, and found that the former evidenced less earnings management, more timely loss recognition, and more value relevance of accounting amount than did the latter. This study found that IFRS adopters had a higher frequency of large negative net income and generally exhibited higher accounting quality in the post-adoption period than they did in the pre-adoption period. The results suggested an improvement in accounting quality associated with using IFRS.

Botsari and Meeks (2008) found that first time mandatory adopters experience statistically significant increases in market liquidity and value after IFRS reporting becomes mandatory. The effects were found to range in magnitude from 3 to 6% for market liquidity and from 2 to 4% for company by market capitalization to the value of its assets by their replacement value.

Daske et al. (2007) also found that the capital market benefits were present only in countries with strict enforcement and in countries where the institutional environment provides strong incentives for transparent filings. In the order of the IFRS adoption countries, market liquidity and value remained largely unchanged in the year of the mandate. In addition, the effects of mandatory adoption were stronger in countries that had larger differences between national GAAP (General Accepted Accounting Principles) and IFRS, or without a pre-existing convergence strategy toward IFRS reporting.

The increased transparency promised by IFRS also could cause a similar increase in the efficiency of contracting between firms and lenders. In particular, timelier loss recognition in the financial statements triggers debt covenants violations more quickly after firms experience economic losses that decrease the value of outstanding debt (Ball and Shivakumar, 2005; Ball and Lakshmann, 2006).

Accounting theory argues that financial reporting reduces information asymmetry by disclosing relevant and timely information for example Frankel and Li (2004). Because there is considerable variation in accounting quality and economic efficiency across countries, international accounting systems provide an interesting setting to examine the economic consequences of financial reporting. The European Union's (EU) movement to IFRS may provide new insights as firms from different legal and accounting systems adopt a single accounting standard at the same time.

Improvement in the information environment following change to IFRS is contingent on at least two factors, however. First, improvement is based upon the premise that change to IFRS constitutes change to a GAAP that induces higher quality financial reporting. For example, Ball et al. (2006) found that the accounting system is a complementary component of the country's overall institutional system and it is also determined by firms' incentives for financial reporting. La Porta et al. (1998) provide the first investigation of the legal system's effect on a country's financial system. The results suggested that common law countries have better accounting systems and better protection of investors than code law countries.

Other factors associated with financial reporting quality include the tax system (Daske and Gebhardt, 2006), ownership structure (Jermakovicz et al., 2007, Burgstahler et al., 2006), the political system (Li and Meeks, 2006), capital's structure and capital market development (Ali et al., 2000). Therefore, controlling for these institutional and firm-level factors becomes an important task in the empirical research design. As a result of the interdependence between accounting standards and the country's institutional setting and firms' incentives, the economic consequences of changing accounting systems may vary across countries. Few papers have examined how these factors affect the economic consequences of changing accounting standards. For example, Pincus et al. (2007) found that accrual anomaly is more prevalent in common law countries. Maskus et al. (2005) found that accounting quality is associated with tax reporting incentives. Exploration of the interaction between these factors and the accounting information system can provide insights into differences in the economic consequences of changing accounting principles across countries.

Prior researches for example, Meeks and Meeks (2002) have raised substantial doubt regarding whether a global accounting standard would result in comparable accounting around the world. But differences in accounting practices across countries can result in similar economic transactions being recorded differently. This lack comparability complicates cross-border financial analysis and investment. In the researches of Iatridis and Rouvolis (2010) are some evidence of earning management (e.g. reducing of transition costs and information asymmetry, benefits of investors in investment strategy). They showed how firms that operate in a non-common-countries (e.g. Greece), which is stakeholder-based respond to international accounting standards adoption as compared to shareholder-based systems (e.g. United Kingdom).

No matter how similar the accounting systems in different countries are, there will be slight or even bigger differences in the way they are applied by companies due to the differences in the economical, political and cultural environment. Prior researches have raised substantial doubt regarding whether a global accounting information system would result in comparable accounting around the world. But differences in accounting practices across countries can result in similar economic transactions being recorded differently. Chatterjee (2006) presented in his study how cultural differences can affect accounting practices is that in the countries which are characterized with small power distance and weak uncertainty avoidance accounting measures are more likely to be used as an indicator of a manager's

performance than as a measure of the effectiveness of policies and procedures prescribed for them. Various researches draw the conclusion that countries having different cultures have also different accounting rules and practices.

Classification of international accounting systems

In this paper “accounting system” would be used as the financial reporting practices used by a company for an annual report. The systems could be classified into groups by similarities and differences. If all or most of the enterprises in a country are employed by very similar accounting practices, this might suggest that countries can be classified on the basis of accounting practices.

The classification of accounting systems should help to describe and compare international accounting systems in a way that will promote improved understanding of the complex realities of accounting practice. This classification should contribute to an improved understanding of:

- the extent to which national accounting systems are similar to or different from each other,
- the pattern of development of individual national systems with respect to each other and their potential for change,
- the reasons why some national systems have a dominant influence while others do not.

Classification should also help policymakers assess the prospects and problems of international harmonization. Developing countries seeking to choose an appropriate accounting system will also be better informed about the relevance for them of the systems used by other countries. The education of accountants and auditors who operate internationally would also be facilitated by an appropriate classification system.

The next hypothetical classification by Douppnik and Perera (2007) based on some explanatory variables for differences in measurement practices.

Classes:

- micro-fair-judgemental and commercially driven,
- macro-uniform government-driven and tax-dominated.

Sub-classes:

- business economics and extreme judgemental (Netherlands),
- business practice, professional rules and British origin.

Families:

- UK influenced and professional regulated (Australia, New-Zealand, UK, Ireland),
- US influenced and enforcement by SEC (Canada, Israel, USA).
- code-based and international influenced (Italy),
- plan-based (France, Belgium, Spain),

- statute-based (Germany, Japan),
- economic-controlled (Sweden).

All attempts were made to isolate those features of a country's financial reporting practices that may constitute long-run fundamental differences between countries. The result was a selection of nine factors:

1. type of users of the published accounts of listed companies,
2. degree to which law or standards prescribe in detail and exclude judgement,
3. importance of tax rules in measurement,
4. conservatism/prudence (e.g. valuation of assets),
5. strictness of application of historical cost (in the historical cost accounts),
6. susceptibility to replacement cost adjustments in main or supplementary accounts,
7. consolidation practices,
8. ability to be generous with provisions (as opposed to reserves) and to smooth income,
9. uniformity between companies in application of rules.

Connections:

- micro-fair-judgemental and commercially driven class belongs two sub-classes:

- business economics and extreme judgemental,
- business practiced, professional rules and British origin.

