

## Harmonisation of Accounts

- Economic integration and freer trade encourage through free trade agreements and groupings such as the EU
- Dismantling of trade barriers (GATT and WTO) - often controversial
- Stock markets - globalisation made possible by
  - Deregulation
  - Speed of financial innovation
  - Advances in electronic technology and communications
- Consequently, a major company can be listed on several stock exchanges

Effect on Accounting:

1. US Ideas on accounting and financial reporting have been the most influential for many decades
2. Development of international accounting standards have been more driven by Britain and the EU

### Differences in Financial Reporting

- Accounting rules may differ - this would certainly effect MNEs
- No set of rules can cover every situation or prescribe everything in minute detail
- Professional judgement can come into play

### International Cultural Differences and the Harmonisation of Accounting Standards

- Many countries throughout the world have adopted IFRS (a notable 'holdout' being the US)
- Values inherent in accounting subculture influenced by society-wide values
- Accounting systems cannot be considered to be "culture free"
- Should different countries with varying cultural values adopt internationally uniform accounting practices?

Causes of international differences: Cultural, Legal, providers of finance, taxation

International Differences - Taxation:

- The degree to which taxation regulation determines accounting measurements is the most relevant difference
  - Until recently, German national accounting rules were largely the accounting rules
  - In Australia, UK, etc., the Taxation Act has many and varied differences to the accounting standards
- Example: Depreciation
  - In the UK, accounting depreciation rules required an entity to allocate the depreciable amount of the asset on a systematic basis over its useful life
  - No exact rules determine the method chosen
  - But the amount of depreciation allowable for taxation purposes is quite independent of the accounting rules
  - So commercial rules operate separately from tax rules in a number of accounting areas
  - This approach (used here in Australia) follows from the idea that published financial statements are designed mainly as performance indicators for investment decisions

What led to Harmonisation:

- As taxation generally relates to the taxable income of individual companies rather than groups, the authorities have been able to take a relaxed view of group (consolidated) statements
- This has facilitated international harmonisation of accounting at the group level

### Sources of External Reporting Regulations

1. The Australian Securities and Investments Commission (ASIC)
2. The Australian Accounting Standards Board (AASB)

- Part of its role is that of participating in and contributing to the development of a single set of accounting standards for worldwide use
- 3. The Financial Reporting Council (FRC)
- 4. The Australian Securities Exchange (ASX)

#### Sourcing of External Financial Reporting Regulation in Australia

1. Responsibilities for developing accounting standards within Australia now with the AASB
2. AASB now relies - with some limited exceptions - on standards being developed by International Accounting Standards Board (IASB)
3. A commitment was made in 2003 that Australia would comply with International Accounting Standards (now IFRS) from 1 January 2005

#### Process of Australia Adopting IFRS:

- Catalyst to adopting IFRS within Australia was the decision by European Union that all listed companies within Union should adopt IASB standards by 1 January 2005 for the purposes of preparing consolidated financial reports, in order to support the 'single market objective'
- European Union adopts IFRS directly without modification
- In Australia → IFRS is converted into AASB, each bearing an AASB prefix
- Requirement for reporting under IFRS equivalents is extremely broad - in Australia it applies to all reporting entities under the *Corporations Act*, listed and unlisted as well as private and public - unlike in Europe where IFRS is mandatory for listed companies only
- AASB standards have general applicability to NFPs and local government sectors - material added by AASB that describes the scope and applicability to the Australian context

#### Conservatism (Prudence)

- Different degrees of conservatism can be found from country to country
- European conservatism has traditionally been a more stringent variety than the UK and the US. Studies such as Gary (1980) show that French and German companies are significantly more conservatives than UK companies

#### Measurement of Assets:

- Some countries require strict historic cost
- Others allow revaluations of selected assets at selected times

#### Format of Financial Statements:

- Differ marked internationally
- This would mean that there are some difficulties in comparisons

### **Qualifying Assets**

#### AASB 123

1. Requires that borrowing costs (which include the exchange differences on those borrowing costs) that relate to qualifying assets should be included in the cost of acquisition of the asset, to the extent that they arise before the assets cease to be qualifying assets
2. Only those differences occurring before an asset ceases to be a qualifying asset should be included. The exchange differences included in the cost of qualifying assets for the financial year are the amounts that would otherwise have been included within the period's profit or loss

#### Definitions: