IMPACT OF INTERNATIONAL ACCOUNTING HARMONIZATION

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Abstract: *Harmonization is a process of increasing the compatibility of accounting practices by setting limits on how much they can vary. Harmonized standards are free of logical conflict, and should improve the compatibility of financial information from different countries. Efforts to harmonize accounting standards began even before the creation of the International Accounting Standard Committee (IASC) in 1973.More recently, companies seeking capital outside of their home markets and investors attempting to diversify their investment internationally faced increasing problemsresulting from national differences in accounting measurements,disclosures,and auditing. In response, harmonization efforts accelerated during the 1990s.International Accounting harmonization now is one of the most important issues facing accounting standard setters, securities market regulators, stock exchanges, and those who prepare or use financial statements. Efforts to achieve international harmonization have been marked by sharp debates. Should accounting standards be harmonized, made uniform, or less alone? Is it reasonable that less-developed countries adopt the same accounting standards as those used in highly developed countries?This paper aims to address these issues.*

Keywords: Harmonization,International Accounting Standards,

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INTRODUCTION

Financial reporting standards attempt to deal with some of the subjectively, and to achieve comparability between different organizations. Standards are developed at both a national level (in most countries) and international level.IASs were produced by the International Accounting Standards Committee (IASC). From 1 April 2001, the new International accounting Standards board (IASB) took over the standard setting responsibilities from the IASC.International Accounting Standards Committee (IASC) is committed to enrich its board mission of the development and enhancement of accounting Standards. In working towards this mission,IASC develops and issues of

International Accounting Standards (IAS). IASC believes that the issues of such Standards will help to improve the degree of uniformity of accounting throughout the world. People occasionally use the term harmonization, standardization generally means the imposition of a rigid and narrow set of rules, and may even apply a single standard or a rule to all situations. Standardization does not accommodate national differences and, therefore, is more difficult to implement internationally. Harmonization is much flexible and open: it does not take a one size-fits-all approach, but accommodates some differences and has made a great deal of progress internationally in recent years.

Comparability of financial information is a more clear-cut concept than is harmonization. Financial information produced under different accounting, disclosures, and/or auditing system is comparable if it is similar in enough ways that financial statement users can compare it (at least along some dimensions) without needing to be intimately familiar with more than one system. The substantial differences in financial reporting requirements and practices around the world, and the increasing need of financial statement users to compare information from different countries, have been the driving force behind the movement to harmonize accounting.

LITERATURE REVIEW

Accounting has developed in to basically an information system that provides economic information to decision-makers, both within and outside the firm. Thus, it is not only guide management in day-to-day operations but also assists it in designing plans and policiesfor the future. A few decades ago, however, most accountants and financial executives were indifferent to the international dimensions of accounting and financial reporting. With the expansion of world trade and emergence of a large number of multinational enterprises on the global scene they realized that a host of controversial issues exist in the international accounting arena. Today, it is well-established area of speacialzation.Though some authorities such as Samuels and Piper (1985) have argued that there is a nothing new about internationalaccounting, accounting has always been international, from the time it emerged some thousands of years ago, because of it concern with international trade and because of the spread of ideas across countires.Choi and Mueller (1979) also says that,"the heritage of accounting is indisputably international.So today's concern with multinational accounting is more a renaissance than a new idea". A similar view has been expressed by Parker (1983) “modern accounting is not the invention of one country; it has always been international in its scope”.Belkaoui, A.R., (1994) in his International and Multinational Accounting, is bestowing the factors which may affect the creation of an international accounting system. (2002, P.64). According to the Choi(2007)International accounting is that entity is being reported on either a multinational company with operations and transactions that cross national boundaries or an entity with reporting obligations to users who are located in a country other than that of the reporting entity. Further it identifiedthat due to growth and spread of multinational operations, Reporting issues when business transcends national boundaries, Global competition, Financial innovations, Cross broader mergers and acquisitions, internationalization of capital markets, international accounting issue grown in importance and complexity in recent years.Thus exponential grown of interest in the topic on international accounting research evident that accounting has developed differently in different countries because of different institutional and organizational patterns of the countries. Nobes (1984) listed such factors preciselyLegal systems, Source of Finance, Taxation, Inflation, The profession, Accidents, Theory to explain the different accounting solutions among countries.An analysis of the definition of the international accounting reveals that it covers a vast area. It is not so much branch of accounting as a stratum, but a cross-section of accounting. The cumulative effect of the changed character of international trade, predominance of multinational corporations, and the internationalization of money and capital markets resulted in certain unique technical accounting problems having an international dimension. International accounting therefore, covers a comparative study of financial accounting principles and practices in important countries of the world, and the similarities and diversities prevalent therein.