- macro-uniform, government-driven and tax-dominated class belongs four families:

- code-based and international influenced,
- plan-based,
- statute-based,
- economic-controlled.

The micro-fair-judgemental and commercially driven class is also known as the Anglo-Saxon or Anglo-American model, used to describe to approach of the United Kingdom and United States, where accounting is oriented toward the decision needs of large numbers of investors and creditors. This model is employed by most English-speaking countries and others heavily influenced by UK or US.

The macro-uniform, government-driven and tax-dominated class originated in the code law countries of continental Europe. It is also known as the Continental European model. It is used by most of Europe, Japan, and other code law countries.

Companies in this group usually are tied quite closely to banks that serve as the primary suppliers of financing.

The inflation-adjusted model is found primarily in South America. This model distinguishes itself, however, through the extensive use of adjustments for inflation (Argentina, Brazil, Chile and Mexico).

The UK-influenced countries are former British colonialism on accounting development: Hong Kong, Malaysia, Nigeria, Philippines, South Africa, Singapore, Taiwan, Sri Lanka, Zambia, Botswana, Namibia, and Zimbabwe.

The macro-uniform countries and companies in the macro countries are more heavily influenced by taxation than are companies in the micro countries.

These factors were designed to operate for developed countries which share certain economic features. If one wished to include developing countries, it would be necessary to include other discriminating factors, such as the degree of development of economy or nature of economic systems.

Nobes (2006) showed the classification of some financial reporting systems. In this system 'US GAAP' means the well-defined set of practices required by US regulators to be used by certain US companies: Users of this system are SEC-registered US companies, and certain large Japanese companies for their group accounts. US GAAP bears a family resemblance to UK and IFRS rules, and is in a class of systems suited to strong equity markets.

Strong equity class covers UK, Irish, Dutch individual and US SEC-registered companies.

Weak equity class contains Belgian, French, German, Italian and Japanese enterprises.

Radebaugh and Gray (2002) presented the cultural classification of international accounting systems:

- anglo-american culture area (United States, United Kingdom and British colonials),
- nordic countries (The Netherlands, Sweden, Finland, Denmark),
- germanic accounting (Germany, Austria, Israel, Switzerland, and former European colonies in Africa),
- Latin group (France, Italy, Brazil, Argentina, Belgium, Portugal, Spain, Chile, Colombia, Mexico, Peru, and Uruguay),
- Asian accounting (China, Japan, India, Pakistan, Hong Kong, Singapore, Malaysia, and Philippines).

The next chapters I would like to introduce in details the two main international accounting systems:

- the European Union,
- international accounting standards (IAS).

European accounting regulation

The European Union made efforts on harmonization of accounting standards of the member states through regulations, directives, official statements and recommendations in 1970's and 1980's. The intention of a common regulation of accounting and financial reports comes from the Treaty of Rome (25th March, 1957) which has defined the four freedoms, namely the free movement of goods, the free movement of capital, the free movement of persons and the free movement of services. Accordingly, the persons are free to settle down and start up new enterprises applying the national laws of the country of settlement. In order to meet the requirement of free movement of capital within the European Union, it is necessary to ensure the transparency and accuracy of accounting data. The obligation of financial reporting (Profit and Loss Account, Balance Sheet) and auditing helps the shareholders and stakeholders in decision making, facilitating the defence of their interests independently from the seat of the company (freedom of settlement).

The common regulation of accounting in the European Union is hierarchical. The basic rules are set down in company law. In the EU legislation system the law making function of the state is strictly separated from the application of law. The regulations are written down and there is a priority of Common Law respect to the national law.

Regulations

The regulations are obligatory and they come into force directly, without ratification of the member states. Regarding accounting standards one of the most significant regulations of the European Parliament and Council of the European Union is the 1608/2002 of 19th July, 2002. This regulation contains for instance that the companies registered on stock market from 2005 are committed to submit the consolidated financial statements compiled according to the IAS and IFRS. It is the member states' right to decide on whether they oblige the companies operating in their country to use IAS and IFRS when compiling their financial statements.

Directives

The directives are defining legal frameworks of the European Union, determining criteria and requirements to be met in national law therefore they seem to be long-term regulations. Directives referring to general accounting principles are as follows.

- 78/660/EEC 4th directive about the financial statement of companies;
- 83/349/EEC 7th directive about the consolidated financial statement;
- 86/635/EEC 8th directive about the certification procedure of the operation of certified public accountants in charge of supervision and audit of the financial statements.

The directives contain the required minimum information of the financial statement, the compulsory structure of the Profit and Loss Account and of the

Balance Sheet, the criteria of evaluation of assets, the definition of the rules of submitting simplified financial statement, and the way of publication.

The accounting directives aim at ensuring the accuracy and transparency, accordingly providing reliable information on the financial situation of a company. The Council of the European Union in conjunction with the European Economic and Social Committee codified that the 78/660/EEC directive is to be applied in every member state's national law within a certain period of time.

Directive No. 4

This directive aims at ensuring the accurate, transparent overview of the financial situation of the companies for comparison between different member states' financial statements. The financial statements as a unit include the Profit and Loss Account, the Balance Sheet Account and the Notes to the financial statements in every member state. There are examples for application of simplified financial statements depending on the total value of assets, the revenues and the number of employees (when at least two out of three is under the limit in consecutive years). It is common in member states that the criterion of accounting fixed assets is the usage of it for long-term purposes. The distinction of extraordinary income and expenditure from operating income and expenditure applying the accrual policy is also a common procedure in the European Union. Additional common traits are the depreciation policy, the obligation of audit report as an annex of the financial statement, the publication and deposit of the financial statement.

Directive No. 7

Group of companies including the parent company and the affiliates operating in different countries are obliged to submit a consolidated financial statement. This directive ensures the financial comparability of such reports and makes it possible to show the group as a single corporation filtering the necessary transactions between the affiliates in order to present the accurate financial situation and performance of the group. In the member states the consolidated financial statement contains the consolidated Profit and Loss Account, the consolidated Balance Sheet and the consolidated Notes to the financial statement. It is common to filter the liabilities and the receivables between the consolidated companies so as the incomes and expenditures. The date of the affiliate's financial statement can coincide with the one of parent company.

Directive No. 8

This directive intends to establish congruence between the different regulations regarding the requirements towards the certified public accountants. It gives common guidelines for an auditor person and for an auditor company. The main elements of the directive are as follows.

- avoidance of incompatibility,
- adequate education and qualification requirements including practice,
- certification is to be a separate process for every single qualified person which guarantees the equal criteria for the auditor candidates.

The member states have to ensure that the certified public accountant be fair, independent, professionally updated.

Announcements

The official statements are not compulsory; they give guidelines for application of directives or complementary information on them such as COM/2003/285 about the auditing or the XV/7009/97 concerning the directives 78/660/EEC and 83/349/EEC, furthermore the XV/D3/7002/97 regarding the introduction of EUR. There are official statements explaining the accounting of profit or loss due to exchange rate when converting a foreign currency. The overall function of official statements is to clarify some definitions of which interpretation differs in the member states.

Recommendations

The recommendations formulate solutions which are not obligatory, such as the recommendation in connection with the quality assurance of the auditing (C/200/3004) or about the independence of the certified public accountants (C/2002/1873). Furthermore, there is a recommendation on including the environmental issues into the annual report.

Europe is rich in well-tested, highly advanced management accounting and controlling concepts. However, each management accounting tradition has thus far been developed and applied more or less in a specific national context. A huge potential to shape the management accounting and controlling practice globally remains unused and unexploited. I therefore propose a cooperation initiative that addresses all European controlling and management accounting associations, as far as possible with the support of the European Union. Its mission:

- to bring the major players in the controlling and management accounting scene in Europe together for such a pan-European initiative,
- to establish one European standard for management accounting and controlling by combing the strengths of the different approaches,
- to take the lead in defining international management accounting standards,
- to create enough momentum to attract non-European parties to join the initiative in a second step the development of a new proven 'best practice' in creating controlling, management accounting and analytical data to support managerial decision making based on an international management accounting performance concept is at best still in its early stage. What I completely lack so far is analytical and management accounting concepts based on the international performance-philosophy supporting by management in detailed day-to-day decision making.

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International Accounting Standards (IAS)

International Accounting Standards (IAS) are accounting principles, rules, methods ('standards') issued by the International Accounting Standards Board (IASB), an independent organisation based in London, U.K. They purport to be a set of standards that ideally would apply equally to financial reporting by public companies worldwide. Between 1973 and 2000, international standards were issued by IASB's predecessor organisation, the International Accounting Committee (IASC), a body established in 1973 by the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland, and the United States. During that period, the IASC's principles were described as 'International Accounting Standards' (IAS). Since April 2001, this rule-making function has been taken over by a newly-reconstituted IASB. From this time on the IASB describes its rules under the new label 'IFRS', though it continue to recognise (accept as legitimate) the prior rules (IAS) issued by the old standard-setter (IASC). The IASB is better-funded, better-staffed and more independent than its predecessor, the IASC. Nevertheless, there has been substantial continuity across time in its viewpoint and in its accounting standards.

Widespread international adoption of IFRS offers equity investors the next potential advantages by Zeff (2006):

1) IFRS promise more accurate, comprehensive and timely financial statement information, relative to the national standards they replace for public financial reporting in most of the countries adopting them, Continental Europe included.

2) Small investors are less likely than investment professionals to be able to anticipate financial statement information from other sources improving financial reporting quality allows them to compete better with professionals, and hence reduces the risk they are trading with a better-informed professional.

- 3) IFRS eliminate many of the adjustments analysts historically have made in order to make companies' financials more comparable internationally.
- 4) The reducing of the cost of processing financial information most likely increases the efficiency which the stock market incorporates it in prices.
- 5) IFRS offer increased comparability and hence reduced information costs and information risk to investors.

With increasing globalization of the marketplace, international investors need access to financial information based on harmonized accounting standards and procedures. Investors constantly face economic choices that require a comparison of financial information. Without harmonization in the underlying methodology of financial reports, real economic differences cannot be separated from alternative accounting standards and procedures. Standardization is used as a reconciliation of different points of view, which is more practical than uniformity, which may impose one country's accounting point of view on all others. Organizations, private or public, need information to coordinate its various investments in different sectors of the economy. With the growth of international business transactions by private and public entities, the need to coordinate different investment decisions has increased. A suitable accounting information system can help multinational enterprises accomplish their managerial functions on a global basis. Further, standardization the manner in which reports are prepared can greatly enhance the value of accounting systems to their users and increase transparency to investors and regulators.

In countries whose culture is characterized as small power distance and weak uncertainty avoidance, one would expect a greater tendency to use accounting measures as an indicator of the results of the manager's decisions. Thus, the profit of a profit centre is more likely to be used as a measure of manager performance than to indicate the effectiveness of policies and procedures prescribed for the manager. Likewise, cost is more likely to serve as an indicator for the results of decisions made by a cost centre manager.

For example, in the US and Taiwan found that managers in many Taiwanese firms did not have the full range of general management skills because the boss virtually all of the decisions. Taiwan's strong uncertainty-avoidance and long-term orientation are consistent with this tendency toward centralization.

Germany's strong uncertainty-avoidance culture also suggests a tendency toward centralization. Evidence of such a tendency is provided by an automobile industry expert. „Of the top 100 managers - at Volkswagen -, 50 are not used to making their own decisions or thinking on their own.” (Lere, 2009: 5).

There is a significant body of evidence that identifiable differences in the dominant culture of countries do exist and that they are associated with differences in the typical accounting practices of countries.

There are divergent views on how comparability should be achieved. Some believe that comparability is best achieved by limiting the application of judgment and selection amongst possible choices. Others believe that comparability may be achieved through disclosure of the judgments that were made and how they impact

the financial results. The more comparability is mandated, the more rules will be required to enforce it. Striving to obtain complete comparability, under detailed rules-based regimes, often defeats the purpose because the real comparability is lost through the many bright lines and exceptions created by the rules themselves.

Business management requires that resource consumption be measured, rated, assigned, and communicated between appropriate parties. Managers of businesses use accounting information to set goals for their organizations, to evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand, and how much cash to borrow, etc. Modern accounting renders its services to a wide variety of users: investors, government agencies, the public, and management of enterprises, to mention but a few. Many accountants work in business firms as managerial accountants, internal auditors, income tax specialists, systems experts, controllers, management consultants, financial vice presidents, and chief executives.

Accounting is, therefore, a service to management, a special-purpose tool which must be used but not misused. Like any special-purpose tool, if it is neglected or not used it will surely go rusty and fail to provide the good service for which it was designed. However, all tools have their limitations and it is well to point out at this early stage some fundamental limitations inherent in any system of accounting.

My research recorded the following notes according to international accounting standards.

➤ One aspect is that businesses span today – also at mid-sized companies – across many countries and are increasingly international. Therefore companies need controlling and accounting concepts standardized across their local operations in order to create a common internal global ‘language’ in decision making and performance management. As a consequence, the development of new accounting best practices and concepts has to move to an international level.

