Mohamed khider university of Biskra

Faculty of economics commerce and management sciences

Department of

Financial sciences and Accounting

LECTURES IN :

Comparative Accounting Systems

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Course Description :

This course is an introduction to first year Master of Accounting students and represent a theoretical and philosophical framework on comparative accounting systems. The purpose of these lectures is to provide Master students with the basic concepts about the nature and culture of the accounting system, while analysing the differences at the international level. The student also learns about how the accounting system is built, the specificities that distinguish each country, and the degree of influence of the economic, financial, political, and social systems, etc. Its important purpose is to develop good theoretical background that could make the picture clear enough for the students at this level.

Course Objective:

The purpose of this course is to:

- Discuss how accounting is shaped by its environment;
- Identify the historical development of accounting systems at the international level;
- State the various possible forms of organization that international aspects have been integrated into financial management;
- Observe the specificities of international accounting systems;
- Observe the factors influencing the construction of the accounting system at the international level;
- Determine the role of international accounting standards in building the accounting system for each country;
- Discuss legal system as a factor influencing accounting development;
- Explain how Built accounting culture at the international accounting level.

Course structure:

In regards to the organisation of the course, it comprises ten themes. The Ten themes are to be covered in the complete academic year. It is worth mentioning that comparative accounting system requires good knowledge of international taxation, international finance as well as legal systems. Each theme is delivered in two lectures.

This simply means that the overall number of lectures to teach the course is 20 lectures. As for the teaching approach, the thematic approach is used. This approach consists in moving from general assumptions to specific ones. By the end of each theme, students will be able to get the required information that will stand as necessary, elementary background knowledge.

THEME ONE: CAUSES AND EXAMPLES OF INTERNATIONAL DIFFERENCES

Introduction:

International accounting is defined as the international aspects of accounting, including such matters as accounting principles and reporting practices in different countries and their classification; patterns of accounting development; international and regional harmonization, and foreign currency translation (Eastern Mediterranean University,2023). Most worldwide financial studies held by accounting principles experts find the following six main reasons for the existence of Accounting Diversity: the culture, Providers of finance, Taxation, The profession and other external influences.

1- The culture :

1-1 Aspects of Culture :

Clearly, accounting is affected by its environment, including the culture of the country in which it operates. Hofstede (1980) developed a model of culture as the collective another. Hofstede argues that, much as a computer operating system contains a set of rules that acts as a reference point and a set of constraints to higher-level programs, so culture includes a set of societal values that drives institutional form and practice. Applying this to accounting, Gray (1988, p. 5) notes:

Societal values are determined by ecological influences and modified by external factors. . . In turn, societal values have institutional consequences in the form of the legal system, political system, nature of capital markets, patterns of corporate ownership and so on.

Culture in any country contains the most basic values that an individual may hold. It affects the way that individuals would like their society to be structured and how they interact with its substructure. Accounting may be seen as one of those substructures. As Gray (1988, p. 5) explains: the value systems or attitudes of accountants may be expected to be related to and derived from **societal values** with special reference to work-related values. **Accounting 'values'** will in turn impact on accounting systems.

To get some idea of the basic cultural patterns of various countries, we turn again to Hofstede. Based on a study of over 100,000 IBM employees in 39 countries, Hofstede (1984, pp. 83, 84) defined and scored the following four basic dimensions of culture, which can be summarised as follows:

- **Individualism versus collectivism**. Individualism means a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. The fundamental issue addressed by this dimension is the degree of interdependence that a society maintains among individuals.

- **Large versus small power distance**. Power distance is the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. People in societies that have large power distance accept a hierarchical order in which everybody has a place that needs no further justification. The fundamental issue addressed by this dimension is how society handles inequalities among people when they occur.

- **Strong versus weak uncertainty avoidance**. Uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to beliefs promising certainty and to maintain institutions protecting conformity. Societies with strong uncertainty avoidance maintain rigid codes of belief and behaviour and are intolerant towards deviant persons and ideas. **Weak uncertainty avoidance** societies have a **more relaxed atmosphere** in which practice counts more than principles and deviance is more easily tolerated. A fundamental issue addressed by this dimension is how a society reacts to the fact that time runs only one way and that the future is unknown; whether it tries to control the future or lets it happen.

- **Masculinity versus femininity**. Masculinity stands for a preference in society for achievement, heroism, and assertiveness and material success. Its opposite, femininity, stands for a preference for relationships, modesty, caring for the weak and the quality of life.

1-2 Societal Values and Accounting Values:

Gray (1988) applies these cultural differences to explain international differences in the behaviour of accountants and therefore in the nature of accounting practices. For example, Gray suggests that a country with high uncertainty avoidance and low individualism will be more likely to exhibit conservative measurement of income and a preference to limit disclosure to those closely involved in the business (Nobes, C., and Parker, R. H.,2008). Gray developed the following **four pairs** of contrasting '**accounting values**':

- Professionalism versus statutory control;
- Uniformity versus flexibility;
- Conservatism versus optimism;
- Secrecy versus transparency.

Gray's study represented a significant attempt to develop a model by identifying the mechanism by which societal-level values are related to the accounting sub-culture which directly influences accounting practices. Gray used Hofstede's culture-based societal value dimensions as the basis for his analysis. He also identified four value dimensions of the accounting sub-culture which are also related to societal values: professionalism, uniformity, conservatism, and secrecy. Furthermore, he classified accounting systems on the basis of each of the four accounting values. Gray's analysis allows the identification or certain direct associations between the values of the accounting sub-culture and the societal dimensions of individualism and uncertainty avoidance (Table 1).

Table 1. Direct Associations Between Societal and Accounting Values

Values of accounting sub-culture	Relationship with societal values	
	Positive	Negative
Professionalism	Individualism	Uncertainty avoidance
Uniformity	Uncertainty avoidance	Individualism
Conservatism	Uncertainty	Individualism
Secrecy	Uncertainty avoidance	Individualism

Source: Heidhues, E., & Patel, C. (2011). A critique of Gray's framework on accounting values using Germany as a case study. *Critical perspectives on accounting*, *22*(3), 275.

Based on these four societal values, Gray (1988, p. 9–11) formulated four directional hypotheses to theoretically link his four accounting values of professionalism, uniformity, conservatism and secrecy to Hofstede's (1980) four societal value dimensions:

The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance then the more likely it is to rank highly in terms of **professionalism**.

The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism then the more likely it is to rank highly in terms of **uniformity.**

The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity then the more likely it is to rank highly in terms of **conservatism**.

The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity the more likely it is to rank highly in terms of **secrecy**.