Emerging the globalization process, it seems accounting standards harmonization encounters an expansion in the whole world, reducing divergence between different states regulations (Reinstein and Weirich, 2002).In an attempt to study accounting harmonization in the public sector, some authors (Fuertes, 2008) define the harmonizing process, as being opposite to diversity and variation, or by expressing a decrease in contradictory rules and thus resulting in obtaining a higher comparability degree for financial reporting.Accounting literature identifies a need for international harmonization in this field (Ramcharran, 2000), emerging especially from practice, where diversification of country's regulations may interfere with the way financial information is perceived by its users (Combarros, 2000). However, in line with various scholars(Ding et al., 2007), harmonizing accountingpractices should not be seen as main purpose of organizations regulating this filed, as it influences acountry's national identity in terms of accounting regulations.

A distinct approach to international accounting harmonization could be toexamine its influence on a certain country. Studies in this arena (Kikuya, 2001) revealed countrieswillingness to harmonize that is not, however, materialized in practice, as differences still exist inthe form of limitation for the harmonization process.

In the politically charged environment of the financial crisis, Charlie McCreevy (2009), the EuropeanCommissioner for Internal Market and Services, argued that accounting has not onlybecome a “hot political topic”, but also that “accounting is now far too important to beleft solely to … accountants!”. Yet despite this growing recognition of the salience ofaccounting policy-making, accounting scholarship is only beginning to understand thedynamics driving international accounting harmonization. Given the gap in our understanding of the origins of supra-national accounting regulation and the politics of harmonization, Hopwood (1994) called for more research into thesocial, political and institutional factors underlying the internationalization of accounting.More recently, the surprisingly rapid pace of harmonization, together with the openpoliticalization of accounting standards in the wake of the 2008-2009 financial crisis, hasinspired a stream of interdisciplinary accounting research on the rise of internationalfinancial reporting and auditing standards that examines the phenomenon from a varietyof theoretical perspectives (Bhimani, 2008; Botzem & Quack, 2009; Camfferman & Zeff,2007; Chau and Taylor, 2008; Chiapello & Medjad, 2009; Loft & Humphrey, 2006;Humphrey & Loft, 2009; Humphrey *et al*., 2009).

METHODOLOGY

The internationalization of accounting is, to paraphrase Power (2009), viewed inrelation to the diffusion of a universalistic commercial culture over many centuries,which is currently expressed in norms of appropriateness and agreement as to whatconstitutes “good” accounting shared by transnational networks of experts that populatethe accounting field. Accounting history is conceptualized in relationto the development of capitalism on a world scale, again over many centuries, whichcurrently takes form in the process of financialization (Arnold, 2009). This study aims to primary focus of analysis in order to better understand the rise of international accounting standards harmonization by analyzing and using reviews and opinions of the researchers.

INTERNATIONAL HARMONIZATION

The institutional arrangements governing financial accounting andauditing practice, which were organized at the national level by state regulators andprofessional associations mid of the 1990s.This transformation is most obvious in the rise and prevalent diffusion of financial reporting standards set by a supra-national body, the International Accounting Standards Board (IASB). International Financial ReportingStandards (IFRS) have catapulted from relative obscurity to become a universallyrecognized world standard.Use of IFRS is now required or permitted in over 100 countries, including the member nations of the European Union, which began requiringcompanies to prepare their financial reports in accordance with IFRS in 2005. Even inthe United States, where support for domestic adoption of IFRS has been mixed, progresstoward accounting harmonizationhas gained ground following a series of regulatoryshifts, to achieve convergence between US andInternational Financial Reporting Standards, and the 2007 Securities and ExchangeCommission's (SEC) decision to allow foreign companies to use IFRS in SEC filingswithout reconciliation to US standards. Although less prominent than IFRS the formalization of international auditing norms by the International Auditing and Assurance Standards Board (IAASB) have, likewise, gained momentum in recent years.(Loft & Humphrey, 2006; Humphrey & Loft, 2009; Humphrey *et al*., 2009).

At the same time, the near collapse of the global financial system in 2008 drew attentionto financial reporting standards and the standard setting process by demonstrating thatseemingly dull, micro-regulatory accounting rules can have significantmacroeconomic consequences (Arnold, 2009a).In the wake of the financial crisis, fair value accounting rules were blamed by some for intensifying the credit crisis byencouraging pro-cyclical risk taking and decimating bank balance sheets during thedownturn (Laux & Leuz, 2009).