➤ The second aspect is that traditional accounting concepts are falling short to support today’s managerial decisions and to support the valuation of many of today’s corporate assets. The main reason for this is that the foundation of these accounting concepts and instruments (focusing mainly on cost accounting) have been created 80–100 years ago in an era, where the main value creation process of most companies was mass-manufacturing. For the value creation activities of today – in R&D, marketing, strategy management etc., we still lack concepts and instruments in management accounting and decision support that apply the same rigor and strength like the traditional product costing and margin accounting concepts that supported well for decades the mass-manufacturing model. We have to move to the next level in accounting and controlling.

➤ The third aspect is that accounting cannot be standardized in the same way like financial accounting. Nevertheless companies do not want to ‘reinvent the wheel’ all the time, when they have to find new solutions in accounting and controlling. What is needed is a set of agreed ‘best practice standards’ for how to

conceive accounting and decision support systems in a specific managerial context and for supporting specific managerial decisions.

Research design

The purpose of this study was the measuring the differences between the national rules and the international methods by countries, then the valuing and analyzing their affects on the business environments. The author used Nelson's Directories of Investment Research for providing information on nearly 800 research businesses (especially multinational companies) around the world including the 67 member enterprises of Budapest Stock Exchange during the period of 2005 - 2008. He has chosen 400 of the biggest (by the total amount of their assets, net sales and employees) international European businesses (e.g. Daimler Chrysler, Allianz, ING, Gazprom, Arcelor, Credit Suisse, Deutsche Bank) and 300 multinational representative companies from the American, Asian and Australian Continents. The researcher adopted two approaches in this study. First approach involved identifying a list of 16 important accounting standards based on a review of the past literature and relying on a recent, comprehensive survey of General Accepted Accounting Principles (GAAP) differences. Secondly, the author has assigned 20 EU and 27 non EU member states – representing every continent excepting Africa - from where he could obtain accounting information. Because the tests examine the effects of GAAP differences between the business' local accounting rules and the international standards, it was excluded firm-years from the primary sample when businesses do not use local rules based on Worldscope yearly database. Worldscope data on the accounting standards used by the company are available for approximately one-half of the sample. In the primary test the author retain businesses that do not have data on the accounting rules used by the firms, reflecting the assumption that smaller businesses without standards data are very likely to be local rules users.

This survey contains information on how local GAAP differs from IAS on incorporating recognition, measurement, and disclosure rules. For each country, the survey captures next types of differences from IAS:

- absence of recognition and measurement rules that are present in IAS (e.g. many countries do not require international standards),
- absence of disclosure rules that are present in IAS (e.g. common disclosures that are called for under IAS but not required under local GAAP),
- inconsistencies between local GAAP and IAS that could lead to differences for many enterprises, and
- other issues that could lead to differences between local GAAP and IAS for certain enterprises.

The accounting peculiarities of the member states of European Union

At first the author has chosen the eligible countries inside the European Union according to the research. In the study sixteen international standards content and characteristic were compared with the international accounting rules and standards. Five from these standards (1, 7, 8, 14, and 25) plays crucial part in the comparison of

the accounting reports. The IAS 2 standard is to prescribe the accounting treatment for inventories, the IAS 17, 36, 38 standards are in connection with tangible and intangible assets, the IFRS 7 is regarding to the disclosure and presentation of the financial instruments, the IAS 19, 37 contains the regulations in connection with the other liabilities and debtors, the IAS 12 and IFRS 5 are details the special accounting practices, while IAS 27 and IFRS 3 is about the accounting of the Combinations by Contract, Alone or Involving Mutual Entities. Thus it can be concluded that the standards used in the sample are sufficiently represents all areas of accounting, particularly the rules about the set up of the accounting report. He analyzed the member states of the European Union separately because the previous regulations (e.g.: the 1606/2002 on the application of IAS), directives (e.g.:78/660/EEC, 83/349/EEC, 2006/43/EEC), communications (e.g.: COM/2003/283) and recommendations (e.g.: C/2000/3004) made by the EU were in order to implement the accounting harmonization and the common accounting principles. He compared the international standards with the national accounting principles and rules per its components. He only declared them as harmonized, if they show a complete match. These specifications were made with all 16 standards in case of all countries. He calculated the deviation between the international standards and the national regulations and principles in the eligible countries of the European Union in percentages and summarized it in Figure 1.

According to Figure 1 two opposite tendencies can be identified. In connection with the continental European countries the deviation from the international standards is greater than in case of the two island nations (Great Britain and Ireland). The greatest deviation from the international standards could be identified in the case of Luxembourg (over 80%). The Commission of the European Communities warned (e.g. the European Court's C-115/05 judgement) its member nation to take provisions necessary to comply with Directive 2001/65/EC of the European Parliament regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions.

Europe is the origin of many legal systems: English, German, French and Scandinavian. Prior to 2005, there were country-specific accounting systems. Therefore the EU issued several communiqués, commendations, directives to harmonize financial reporting practices to reduced diversity a facilitate cross-listings and cross-border investment.

The European Union countries have been divided into two groups depending on their finance, legal and tax systems. According to many researches, countries with a code-based legal system and with a business financing structure that is primarily based on banking, are characterized by a strong tax influence on accounting and therefore, by the presence of governmental rather than professional regulatory bodies. On the other hand, countries with a system based on common law and with a well-developed capital market have issued accounting rules independently from tax rules, under the auspices of professional bodies. Under these circumstances, we make the hypothesis that the investor-orientated legislation in common-law countries versus the creditor orientation of code-law countries will imply a higher

value relevance of earnings than book value in common-law countries and vice versa. (Whittington. 2008) The Netherlands, in spite of being a code-law country, has been typically included in the Anglo-American group due to the characteristics of its accounting system. So, for our purpose, we consider the UK and the Netherlands in the Anglo-American group and Belgium, France, Germany, Italy, Switzerland and Spain in the Continental group.

The classification of the national accounting systems it is possible to divide into two groups: those with significant equity markets and outside shareholders (the Anglo-Saxon model) and those with weak equity markets and few shareholders (continental European model). Consolidated (group) accounts drawn up under UK, US or international accounting standards would typically fall into the former group, while examples of the latter would include individual French, German and Italian accounts (Shleifer and Vishny, 2003).

Most of the Continental European Union member countries law system is based on the principles of the Roman law (*jus civile*). The codification of the law characterizes these countries. In such legal environment the adaptation and implementation of international accounting standards into the national account system is much harder and takes longer time. Because of this and as the data of Figure 1 also shows us, the deviation from the international accounting standards are much bigger in these countries, although in a varying degree, than in the case of the island nations of the EU. Inside the accounting systems of the continental Europe we can differentiate three accounting cluster: Germanic, Latin and Scandinavian. The Germanic states (Austria, Germany, Hungary, Czech Republic) accounting system is in many ways differs from Anglo-Saxon and Scandinavian countries. For example the company and tax law in Germany plays a pivotal role on accounting. Also in Germany the Commercial Code contains the account reporting principles. Half of the German accounting principles differs from the international standards because their account law doesn't contains rules in connection with the effects of the exchange rates in case of the foreign based subsidiaries; the review of the value adjustment after the non tangible assets lifespan exceeds the 20 year limit; the publishing commitments in case of the change in the Capital and reserves; the financial instruments valuation at fair value; disclosure commitments in case of related undertakings and the rate of dividend per share. There is no consistency in the accounting of business combinations, in the case of the accounting of leases grouped by tax provisions, and also in the evaluation of the assets.

It is obvious that the Anglo-Saxon (or Anglo-American) accounting system differs from the continental European, Asian, Latin-American or any other countries of the world. In case of the Anglo-Saxon countries the stock exchange plays a significant influential role in the national accounting practice, but not performs a cardinal role in the regulation process. In Great Britain the company law contains the necessary accounting requirements not just in case of the Limited Liability Companies but also for stock exchange listed companies. Besides not just the whole accounting profession but also, in lesser extent, the stock exchange participates in developing the national accounting regulation system. The country established its own professional bodies responsible for the regulation of accounting. One of these

bodies is ASB (Accounting Standards Board), which has the authorization for issuing National Accounting Standards. The Accounting regulation works the same in Ireland too. The law system of the Anglo-Saxon countries (common law) does not containing rules in connection with the behaviour of the companies or the preparation of the annual accounts. In such circumstances accounting doesn't have a subordinate role. Instead the practical and theoretical accounting professionals creating standards very similar to the international ones, since the international standards are having a major effect on their national standards. In such economic environment the adaptation and implementation of international accounting standards into the national account system is much easier and faster, than in the case of the Continental European countries introduced in the next paragraph.

The Hungarian accounting shows many similarities with the other continental, mainly Germanic, cluster members according to the place and classification. Our law system is similarly codified, so the accounting principles were also expressed by law. Since 1991 the interest of the owners and the creditors stands at the centre of the regulations also keeping the previous taxation goal. However the previously pivotal role of economic alignment and taxation is now gone. He will later discuss the classification of the individual standards, but hereby, according to the information from the domestic stock exchange listed companies and from personal consultations He can declare that the Hungarian account regulation, the budget system, our accounting principles and evaluation methods constitutes a solid ground for the establishment of an IFRS financial statement. From the balance drawn up according to the national rules only some corrections (e.g. depreciation calculation after Value Adjustment, the decreasing the Revaluation reserve with calculated depreciation cost of the Asset, moving the accrual capital's consolidation margin to the profit reserve) and renames (reclassification of the Accruals and deferred income and the Prepayments and accrued income, the reclassification of the property rights and Payments on account in course of construction) will lead us to the IFRS balance sheet. In case of our Statement of revenue the reclassification of the given discounts and refunds as turnover lowering and the received discounts and refunds as material cost lowering elements, furthermore the reclassification of the extraordinary elements and the value of the Allocations for depreciation higher with value of the depreciation after the value adjustment also leads us to the IFRS balance sheet. By the time of the socialist economic system the Hungarian accounting principles always followed the Hungarian economic regulation system and the modifications of the taxation system in the 1980's as a chapter of the law on national finances. After 1991 accounting became an individual act considered the European rules (directives), and from 2001, after its re-codification, the international principles as well. The Commission review before the entering to the EU (2004) declared that the Hungarian national accounting rules are compatible with the accounting principles of the EU. Although some financial "scandals" (Postabank in Hungary, Parmalat) derogated the faith towards accounting just like in the foreign countries, e.g. the USA (e.g. Enron in USA), but besides these effects our accounting regulation is stable and reliable. Furthermore the national standards (leasing accounting, Inventories, Accounting policy regulations), developed in the last few years by the Ministry of Finance, can furthermore decrease the differences from the international standards.

The national regulations of the Latin cluster countries (Belgium, France, Italy, Portugal and Spain) shows several similarities with the Germanic cluster. Such as the pivotal role of the company and taxation law and also differs radically from the Anglo-Saxon characteristics. In France for example the codification rules are similar to the Napoleonic code (also in connection with accounting). In Italy, just like in other countries with conservative traditions, the accounting rules leded the ventures to a minimized taxable profits and dividends. It is not unusual that the accounting information can serve for several different purposes (Management, Tax Authorities and Owners) simultaneously. The similarity between the national regulations of the countries in the Latin cluster also shows a minimum of 50%, but sometimes 80% (Spain) match to the international standards.

The EU states in the Scandinavian cluster (The Netherlands, Denmark, Sweden, Finland) also shows several conformity with the Anglo-Saxon countries but we can find some important Germanic effects as well, for example the importance of the tax legislation. Among the Scandinavian countries The Netherlands differs the least (only 15%) from the international standards. In Holland the impact of the micro-economical approach to the account is reasonable. Nevertheless the country also shows several similarities with the Anglo-Saxon characteristics. The pivotal role of the company law and the accounting profession is also measurable here. The civil law contains the company law which is based on the principles of Roman law. In this respect it shows analogy with the continental European countries, except for the civil law which traditionally not plays the role of a detailed regulatory system.

National General Accepted Accounting Principles (GAAP) in “code-law’ countries were more frequently accused of abusing transparency due to legally imposed techniques such as statutory reserves, but failures even under “common-law’ national GAAP’s have also been widely cited. But the IFRS-based financial reporting will ensure reasonable accomplishment of financial statement objectives. National GAAPs have commonly been categorized as being designed for either code law or common law traditions, with most continental European GAAPs and Japanese GAAP being examples of the former, and U.S. GAAP, U.K. GAAP and IFRS (which was largely derived from U.S.,U.K. GAAP) being typical of the latter. There is notably, that countries moving from code-law-based GAAP to IFRS will experience a more substantial change in financial reporting standards than will those moving from common-law-based GAAP to IFRS.

The accounting peculiarities of the countries outside of the European Union

After analyzing the eligible EU countries, he presented the differences between the accounting principles of the American, Asian and African nations, the European countries outside of the EU and also in Australia and New-Zeland and the international accounting standards (Figure 2).

Besides Russia and Turkey the differences are less (it’s not reaching the 50% mark) than in case of the EU member states. Among the European countries Switzerland follows the Germanic accounting principles and its difference from the international standards is nearly the same (62%).