Gray (1988, p. 5) proposes that these hypotheses, "may be used to explain and predict international differences in accounting systems and patterns of accounting development internationally" and further classifies countries into 10 Clusters namely, 'Anglo', 'Nordic', 'Germanic', 'More Developed Latin', 'Less Developed Latin', ‘African’, ‘Asian-Colonial’, ‘Less Developed Asian’, ‘Japan’ and ‘Near Eastern’. Furthermore, Gray (1988) **suggests** that there is a relationship between **“professionalism/uniformity**”, the authority of an accounting systems and its enforcement. Moreover, Gray proposes that ‘**conservatism**’ is the most relevant accounting value influencing **measurement practices**, while ‘**secrecy**’ is the most relevant accounting value in influencing **disclosure of financial information** (Heidhues, E., and Patel, C. ,2011).

1-3 Accounting and Culture:

On a broader perspective, societal values are affected by ecological influences through geographic, economic, demographic, historical, technological, and urbanization factors, which in turn are influenced by external factors, such as the forces of nature, trade, investment, and conquest. On the other hand, both ecological factors and societal values influence a society's institutional arrangement for legal and political systems, corporate ownership, capital market, professional associations, education, and religion, which affect accounting values and accounting practices. These relationships are identified in Fig. 1. The foregoing analysis suggests some associations between societal values and accounting values (thus accounting systems). Understandably the associations are complex.

The tables and figure incorporate **four variables** concerning **culture-based societal values**, i.e., individualism versus collectivism, large versus small power distance, strong versus weak uncertainty avoidance, masculinity versus femininity, and **four values of an accounting sub-culture**, i.e., professionalism, uni-formality, conservatism and secrecy. Focusing on the relationship between **societal values and the accounting subculture** (and disregarding for the moment the link between the accounting sub-cultures and accounting systems). Fig. 1 could be restated as a series of specific hypotheses about those relationships, e.g.

(1) The greater the individualism and the smaller the uncertainty avoidance within a society then the **greater the professionalism** (or the smaller the uniformity) exhibited within an accounting <u>sub-culture</u>.

(2) Corollary: The less the individualism and the greater the uncertainty avoidance within a society then the **less the professionalism** (or the greater the uni-formality) exhibited within an accounting <u>sub-culture</u>.

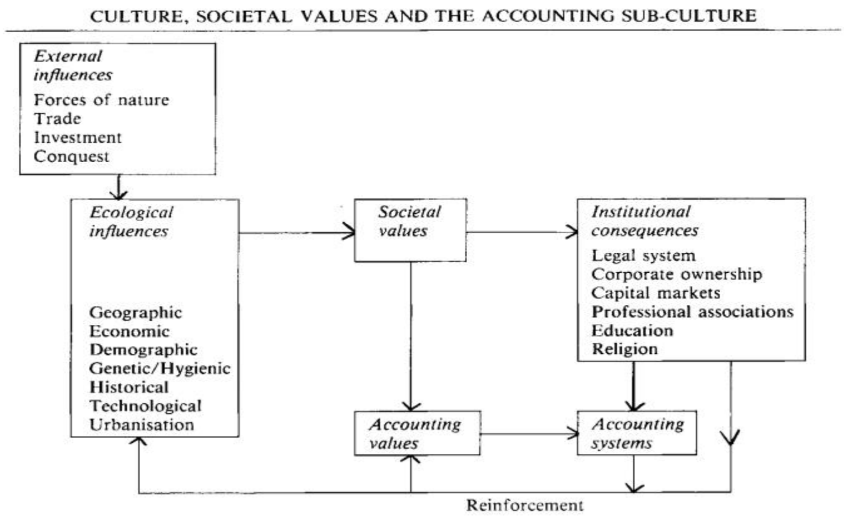
(3) The greater the uncertainty avoidance and the less the individualism within a society the **greater the conservatism** exhibited within an accounting <u>sub-culture</u>.

(4) Corollary: The smaller the uncertainty avoidance and the greater the individualism within a society the **smaller the conservatism** exhibited within an <u>accounting system</u>.

(5) The greater the uncertainty avoidance and the less the individualism within a society the **greater the secrecy** exhibited within an accounting <u>sub-culture</u>.

(6) **Corollary**: The smaller the uncertainty avoidance and greater the individualism within a society the **smaller the secrecy** exhibited within an accounting <u>sub-culture</u> (Perera, M. H. B. ,1989).

Figure 1: The accounting Sub-culture



Source : Perera, M. H. B. (1989). Towards a framework to analyze the impact of culture on accounting. The international Journal of accounting, 24(1), 43.

Accordingly, the value systems or attitudes of **accountants** may be expected to be related to and derived from **societal values** with special reference to work-related values. Accounting 'values' will, in turn, **impact on accounting systems**(Gray, S. J. ,1988).

Building on the work of Hofstede's (1980) general model of the origins and effects of societal values, Gray (1988, p. 5) hypothesizes the existence of **four accounting** values (AV) where "the value systems or attitudes of accountants may be expected to be related to and derived from **societal values**"(Salter, S. B., et al ,2013).

❖ **Observation:** Conservatism is defined by Gray (1988, p.8) as "a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.

1-4 Different Cultural Environments:

The differences identified in the accounting systems between Anglo-American and Continental European countries can be explained in terms of their cultural environments. The growth of economic activity in the UK occurred in an atmosphere of classical liberalism with a broadly laissez-faire approach to government. Uncommitted funds in various investment projects became an important activity.

Once prospective investors began to assess investment opportunities on the basis of their expected earnings, financial statements that included some kind of earnings amount became a necessity for the functioning of the entire system. This was the background for the development of capital market activity which is the main source of funds for investment in both countries. The activities of these markets have resulted in continuous pressure being exerted for the provision of financial information for investors, making investors the most important recipients of accounting reports from companies. The pressure for disclosure had a significant effect on the development of accounting principles and practices in these countries and the requirements of the capital markets became a major influencing factor in their disclosure patterns.

Furthermore, financial reporting and capital market activity were so closely related that they became interdependent. Similar developments took place in other Anglo-American accounting countries, such as Australia, Canada, and New Zealand. It was assumed that these developments should be implemented by accountants, independent of legal direction or government intervention.

The position in much of Continental Europe is quite different from that outlined above. In both France and West Germany there has been a tradition of state intervention in economic affairs. Unlike the position in the UK and the United States, the influence of the classical economists was far more limited in Continental Europe. Instead, there have been a succession of economic theories with a common thread of anti-individualism. Financial accounting in France is generally influenced by legislation, a result mainly of the determination of the French Government to obtain data for macro-accounting purposes. The 1947 Plan Comptable General, which has been adopted by virtually all enterprises in the country, contains a detailed chart of accounts and a series of model financial and statistical reports, which are considered necessary for micro- and macro accounting purposes. The French plan makes is clear that among its objectives in seeking data on an enterprise are:

- The promotion of more reliable national economic policies,
- The minimization of social misunderstandings,
- Ensuring the availability of data for government studies of market trends, and
- Assistance to the government authorities in exercising control over the economy.

Furthermore, French companies have traditionally relied much less on an active new issue market as a source of long-term funds than have UK and US companies. This has resulted in a lower emphasis on the provision of investor-oriented corporate financial reporting and on the audit function as a safeguard for investors. Therefore, the primary influence on the development of accounting principles and practices in France has been the General Accounting Plan, rather than the pronouncements of the accounting profession. Similarly, in Germany, as demand for industrial capital increased during the second half of the nineteenth century, strong banks, rather than individuals, organized by a promoter, emerged as suppliers of a significant portion of that capital(Perera, M. H. B.,1989).

2- Legal systems :

Some countries have a legal system that relies upon a limited amount of statute law, which is then interpreted by courts, which build up large amounts of case law to supplement the statutes. Such a '**common law**' system was formed in England, primarily after the Norman Conquest of 1066, by judges acting on the king's behalf (van Caenegem, 1988). It is less abstract than **codified law** (see below); a **common law** rule seeks to provide an answer to a specific case rather than to formulate a general rule for the future. Although this common law system emanates from England, it may be found in similar forms in many countries influenced by England.

Thus, the **federal law** of the United States, the laws of Ireland, India, Australia, and so on, are to a greater or lesser extent modelled on English common law. This naturally influences **commercial law**, which traditionally does not prescribe detailed rules to cover how companies should prepare their financial statements. Instead, accountants themselves established rules for accounting practice, which were then written down as recommendations or standards. Later, standard-setting bodies independent of both the state and the accountancy profession were set up. In such jurisdictions, the legal system is now involved in the enforcement of the standards.

Other countries have a system of law that is based on the Romanius civile as compiled by the Byzantine emperor, Justinian, in the sixth century and developed by European universities from the twelfth century. Here, rules are linked to ideas of justice and morality; they become doctrine. The world 'codified' may be associated with such a system. This difference has the important effect that the detailed rules for financial reporting are set out in **company law or commercial codes**. For example, in Germany, company accounting under domestic rules is a branch of law.

3- Providers of finance :

In France and Italy, capital provided by banks is very significant, as are small family-owned businesses. By contrast, in the United States and the United Kingdom, many companies rely on millions of private shareholders for finance. Evidence that this characterization is reasonable may be found by looking at the number of listed companies in various countries.

4- Taxation :

For clarification we brought in carefully the classification of Lamb et al. (1998), which provides five criteria's of classification for **relationship between accounting and taxation**, relationship characterized in terms of accounting rules, and taxation, as follows: - Case 1: **Disconnection** (the accounting and taxation rules are pursued for different purposes to be fulfilled. **Disconnection** is possible when we have tax and accounting rules separate, independent and detailed); - Case 2: Identity (this identity can be a de facto identity or when **accounting is "leader"**. Regardless of which way we look accounting prima facie will affect taxation); - Case 3: **Accounting leads** (it is possible when **accounting rules** or accounting options are adopted for financial reporting purposes and for tax purposes. This scenario is possible because of lack of specific tax rules to be sufficient); - Case 4: **Tax leads** (it is possible when a **fiscal rule** or option is adopted for tax purposes and financial reporting purpose. This scenario is possible because of lack of specific accounting rules to be sufficient); - Case 5: **Tax dominates** (a tax rule or option is imposed both for the financial and for tax reporting, being in **conflict** with financial reporting rules(cuzdriorean, d. d., and matiş, d.,2012).

5- The profession :

The strength, size, and **competence of the accountancy profession** in a country may follow to a large extent from the various factors outlined above and from the type of financial reporting, they have helped to produce. For example, the **lack** of a substantial body of **private shareholders** and public companies in some countries means that the need for auditors is much smaller than it is in the United Kingdom or the United States.

However, the **nature of the profession** also feeds back into the type of accounting that is practiced and could be practiced. For example, a 1975 Decree in Italy (not brought into effect until the 1980s), requiring listed companies to have **extended audits similar** to those operated in the United Kingdom and the United States, could only be put into operation initially because of the substantial presence of **international accounting firms**. This factor constitutes a considerable obstacle to any attempts at significant and deep harmonization of accounting between some countries.

6- Other external influences :

In addition, it has been suggested that **colonial influence** may overwhelm everything else. Many other influences have also been at work in shaping accounting practices. An example is the framing of a law in response to economic or political events. For example, the economic crisis in the United States in the late 1920s and early 1930s produced the Securities Exchange Acts that diverted US accounting from its previous course by introducing extensive disclosure requirements and state control (usually by threat only) of accounting standards. Other changes to US accounting happened in response to the collapse of Enron in 2001 and the global financial crisis of 2007 onwards (Nobes, C., & Parker, R. H. ,2008).

THEME TWO: ALGERIAN ACCOUNTING SYSTEM

Introduction:

The SCF adoption in Algerian was a revolutionary change in accounting regulation, since the National Accounting Plan (PCN) that adopted before 2010 was rules-based, whereas the SCF is more principles-based, which can change the form and content of financial statements of the Algerian companies, and thus impact substantially its quality (Bilal, K. ,2021).

1- The first Algerian National Accounting Plan (NAP75):

In striving to reach economic development and social welfare, developing countries have inherited tailored made accounting systems established by the old colonial authorities or made the choice to import accounting systems from their **previous colonizers**, or from their new allies through international or through development and training programs (Godfrey et al., 1999; Wallace, 1999). A key element for understanding one country's accounting system is the environment within which it has developed. This is to say, "To a large extent, accounting is a product of its environment. That is, it is shaped by, reflects, and reinforces particular characteristics unique to its domestic environment" (Radebaugh and Gray., 1997).

After the independence, the Algerian accounting authorities' main concern was to develop and maintain a national accounting system that will be adequate for the country new political and economic orientations. Nevertheless, and due to the absence of any national accounting regulation, the Algerian accounting system was tailored to the uniform French accounting system, the French Plan Comptable General (PCGF) of 1957.

By April 1975, the Algerian accounting regulators decided to replace the French plan Comptable General with a domestic Algerian accounting system: Plan Comptable National (NAP75). According to the "rapport de presentation du PCN, (1974) produced by the Algerian National Accounting Council, the French Plan

Comptable General (PCG) was considered as unsuitable to the new socialist economy demands. Within this state of spirit, the Algerian National Accounting Council 20 carried on a systematic amendment of the techniques and organization of accounting in order to provide the national economy with a more refined and more consistent accounting framework and to tightly control this new form of business; the socialist enterprise.