There is concern that the considerable efforts focused on the harmonization of IAS and U.S. GAAP overlook some very important international differences. Hoarau (1995) suggests that international accounting harmonization is "predominantly harmonization with the Anglo-Saxon accounting model; it thus conflicts with the economic, social and cultural environment of other accounting systems" (P. 218). Hoarau notes that the growing influence of IAS needs to be viewed in relation to the far-reaching influence of U.S. GAAP. For, although IAS are more limited in scope and detail than similar U.S. GAAP, IAS still progress from the same concept of accountancy – that the primary objective of financial information is to provide useful information for decision making by investors. An investor-centered view of financial information makes sense in a country where the vast majority of its economic activity is conducted through its stock exchanges. This investor-centered view of accounting affects the development of accounting principles and the nature of the financial information published.

The basic elements of financial accounting had already been widely disseminated as part of what calls a "world system of accounting" which has been developing over centuries rather than decades, and which accounts for the non-trivial degree of similarity that is found across various national accounting systems.Accordingly, Power (2009, p. 325) argues that we need to "rethink the very conception of the 'internationalization' of financial accounting" and "redefine the starting point" for international accounting research.Rather than taking national accounting systems as primary unit of analysis and viewing the rise of international accounting standards in terms of a movement from national to international accounting norms and the opposition between forces of international standardization and nationally embedded institutional and cultural constraints, Power (2009) calls for an international accounting research agenda that takes the world system, rather than national states, as the primary unit of analysis.

Although the SEC opposed use of international accounting standards in United States on the grounds that US GAAP make available greater transparency for investors, it did not object to adoption of international accounting standards in emerging economies as a means of improving market transparency, provided those standard were implemented and enforced.The ease which with the US endorsed international accounting standards, rather than US GAAP, as the gold standard for emerging economies is also understandable in terms of Power's (2009, P. 326) contention that the history of IASB's competition with other standard setters has been "mis-described" as a conflict between "national" and "international" standards.Harmonization seems to entail imposing Western accounting practices upon nations that are perceived to be less economically developed than in the West. Little attention is paid to the possibility that the accounting practices of diverse communities might give insights to alternative, theoretically defensible accounting practices (Hamid, Craig and Clarke, 1993).

Within the accounting literature, international comparative studieshave used micro institutional theory to understand the ways accounting is embeddedwithin national cultures (Nobes & Parker, 1988). The theory that national accountingpractices are rooted in national institutions or cultural forms such as Americanindividualism, French statism, or German corporatism, however, is unable to explain theseemingly rapid pace of harmonization since the mid-1990s (Hopwood, 2000). Power(2009) argues this is because international accounting research has been preoccupied withnational determinants of financial accounting practice while ignoring the extent to whichthe basic elements of financial accounting (income, assets, liabilities and so forth) have always beenstrikingly similar across national borders. He suggests financialaccounting has never been a distinctively national affair and that international accountingresearch needs to give more attention to the sources of normality within the "worldaccounting system" which he argues has been "a highly rationalized practice at the worldlevel long before 'international accounting' and the problems of diversity became anexplicit research and policy theme" (Powers, 2009, p. 336).

CONCLUSIONS

It’s impractical to establish Accounting Standards which universally applicable to all situations and circumstances an accountant may encounter. Therefore accountants should consider accountings principles as the basic principles which they should follow in performing their work. A thoughtful approach to assessing the desirability of international harmonization recognizes that costs and benefits vary from case to case. Business would experience considerable benefits in planning, system costs, training, and so on from harmonization. But this case shows that another hindrance of being harmonizing taxation and social security systems have powerful influences on economic efficiency. Different systems have different effects. The ability to compare the workings of different approaches in different countries to make improvements to their system. Countries are in competition and the competition forces them to adopt efficient systems through the operation of kind of market force.

Other criticize is that international accounting standard setting is essentially a tactic of the large international accounting services firms to expand their markets. Multinational accounting firms are indispensable, it is said to apply international standards in national environment where those standards are might seen distinct and complex. Also as international financial institutions and international financial markets insists on the use of international standards, only large international accounting firms can meet this demand. Moreover it has been feared that adoption of international standards may create 'Standards Overload’. Corporations must respond to ever growing array of national, social, political, and economic pressures and are hard put to comply with additional complex and costly international requirements.

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