Swiss accounting is among the most conservative and secretive in Europe and the world today. As in Germany, Swiss accounting practice is dominated by company law and the tax regulations governing the accounting profession, which is small and still in the early stages of setting accounting standards. The legal requirements relating to accounting are modest and still permit the creation of secret reserves.

Norway's accounting principles reflecting Scandinavian effects and the deviation is similar to the Swedish. The Asian countries accounting rules follows the colonial specialities, so the impact of the colonizers is high. Thus in case Indonesia the Dutch, in case of India, Pakistan, Hong Kong and Malaysia the Anglo-Saxon and in the Philippines the Spanish and American impact is shown. In case of the Chinese accounting system it was both affected by western and the socialist Russian influence. A more micro-oriented decision-making approach is thus being encouraged that retains a measure of macroeconomic control – a difficult balance to strike given China's tradition of uniformity and detailed regulation. Moreover, this tradition appears to be consistent with established Chinese cultural values and hence will be difficult to change. The new accounting standards, structured as a basic standard and a series of specific standards, represent a major change of approach in Chinese accounting in that all enterprises are now required to comply with a unified set of accounting in that all enterprises are now required to comply with a unified set of accounting principles. In case of Japan we can notice both Germanic and American impact. Despite the significance of the stock market, the accounting tradition in Japan gives preference to the information needs and priorities of creditors and the tax authorities. The government has been a major influence on all aspects of accounting and the corporation tax law is another major, if not overriding, influence on income measurement practices in that corporate tax returns must be based on the annual accounts approved by shareholders. Government institutions are directly involved in accounting standard-setting. With accounting systems under the jurisdiction of two government institutions, there is no unified approach to regulation. In fact, a number of large listed corporations are obliged to prepare two sets of financial statements, one required by the commercial Code and the other by the Securities and Exchange Law. The accounting profession is small and has lacked influence in the accounting standard-setting process, but it provides recommendations on the practical application of the legal accounting regulations (Meeks and Swann, 2009). However the Asian countries accounting systems are getting closer and closer to the Anglo-Saxon model.

The accounting in Argentina and Brazil follows the Latin rules and the difference is also similar (65%). As in France and Italy, the accounting tradition in Brazil gives preference to the information needs of creditors and the tax authorities. As in other Latin countries, the influences of government, company law, and the taxation regulations on accounting are fundamental importance. The accounting profession in Brazil is not as well developed as in the Anglo-Saxon countries, but the institute for Brazilian accountants issue accounting standards that form the basis of generally accepted accounting principles. The United States is famous for its accounting standards, which follows the Anglo-Saxon traditions and similarly to the

British and Irish system it differs only in a small margin (15%) from the international standards. Mexico and Canada as former British possessions and members of the North American Free Trade Agreement (NAFTA) follows the Anglo-American (Anglo-Saxon) accounting principles. Australia and New-Zealand also as former British possessions follows the Anglo-Saxon accounting principles so the differences from the international accounting standards are rather small (15-25%).

Evaluation of the certain accounting standards

After evaluating the individual countries and the group of countries, the author has analysed the average differences in case of the certain accounting standards and what the background causes of these differences are. He displayed these differences in separate Figures 3. The researcher observed that the biggest average difference is detectable in case of the IFRS 7 (until 2007 IAS 30, 32) standard both within and outside the EU (82% and 68%), which standard is in connection with the disclosure and presentation of the financial instruments. The author remarked that in this case the certain countries were not claimed the disclosure and presentation of the financial assets and obligations on their fair value in their financial report as regulated in the accounting standard. This remark also stands in the case of Hungary. Hungarian national accounting regulations make the evaluation at fair value possible, but not compulsory. According to accounting practitioners only a few business choose this option. The personal consultations shows that this is because the tax consequences of this new model. Another typical difference is in connection the IAS 37 Provisions, Contingent Liabilities and Contingent Assets standard (68% and 80%). Searching for the causes it turned out, that there are no national regulations in connection with the making of Provisions, furthermore it can be made in cases when there are no liabilities yet and there are no special rules of readjusting the Provisions. In case of the Hungarian regulation, the researcher found the two, previously mentioned differences. This is because our Act on account is not requires that the Provision could only originated from a previous events, furthermore Provisions can be made in advance in case of the periodically repetitive costs, and it also not using the Present Value. There is a significant difference in case of IFRS 5 (IAS 35 until 2005) Non-current Assets Held for Sale and Discontinued Operations standard (65% and 55%). In the international accounting there are no regulations referring to the Discontinued Operations. Neither our national act on account orders the information needed in case of the presentation of the Assets destined for sale or used in Discontinued Operations. It only orders the holder to demonstrate its future goals in the annual report which contains all the Discontinued Operations and the Assets destined for sale.

In case of the non EU countries the difference in connection with the IAS 19 Employee Benefits standard is also typical (65%). In case of the related EU countries this ratio is only 45%. The researcher missed the readiness of the regulations in connection with the cost of providing employee benefits and the costs above the pension benefits. In case of Hungary only the first half of the sentence stands. In case of the termination benefits the Hungarian regulation tries to follow the international standards. But we only admit the benefit as severance pay, which the employee gets

in case the employer terminates his or her labour relation before the retirement period.

The difference between the national regulations and IAS 36 Impairment of Assets standard exceeds the 50% both in case of the EU member and non EU countries. Because in the national regulations there is no detailed rules on the testing of the impairment of the assets and the accounting of the impairment is only made after it declared durable. The Hungarian national regulation also differs from this standard, while it's not mentioning the external or internal signs of the impairment and the readjustment of the impairment, so there are no precise instructions regarding when to evaluate the "reference" value. Furthermore the category is not refers to the accounting date, but it relates the market value on the date of making the balance sheet to the book value on the accounting day.

We can see a difference of 55% relating to the IAS 1 Presentation of Financial Statement only in the case of the EU member states. The separate listing of the changes in the Capital and reserves is not present in the member state's accounting statement. This deficiency is also mentioned in about Hungary. But in the notes on the accounts we must demonstrate the important changes in the Capital and reserves by entitlements. So in my opinion this should be considered not as a substantial, but a formal deficiency. Another 52% difference is stands within the EU in case of the IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and this stands also for Hungary, because it allows a broader interpretation of the unforeseeable event. Our act on account is not differentiates between accounting policy and accounting estimate. It considers the estimating as policy. The accounting policy contains rules relevant to stocktaking, money handling, evaluating, and net cost calculation. Furthermore all found errors must be corrected. In case of substantial error the corrected account must be represented. By contrast, the international regulations are not following this method.

