



# ACCOUNTICA

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## Content:

### 1. International accounting differences - Katarzyna Gierusz

The article outlines and explains the factors which have the biggest influence on accounting system in the world.



## International accounting differences

### Introduction

The accounting system was developed in 15<sup>th</sup> century by Italian monk Luca Pacioli. He worked out the fundamental techniques such as double- entry bookkeeping, journal and trail balance. These basic tools are still used in most countries in unchanged form. Although, the grounds were the same for all nations the accounting methods differ. These divergences are caused by six factors such as objectives, users, sources of finance, regulation, taxation and accounting profession. They will be explored in next sections.

### Objectives

Two major objectives can be distinguished: economic reality and planning and control. The supporters of the first one such as the UK and the US focus on a 'true and fair' view of company in financial statement. It is believed that accounting system which is based on this idea provides financial information for economic decisions.

In contrast, planning and control emphasize on gathering information for government and other institutions. In other words, accounting in countries such as France and Germany is used to collecting statistical and regularized information for comparability and planning.

### Users

Users are strongly related to objectives. In Anglo-Saxon countries shareholders are the main users of financial statements. This domination focuses accounting on

profitability. In consequence the statement of comprehensive income (former profit and loss account) becomes the main part of financial statement.

In continental countries the power of shareholders is less. The accounting system is mainly addressed to banks and tax authorities. Those users are more interested in liquidity. As the result the statement of financial position (former balance sheet) becomes the key source of information.

### Sources of Finance

As it has been already mentioned the accounting practices should satisfy the users of financial statements. Generally speaking, the providers of finance are the biggest group of users. Apart from internally generated profits, there are two sources of finance: equity or loan finance.

In countries such as Germany, France or Italy banking sector is the major supplier of funds. In contrast in the UK and the US tradition tends to focus on the shareholders.

To sum up those three divergent forces, *accounting has been adapted to suit the local dominant sources of finance* (D. Alexander, S. Archer, European Accounting Guide, p. 9).

### Regulation

By regulation, we mean existing legal system including the rules that govern accounting. Two types of legal system have developed: common and code law.



Common law does not prescribe general rules but is developed case by case. *In such system accounting rules are not the part of law but they depend on professional organizations* (D. Alexander, A. Britton, A. Jorissen, International Financial Reporting and Analysis, p. 28) (e.g. Security Exchange Commission in the USA). They are written in a standards form.

The code law system originated on Roman law and has developed in continental Europe. It is very detailed and accounting issues are often embodied by separate act.

### **Taxation**

There is no doubt whatsoever that tax considerations do have influence on accounting system. However, the scope and extent of this power vary considerably. In Anglo- Saxon countries the taxation rules, theoretically, do not determine the accounting system. Separate accounts are field for tax purposes. However in practice, some anomaly occurs. *'If companies wish to lower their taxable profits, they can use the Last-in-First-out (LIFO) method of inventory valuation, which usually values stock lower than alternative*

*methods, and thus lowers profits'* (M. Jones, Financial Accounting, p. 381).

Countries such as France or Germany can be classed as nations with taxation system 'dependent' on accounting. Similar rules are used to count accounting and taxable profit. Therefore, accounting is often used for minimizing tax liabilities rather than presenting 'true and fair view'.

### **Accounting Profession**

It has been already mentioned that in the UK and the US the accounting rules are independently set. Thus, the professional, accounting bodies play an important and judgemental role. In contrast, in continental countries the influence of well qualified accountants on accounting is limited.

### **Conclusion**

Basing on above factors two accounting models can be distinguished: continental and Anglo- Saxon. Figure 1 summarizes the characteristic features. It is worth mentioning that because of globalization the pure accounting models do not exist.



Figure 1 Main characteristics of the Continental and Anglo- Saxon models of accounting.

<b>Divergent Force</b>	<b>Continental model</b>	<b>Anglo- Saxon model</b>
Objectives	Planning and control	Economic reality
Users	Government, banks, tax authorities	Shareholders
Sources of Finance	Banks	Stock exchange
Regulation	Government, relatively prescriptive	Private sector, relatively flexible
Taxation	Dominant, dependent system	Subordinate, independent system
Accounting Profession	Weak, uninfluential	Strong, influential
Examples	France, Germany	The United Kingdom, The Unites States of America

Compare: M. Jones, Financial Accounting, p. 384



**References:**

1. Alexander D.; Britton A.; Jorissen A.; *International Financial Reporting and Analysis 3<sup>rd</sup> edition*; Thomson 2007.
2. Michael J.; *Financial Accounting*; John Wiley & Sons Ltd 2006.
3. Alexander D., Archer S.; *European Accounting Guide 4<sup>th</sup> edition*; Aspen Law & Business 2001.