2- The general aspects of the Financial Accounting System:

This dramatic situation of the accounting environment in Algeria heartened the authorities to restructure and review the accounting status in modern Algeria, particularly after the strategic decision to open the national market to foreign capital, stigmatized and denounced, until now. They become aware of the extreme necessity to undertake a major re-structuring of the accounting system currently in place in Algeria is an obvious and essential condition to promote the country's ability to attract both foreign investments and encourage local investors whose real contribution to the national economy has been until now, being viewed as insignificant.

From **1 January 2010**, a new chart of accounts and a complete set of accounting standards will have to be implemented by Algerian companies. The new financial accounting system concerns corporations under the provisions of the commercial code, to cooperatives, to physical or legal persons producing commercial or non-commercial goods or services, as long as they accomplish economic activities repetitive in nature, as well as to any other physical or legal person required to be legally in compliance with the new system. Small entities may use simplified financial accounting. (The Algerian National People’s Assembly, 2007).

The **New Financial Accounting System** “NFAS” was conceived by the Algerian National Accounting Council, in close collaboration with the French National Accounting Council. This notably involves putting in place an accounting system that allows for operation in accordance with internationally accepted principles and methods and making it possible to better meet the needs of domestic and international investors and to ensure greater transparency from companies and corporate groups.

The NFAS recommends the preparation of the financial statements according to international accounting standards. These financial statements form a complete set of reports including the following elements:

- Balance sheet;
- Income statement;
- Cash flow statement;
- Statement of changes in shareholders' equity;
- Appendix mentioning the accounting rules and methods, the details of the accounts and off-balance sheet constituents (Saidi, F.,2013).

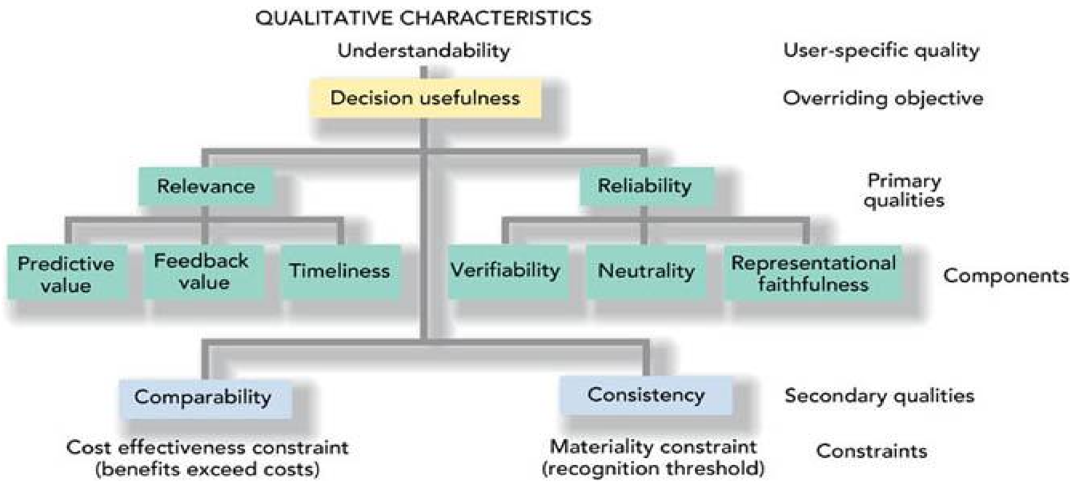
3- Definition of the Financial Accounting System:

According to Article 03 of Law No., 07-11 dated November 25, 2007, "Financial Accounting is a system for regulating financial information that allows the storage, classification, evaluation and registration of numerical base data, and the presentation of statements reflecting an honest picture of the financial situation and property of the entity, its effectiveness and the status of its treasury.

According to Article 06 of Law No, 07-11 of November 25, 2007, the FINANCIAL accounting System contains a **conceptual framework** for financial accounting, accounting standards, and a code of accounts that allows for the preparation of financial statements on the basis of accounting specially: Pledge accounting, Continuity of exploitation, comprehension, significance, Credibility, Comparability, Historical cost, Precedence of economic reality over legal appearance. (Official Gazette, 2007, p. 04).

The financial accounting system was developed within an integrated legislative and regulatory system that allows different practitioners and even users of financial information to face the risks of bias, misunderstanding, inaccuracy, ambiguity and others as it relates to the development of principles and rules in more interpretive and clear texts that would guide the accounting registration of information, its evaluation and the preparation of financial strengths, as it is based on a conceptual framework derived from the conceptual framework of international accounting standards(Eldjia, 2020, p. 134).The following figure illustrates Hierarchy of Desirable Characteristics of Accounting Information (BACHIRI AFAF,2023).

Figure(2) : Hierarchy of Desirable Characteristics of Accounting Information



Source: Saidi, F. (2013). Accounting developments in Algeria: The road to IFRS. *Saidi, F.(2013)"Accounting Developments in Algeria: The Road to IFRS", International Research Journal of Applied Finance*, *4*, 124-142.

4- The importance of the financial accounting system:

The financial accounting system is an important step in the application of IAS within the framework of global accounting consolidation, and this importance lies as follows:

- Facilitates the control of accounts which specific concepts and rules are strictly and clearly based, and increases transparency about the status of the enterprise, contributing to the correct decisions of its clients, led by investors;

- The financial accounting system brings transparency to accounting and financial information published in financial statements, increases its credibility and reliability to users of information at the national and international levels,

- Enables the best comparison in time for the same institutions, on financial situations and performance, and the ease of reading and understanding financial information directed at users of information inside and outside Algeria,

- The financial accounting system comes to fill previous gaps, by developing tools suitable for all data and analysing them in a way that establishes the transparent management of institutions subject to the commercial system, which are internationally adopted tools that will expose all irregularities, embezzlement and attempts at corruption. (Saidi & Ben Muwaffaq, 2010, p. 12).

5- Algerian accounting system and IAS, IFRS :

Several studies such as (Madani Benbelghit 2004), (Salah Hawas 2008), (Elarabi Hamza 2013),(Thaher Shaher Al-Qashi2014), (Sid Mohamed 2015), addressed the topic of accounting reforms introduced in Algeria the essence of which was Algeria quest to develop its accounting system to keep up with the international trends by the replacement of "national chart of accounts" with "financial accounting system" in 2010, which is inspired from IAS, IFRS and converges to a great extent with the French chart of account (PCG).

Although the decision of the Algerian government to adopt new accounting system since 2010 was for the purpose to bring the accounting practices in Algeria closer to the international accounting standards (IAS, IFRS), IASB considers Algeria to be a non-IAS, IFRS adopter country. According to Price water house coopers, which is professional services networks whose mission is to carry out auditing, accountancy expertise, and consulting mission in France and French-speaking Africa (PWS), the major differences between Algerian financial accounting system and IFRS are as follows:

- The stockholders are not defined as the main user of the financial information.

- The financial statements are standardized and have to follow a unique chart of account.

- The income statements do contain an extraordinary result.

- A lot of points are not treated in the Algerian system while the IFRS deals with more complete issues within the text.

(Elarabi Hamza, 2013) opined that “the Algerian accounting system is inspired from international accounting standards as they were, back to January 2005, however IAS, IFRS witnessed since then a dramatic changes and adjustments, which made the gap between them and the Algerian financial accounting system to become more wider as time goes on, thus all adjustments introduced to the international accounting standards since 2005 are not included in the Algerian financial accounting standards.

Noteworthy that despite the differences between IAS, IFRS and the Algerian financial accounting system some similarities can be noticed a well, especially in terms of basic accounting concepts, principles and assumptions, measurement and evaluation rules, financial statements and disclosure methods.

(Sid Mohamed2015) argued that the main challenges that Algeria faced in implementing financial accounting system inspired from IAS, IFRS are:

- Absence of efficient financial market in Algeria;

Difficulty in determining the fair value of the tangible fixed assets due to the lack of information and the monopoly competition under which real estate sellers controls their market value;

- Absence of national economy information system that is characterized by credibility and inclusiveness;

- Slowness in developing accounting educational contents in universities and training centers.

- The lack of accounting benefits conscious and prevalence of the narrow view toward accounting as a mere of technique(Bouarar, A. C. ,2017).

Also, Slimane Sefiane found that since the new financial accounting system is kept uniform, the new financial and accounting system in Algeria may not be progressive towards cost and management accounting, and hence further efforts are needed to develop it(Slimane Sefiane ,2011).

THEME THREE: FRENCH ACCOUNTING SYSTEM

Introduction:

The French accounting system is based on French GAAP.Called Plan Comptable General (PCG). As a member of the EU, French law is in accordance with European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRS in the preparation of consolidated financial statements of listed companies(Lloyds Bank ,2023).

1- **THE SOURCES OF THE 1947 ACCOUNTING PLAN:**

Two major sources inspired the characteristics and structure of the 1947 Accounting Plan, namely the 1942 Accounting Plan and the Plan of the National Committee of the French Organization(Comité National de l'Organisation Française,CNOF) [Brunet, 1951, p. 168]. The influence came through individuals who had worked on the respective committees that developed these two plans, and who were later appointed to the 1946 Committee for the Normalization of Accounting.

The 1942 Accounting Plan Developed during World War II, the 1942 Accounting Plan was the product of an Accounting Plan Committee (Commission Interministérielle du Plan Comptable) instituted by an April 1941 Decree. The plan's objectives were stated as follows by Detoeuf [1941, pp. 9-12], vice-president of the committee:

- Allow the determination of assets, capital, profits and product costs at both the company and the industry level;

- Make it possible to calculate industry-wide average costs for certain product types for government price control purposes;

- decrease the possibilities of deceiving tax authorities by increasing the clarity of accounts;

- help the government to avoid making mistakes in its tax and economic policies by normalizing accounting for each industry.

2- THE POST 1947 PLAN ERA :

During the 1950s, the Higher Council of Accounting made the first revision of the 1947 Plan. The new Plan was approved in 1957. The Council mainly devoted its efforts to improving the various elements of the 1947 Plan while retaining its framework and giving the cost accounting section of the plan more flexibility. A 1962 decree required the 1957 Plan be used in the private economic sector. The 1957 Plan thus became legally binding in over eighty lines of business for which particular plans were developed. Further, in the 1960s, the 1957 Plan served as basis for the development of the Plan for the African, Madagascar and Mauritius Organization (grouping of former French colonies) by a group of experts from the National Council of Accounting and INSEE.

With changing economic conditions in France, the passing of new laws, the rapid development of information processing techniques and the internationalization of trade and capital markets, the Accounting Plan needed revision. The need to improve the possibilities for financial and economic analysis offered by the plans financial statements played an important role in drafting the revised plan's conceptual framework; in fact, this consideration dominated the first phase of the revision (1970 to 1975). The new proposed plan changed the classification criteria adopted in the 1947 and 1957 Plans, and introduced a number of innovations. The classification of balance sheet elements according to their degree of liquidity/maturity was replaced by a classification of assets and liabilities according to their economic function in the firm. The impact of tax regulations on accounting income and on the balance sheet was to be shown separately in accounts such as regulated provisions. The presentation of a statement of changes in financial position was to be made mandatory as a result of banks' and financial analysts' requests for information about the impact of the firm's transactions on its financial position. In the income statement, components of production were to be shown separately, and computation of value added was required to meet national accountants' information needs. These changes were approved by the National Council of Accounting (Conseil National de la Comptabilité) in 1975.

The 1982 version of the Plan contains basically the same elements as the 1947 edition (refer to the previous presentation of the 1947 Plan). However, accounting principles, which were implied in the 1947 Plan, are now specified clearly in the first section of the Plan. The cost accounting section of the Plan was greatly expanded. However, cost accounting remains independent from financial accounting. Additional information provided in this section includes the objectives of cost accounting, its uses for the management of operations, and a framework for the analysis of transactions in cost accounting. The 1982 chart of accounts uses only nine of the ten classes, the class for statistical accounts (number 10) having been eliminated. Classes 1 to 5 are still reserved for balance sheet accounts and they retain the same titles. The operating accounts remain in classes 6 and 7. However, in each class, important reallocations were made in two-digits accounts in order that the chart more closely correspond to the new financial statement presentation of the classes' elements. Class 8 is now used for special accounts, such as commitments and consolidation accounts. Former profit and loss accounts of class 8 were reallocated into other classes because there is now only one statement for income related operations. In fact, the fusion of the former trading account, and profit and loss account into one income statement is a major change that has been made to the 1947 Plan.

The Accounting Historians Journal, December 1991 national breakdown of operations has been maintained in the structure of the 1982 income statement, which is now divided into four sections namely, operations results, financial results, exceptional results and income taxes. As far as the balance sheet is concerned, the 1947 liquidity/ maturity criterion was retained for the classification of elements, except for financial investments and for liabilities. These elements are shown globally, details of maturity using the one-year criterion being given in notes to the balance sheet. A noteworthy change in the balance sheet concerns the presentation of net income for the period: it has been made part of equity instead of being shown separately as the last element of either the left or right section of the statement. New importance has been granted to the supplementary in-formation provided with the financial statements. In fact, notes are now regarded as being an integral part of the financial statements, subjected to the concept of true and fair presentation of financial information. Also, supplementary schedules are more numerous than in the 1947 Plan. A schedule presenting assets and liabilities maturities has been added and some summary statistics covering a five year period are requested, concerning such elements as capital, net income, wages and social security benefits. The three sets of financial statements (the basic set; the optional, developed set; the abridged set, for small enterprises), all based on the basic framework, also represent a new feature of the 1982 Plan. As can be noted from the comparison of the 1982 and 1947 Plans, the successive French committees on normalization had a good basis to work upon and, even if many improvements have been made, several features of the 1947 Plan have been preserved.

Since the 1940s, the road to French accounting standardization has been paved by a number of episodes, each building upon the previous stages. First, there was the unofficial 1942 Accounting Plan drafted during World War II under government's initiative. Then, in the 1942-1944 period, the Rational Plan was elaborated under the aegis of the CNOF, a private organization. Following the war, the 1947 Accounting Plan was the first plan officially approved by a governmental decree. Subsequently, revised editions of the 1947 Plan were approved in 1957 and in 1982, the latest version of the plan incorporating

European considerations originating from the harmonization at that level(Fortin, A.,1991).

3- **Cultural, Historical and Legal influences on French Accounting:**

Traditionally there are three main French attitudes connected with accounting: (Scheid and Walton, 1992):

Firstly, the conservative attitude which indicates that French ordinary person does not like risks. Furthermore, he mistrusts new ideas and prefers "on the whole to consolidate a moderately satisfactory material wealth rather than to innovate». Secondly, the weighting of authority which the French want to be well established and formalized and which adverse they behave very respectful. Lastly, the individualism, which is an old traditional French philosophical attitude. French people like diversity as well as weakness of support for instance in political systems.

As we saw above, the French accounting system is strongly influenced by the national law. Company law predominates and tax law overrides accounting rules either. The roots of French law are in the codified Roman law, which is more abstract than the common law used by UK, USA, Australia, Ireland etc. According to Nobes and Parker (2010), common law countries tend to have larger equity markets and higher level of disclosure.

Historically, the government established an accounting code (Plan Compatible Général) (PCG) to promote more effective national economic planning. The PCG includes a detailed chart of accounts and rules related to valuation and profit measurement, models for financial statement presentation and consolidation requirements.

There have been further political influences in French accounting, for instance the adoption of the accounting plan after German occupation, also known as Vichy regime, in 1940's. Maybe the strongest and recent influences French accounting experienced in the last years were the implications of the 4th and 7th European Union

Directives. With the Directive number four, the 'true and fair view' principle and various valuation methods in French accounting began to receive more attention. However, just under the fourth European Directive there were more than thirty optional areas of harmonization, which provide several opportunities of implementing the directive. The seventh Directive provided requirements for consolidation and the 'fair value' approach (PANAGIOTIS PAPADOPOULOS,2011).

4- **International Financial Reporting Standards (IFRS) in France:**

Since the mid-1990s, the French financial reporting system has been constantly developing with a view to improving transparency of published information, in response to market pressure. In particular, the larger French enterprises that were able to use some options opened by the 1986 decree on consolidated accounts, enabling them to converge towards internationally accepted accounting standards, were lobbying the government for permission to draw up their accounts directly in accordance with these standards. The government finally agreed to this demand and passed the law of 6 April 1998, by which French-listed enterprises were no longer obliged to follow French law for the preparation of their consolidated accounts. However, the necessary decree for application prepared by the Comite´ de la Reglementation Comptable (CRC, French Accounting Regulation Committee) was not published prior to 2005 which coincided with the application of the EU Regulation.

In 2003, the publication of the Loi de Securite´ Financiere (LSF 2003-706, Law on Financial Security) introduced a number of important changes. This law resulted not only from changes introduced by the European Commission but also as the consequence of the American Sarbanes Oxley Act, since it implemented new procedures for the regulation of financial markets, the audit profession and financial information, in order to improve transparency and control over financial reporting and securities transactions.

The main changes for companies and auditors are first, the creation of a new financial markets oversight body, the Autorite´ des Marche´s Financiers (AMF, Financial Markets Authority); second, the creation of the Haut Conseil du Commissariat aux comptes (HCCAC, Audit Supervisory Board), under the authority of 'Garde des Sceaux' (Ministry of Justice); and third, a new obligation is to improve transparency in terms of corporate governance and financial reporting.

The CRC plays a central role in the French accounting system. It was created in 1998 to provide government endorsement of the pronouncements of the Conseil National de la Comptabilite´ (CNC, National Accounting Council). Its 12 members include two government ministers (Justice, Economy, and Finance), two senior judges, and the heads of the CNC, the AMF (formerly the Commission des Operations de Bourse, COB), the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Ordre des Experts Comptables (OEC). The principal function of the CRC is to issue all government decrees relating to accountancy and financial reporting. The aim of creating the CRC was to concentrate the power to issue financial reporting decrees in a single body, so as to achieve better coordination of the government's actions.

The development of accounting reforms in France has moved parallel to reform processes at the European level, in particular the EU Regulation and the modernization of the 4th and 7th Directives. Approximately 1,000 listed French groups will have to apply IFRS in their consolidated accounts by 2005. The member state option to apply IFRS in consolidated accounts of non-listed companies (EU Regulation 1606/2002 art. has been adopted as a company option for approximately 8,000 non-listed French groups. These may apply IFRS instead of French rules from 2005 onwards.

In addition, IAS 1 does not prescribe formats for financial statements, the CNC (2004-R.02 §1) decided to propose new formats in **conformity with IFRS** in order to help French companies move from national rules towards international standards. The recommendation addresses the income statement, cash flow statement, and statement of changes in equity. One of the objectives is to define the main sub-totals often used by the financial community. Antoine Bracchi, CNC chairman, estimates that a period of 5–10 years will be necessary to complete the convergence process of French accounting regulation towards international (Delvaille, P. et al, 2005).

5- **The accounting profession in France:**

Accounting in France is government-supervised. Public accountants and auditors are two different professions practiced by the same group of people. For this reason, they are considered to represent the same population (Baker et al. 2002), since 95 % of auditors are public accountants (CNCC 2008) and all public accountants are entitled to register as auditors. Established by law in 1945, the accounting profession is independent. Public accountants, known as ‘‘experts-comptables,’’ are grouped into accountancy bodies, both regional and national (Ordre des experts-comptables). At the head of this is the CSOEC (Conseil Superieur de l'Ordre des experts-comptables), which represents, defends, assists, and promotes the standing of France's accounting professionals. As for auditors (commissaires aux comptes), the CNCC (Compagnie Nationale des Commissaires aux Comptes) has the task of promoting the good practice of the auditing profession and defending its moral and pecuniary interests. Licensure and disciplinary issues have been delegated to this organization. It also has the duty of developing professional standards. Action by professional bodies is taken at the regional level. In August 2003, a new supervisory body, the High Council for Statutory Audit (Haut Conseil du Commissariat aux Comptes or the H3C), was created to boost public confidence. Its main prerogatives are the supervision of the profession, along with the CNCC, as well as ensuring auditors' professional ethics. Finally, where publicly traded companies are involved, a specific watchdog is responsible: the AMF (Autorite´ des Marche´s Financiers). This Independent organisation reviews markets' Financial information (Fig. 3)(Baïada-Hirèche, L., and Garmilis, G. ,2016).