Finally there are some smaller margin differences which affect mostly the EU member countries. Those standards are the IAS 24 Related Party Disclosures standard, which has an average deviation of 52%, and IAS 27 Consolidated and Separate Financial Statements standard with the average difference margin of 53%. The last deviation comes from the fact that there are no or just a small disclosure requirements in the national accounting regulations. The Hungarian act on accounting also misses the list of such events. However that kind of information must appear in the Notes on the account. In respect of the Consolidated and Separate Financial Statements the requirements towards consolidation of the special activity companies is missing. This deficiency not affected Hungary.

In case of the other standards the differences are much lower. Especially among the non EU countries (the average deviation is around 5-35%), but in case of the EU member countries the margins are still lower than 50% (around 22-35%). The smallest deviation we can recognize among the non EU countries is in the case of the IAS 7 Statement of Cash Flow standard (5%), while in case of the EU member countries it's the IAS 12 Income Taxes standard (22%). According to Hungary there were differences in case of standards Business Combinations, IAS 7 Statement of Cash Flows and IAS 38 Intangible Assets.

Conclusion

This research can record the following notes according to the standards:

- IAS 2 Inventories standard: In case of using LIFO asset-management and valuation method there were no disclosures of the related values at FIFO asset-management and valuation method (In case of Hungary it is not a problem because we use LIFO and average costing asset-management and valuation method),
- IAS 7 Statement of Cash Flow: The cash flow itself missing from some countries account regulation (Not in case of Hungary),
- IAS 14 Segment reporting: The segment reporting is not at all or just partly compulsory (In Hungary segment reporting is only mandatory for the stock exchange listed companies),
- IAS 17 Leases: The activation of the leases is missing or just partly done (In Hungary the leases must be shown only in case of tied and long term calls),
- IAS 38 Intangible Assets: The activation of Research and Development, Trademarks and Brand names (In case of Hungary the standard is consisted as harmonized).

Discussion

The differences in international reporting practice prior to IFRS constituted a palpable barrier to efficient international investment, monitoring and contracting. And the literature suggest that being confined to small segmented capital markets imposes a substantially larger cost of capital on firms and transaction costs on investors, which would inhibit much worthwhile investment. Although we do not have all elements for the cost-benefit calculation, the evidence points to substantial net gains for smaller economies which have joined to the IFRS regime.

There is a sufficient basis to endorse IFRS and begin the challenging task of educating users, auditors, and regulators. Educators and practicing accountants alike have significant roles to play in this exciting future.

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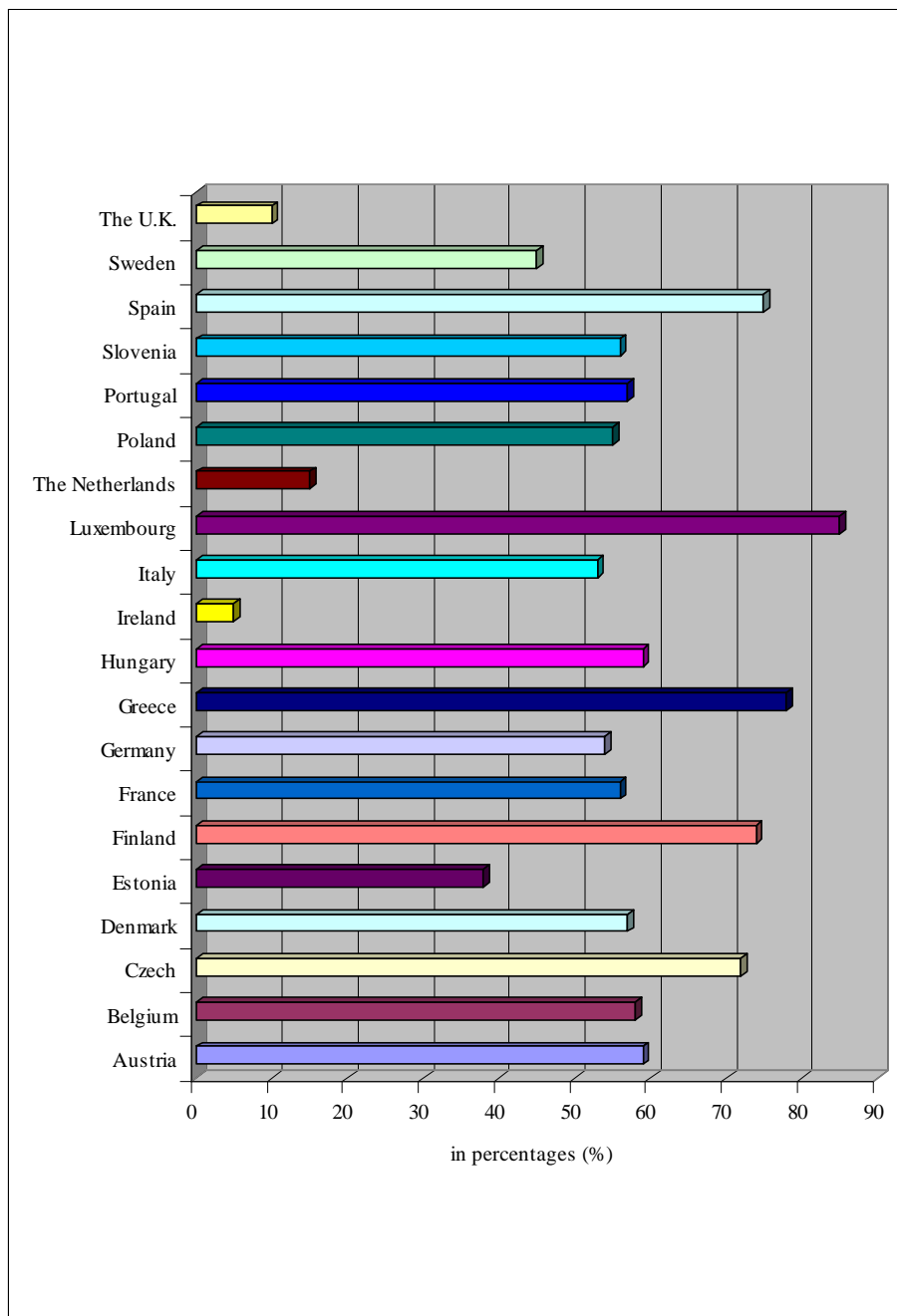