Figure (4): The regulatory structure of the French accounting profession

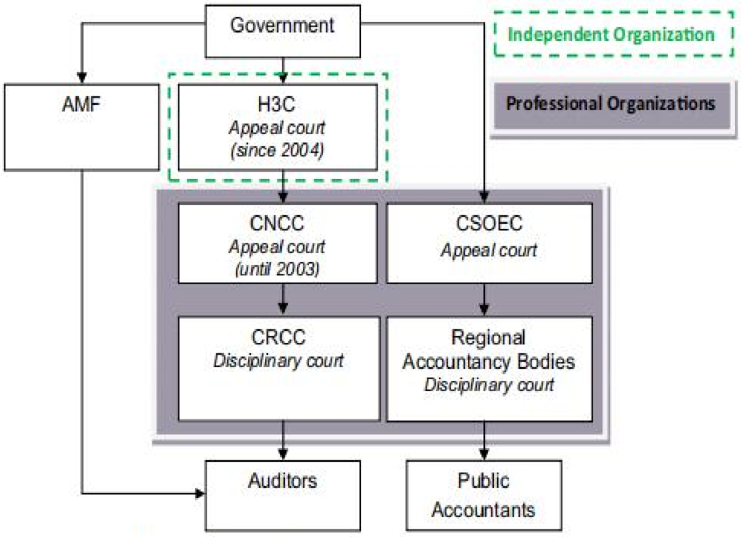


Fig. 1 The regulatory structure of the French accounting profession

Source: Baïada-Hirèche, L., & Garmilis, G. (2016). Accounting professionals' ethical judgment and the institutional disciplinary context: A French–US comparison. *Journal of business ethics*, *139*, 639-659.

6- **Relationships between accounting and taxation in France:**

The historic development of the relationship between taxation and accounting is characterized by a long absence of specific accounting legislation and of the weak position of the accounting profession (Frydlender/Pham, 1996). French tax law gave the first legal definition of taxable profit in 1917 (Scheid/Walton, 1992). It was only in 1943 that the PCG gave a vague definition of company profit and only in 1967, that company law gave a "real" definition of the term. From 1917 until the mid-sixties, tax law filled the gap. In the absence of regulations in company law, tax law intervened without regard to either accounting theory or existing accounting practices (Scheid.AValton, 1992; Frydlender/Pham, 1996; Fortin, 1991; McCourt/Radcliffe, 1995; Forszpaniak/Scholtissek, 1985). This intervention was made easier by the weak position of the accounting profession, which started to play a role in the formation of accounting standards only after 1965 (Scheid.AValton, 1992). It can be said that until the implementation of the fourth directive, financial reporting in France was guided by tax rules a tax decree, which is still in force, requires companies from 1965 on to file tax returns which are based on the formats and rules of the PCG (Scheid/Walton, 1992; ScheidAValton, 1995; Griziaux, 1995; Filios, 1987). The tax code requires that "businesses should follow the definitions set out in the PCG, provided that these are not incompatible with the rules applicable to the calculation of taxable profit. Rule does not establish a clear rule of tax conformity.

However, it is suggested that this When tax rules differ from accounting rules, the taxable profit has to be calculated, starting from the accounting profit, on forms (tableau de passage) attached to the balance sheet and the profit and loss account.

No separate balance sheet for tax purposes is drawn up. (Memento Practique Francis Lefebvre Comptable, 1988; ScheidAValton, 1992; Gambier, 1987; Forszpaniak/Scholtissek, 1985; Griziaux, 1995). For this reason, the difference between commercial profit and taxable profit is known as "I 'autonomie du Droit fiscal" (autonomy of fiscal law). This concept emphasizes the fact that certain tax rules differ from company law and thus commercial profit is always different from taxable profit (Gambier, 1987; Baconnier, 1994). Nevertheless, in general, accounting principles for commercial accounts are applicable to tax calculations (Baydoun, 1995); thus, taxation is influenced by accounting (Eberhartinger, E. L. ,1999).

Standardized accounting practice facilitated control by the fiscal authorities and the preparation of economic statistics. Furthermore, by the use of certain fiscal rules that have a direct influence on accounting records, the State could influence the economic and social behaviour of companies. In this way, accounting helped taxation in the role of an instrument at the service of the economic policy of the Government.

Taxation played a major role in the development of accounting in France because the Plan Comptable General (PCG - general accounting plan) was set up in 1947: it offered numerous definitions (especially that of income in 1917). In addition, rules of measurement and valuation. After the birth of the PCG in 1947, and its revision in 1957 by the Conseil National de la Comptabilite (CNC - National

Accounting Council), taxation continued to play an important role in promoting the general application of the PCG.

Even after 1983, French accounting had not gained sufficient autonomy to enable it to reject fiscal interference and was too weak to displace existing **fiscal pollutions** from the accounts to the **reconciliation schedule** mentioned. The idea of clearly separating accounting and fiscal requirements was of course fought by the tax authorities from an established power base but was also met with reluctance by some jurists. According to Lagarrigue and Pavie (1985). The extension of the reconciliation schedule would bring complexities to the definition of distributable profit in French commercial law, would diverge from the French institutional context, and would not reflect the financial reality resulting from the operation of taxation.

Taxable income is calculated on the net income in the tax schedule DGI no 2058. This schedule discloses the taxable differences, both temporary and permanent, and carry backs, tax credit carry forwards (including in the last category those referred to as deferred depreciation), and capital gains or losses taxed at a special rate(Frydlender, A. and Pham, D.,1996).

THEME FOUR: AMERICAN ACCOUNTING SYSTEM

Introduction:

Accounting systems are part of the socio-economic system of each country and as such are determined by environmental factors. Differences between national accounting systems are therefore not coincidental but rather an expression of the different historical, economic, and social conditions of these countries. According to this “contingency model of accounting evolution”, changes in accounting rules and practices can be interpreted as adaptations to changed environmental factors.The Modern US accounting practice has been described as having generally developed as part of the rationalization of modern society (McMillan, SJ, K. P.,1998).

1- The financial reporting framework in the United States:

An accounting framework is a published set of criteria that is used to measure, recognize, present, and disclose the information appearing in an entity's financial statements. An organization's financial statements must have been constructed using a recognized framework, or else auditors will not issue a clean audit opinion for them.