Figure 1: National accounting rules differences from IAS in the EU

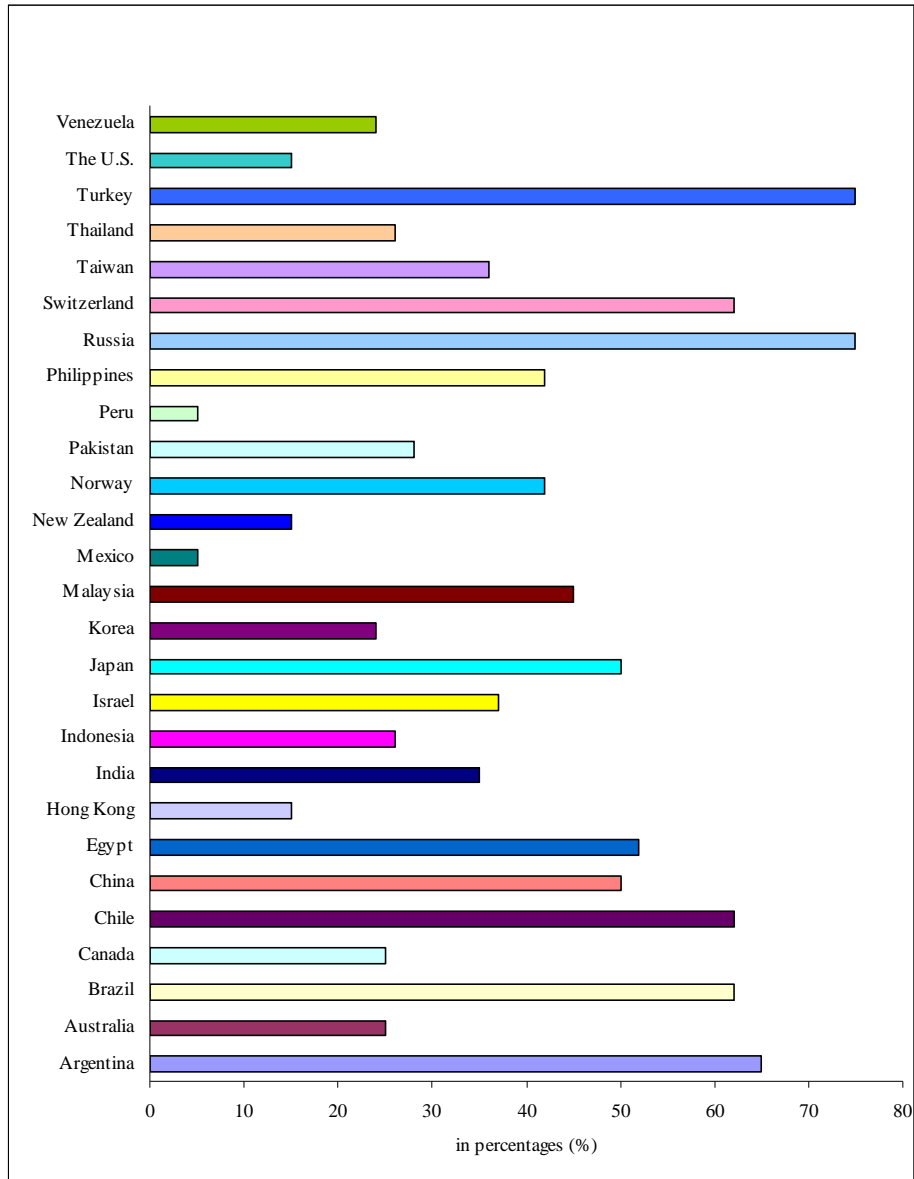


Figure 2: National accounting rules differences from IFRS outside of the EU

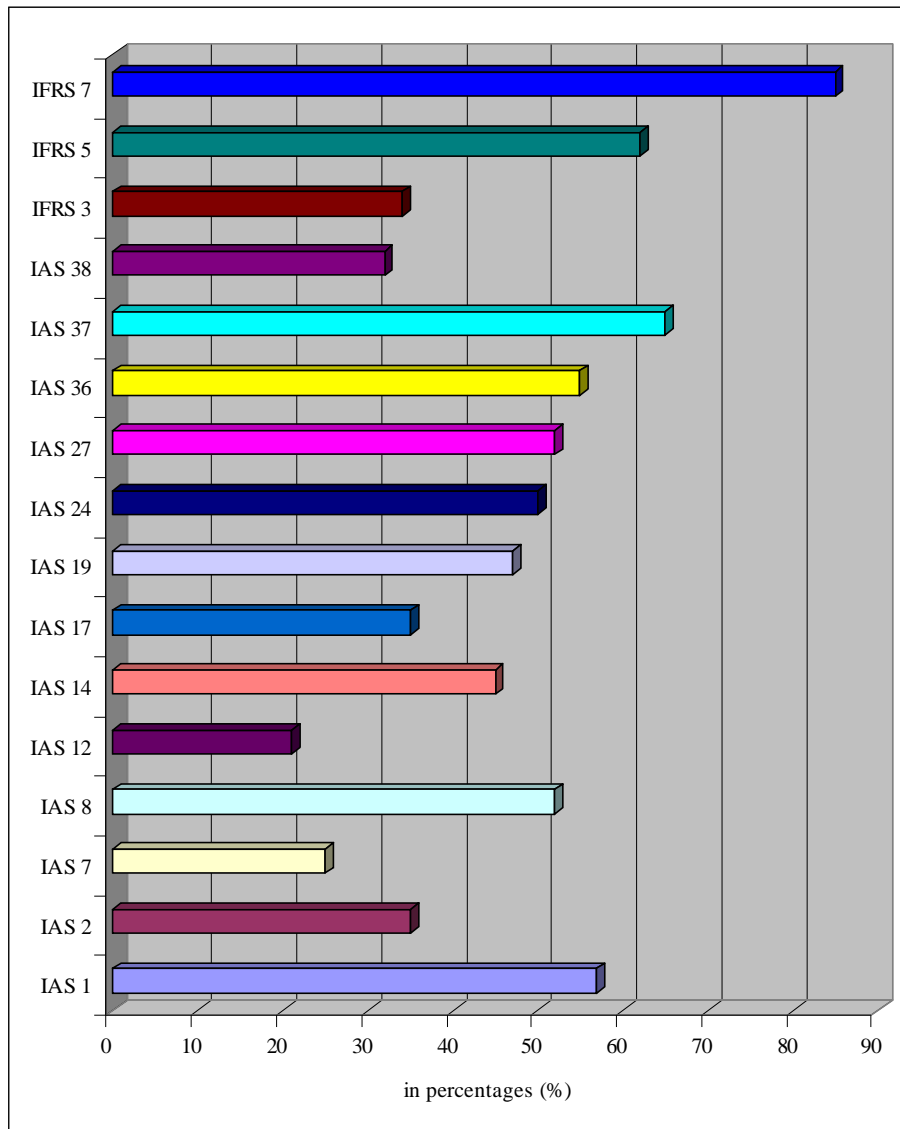


Figure 3: National accounting rules differences from IAS by standards