The most commonly used accounting frameworks are generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS). GAAP is used by entities in the United States, while IFRS is used in most other parts of the world. These two frameworks are designed to be broad-based and therefore applicable to most types of businesses (Accounting Tools ,2023).

The financial reporting framework in the United States is established under several laws and regulations, such as the Securities Exchange Act of 1934 (the Act), the Sarbanes–Oxley Act of 2002, and the Accounting Standards Codification issued by the Financial Accounting Standards Board (FASB).The Accounting Standards Codification, commonly known as the U.S. Generally, Accepted Accounting Principles (U.S. GAAP) is developed for application by all non-government entities;

however, only public business entities are legally required to prepare financial statements.

The SEC has the authority to establish the standards for public business entities under the Act of 1934; however, it relies on the FASB to fulfil this responsibility and officially recognizes the FASB-issued U.S. GAAP through the Financial Reporting Release No. 1, Section 101, which was affirmed in its April 2003 Policy Statement (IFAC ,2023).

2- The characteristics of American accounting system:

US accounting primarily aims to provide investors with information relevant to their decision-making; furthermore, it is vital for this information to be reliable (SFAC 2, see FASB, 1980). US accounting also contains few explicit options and less scope for managers to pursue accounting policies. The accrual principle is observed very strictly and fewer possibilities exist for accumulating hidden reserves. Hence, profits reported by US corporations tend to be, on average, higher and more volatile.US securities markets are more highly developed, equity ownership is much more dispersed, and banks are limited in the range of activities they may perform (Glass-Steagall Act/ Banking Act of 1933). In the US, accounting precedence is given to the true-and-fair-view principle.

The USA stands in the tradition of the Anglo-Saxon case law system where legislative law is less systematically developed and rulings of courts play an important role. In accordance with this, accounting standards in the USA are developed by a private sector organization, the Financial Accounting Standards Board, FASB.in addition, the USA, there is a clear distinction between financial accounting and tax accounting, and financial accounting is therefore not distorted by fiscal objectives. In addition, it is generally accepted that the primary purpose of firms is to generate income and wealth for their owners. Consequently, US accounting is more clearly geared towards informing shareholders about the current financial situation of their firms (Glaum, M.,2000).In addition, the U.S., the tax law is a distinct and separate code of regulations from general accounting practice(Sawani, A.,2009).

3- Impact of IFRS adoption in the United states:

As Gray (2007) states, if implementing Sarbanes-Oxley Act of 2002 was felt as a headache, accountants now need to brace themselves up for a veritable migraine, going through the transition from GAAP to IFRS. The impact of convergence from US GAAP to IFRS on companies, public accounting firms, and on educational institutions in the US will be enormous. It is going to be very costly and time-consuming. SEC estimates the cost of adopting IFRS at nearly $32 million for each company. For the nearly 110 issuers who are expected to reach early adoption, the total cost for the first 3 years would be about $3.5 billion. The effect of IFRS adoption on the public accounting firms will be not only in financial reporting but will also be in auditing, taxation, and consulting functions. The CPAs should understand the intricacies of IFRS sufficiently well to be able to advise companies to effectively accomplish transition to the new standards. The impact of IFRS would be particularly harsh on small accounting firms. The Big Four accounting firms seem to be well ahead in the preparation for IFRS convergence but the small accounting firms are not, because they do not have the same resources.

IFRS adoption would have an enormous impact on a CPA’s legal liability as well. The principal difference between US GAAP and IFRS is that US GAAP are rule-based, whereas IFRS are principles-based. The principles basis of IFRS allows more flexibility. This flexibility of IFRS would require the CPAs to make professional judgment calls in preparing and/or auditing financial statements. Any situations wherein these judgment calls go awry would provide fertile ground for costly litigation. This possibility of litigation liability requires that effective training process in IFRS must be started immediately. Colleges and universities must make IFRS as part of their accounting curriculum (Yallapragada, R. R., et al,2011).

Sarbanes–Oxley Act was enacted in order to prevent further accounting frauds such as the Enron and WorldCom Scandals and prevent damages to the public and investors. The act contains eleven sections that demand emphasis on auditor independence, corporate responsibilities, and enhanced financial disclosures(Lee, A. S. ,2018).

In 2012 in a report by the SEC, there was little support for adopting IFRS as the single set of standards in the US, but there was support for the need to adopt bits and pieces of IFRS to demonstrate US commitment to a single set of standards. in 2012 in a report by the SEC, there was little support for adopting IFRS as the single set of standards in the US, but there was support for the need to adopt bits and pieces of IFRS to demonstrate US commitment to a single set of standards. it appears that full adoption of IFRS by the US is very unlikely, and convergence between GAAP and IFRS, though it is slowly being worked towards, will not be realized for a very long time(STEPHEN. M,2022).

In the U.S., arguably the most profound event was in 2007 when the SEC revised its rules to allow non-U.S. companies to include in their SEC filings financial statements without reconciliation to U.S. GAAP if the statements were prepared in accordance with IFRS. Thus, IFRS became accepted in the U.S., if only for these select companies. This was a historic event in U.S. financial reporting because acceptance of IFRS eliminates a substantial barrier for foreign private issuers to enter and remain in U.S. markets.

The IASB attempts to develop IFRS by considering the needs of individual countries such as the U.S.Still, resistance to adopting IFRS exists and includes the following (L Murphy Smith DBA, C. P. A. (2012):

◆ Agreeing on who will create the rules,

◆ How different the IFRS rules will be from a nation's domestic GAAP,

◆ Costs of changing GAAP, and

◆ National sovereignty.

4- The accounting profession in USA:

Since the mid-1970s, the profession had seen a melding together of services. .The accounting profession in the United States had emerged in response to several defining events throughout the evolution of businesses in the 20th century. For over six decades, since the passage of the Securities Exchange Acts of 1933 and 1934, accounting developments evolved slowly. Perhaps most telling is that, after the passage of the Securities Exchange Acts, there has not been another piece of legislation that had such a significant effect on the nature of accounting oversight. That was true until the Enron fiasco.

Enron, once one of the world's most "successful" energy trading companies, experienced a precipitate bankruptcy. Andersen, a respected leader in the accounting field, promptly disappeared. WorldCom, with revenues of over $300 million in FY 2001, was in the red for 2002. This necessitated audit reform legislation had emerged and taken center stage.

In the USA, the amount of control actually exercised by the SEC is rather small: the regulators take a watching brief, in the main, intervening very little, and effectively delegating day-to-day responsibility to the profession(Peasnell, K. V.,1982).Securities and Exchange Commission (SEC) was founded in 1934 at the height of the Great Depression, it mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation(SEC ,2023).

The Sarbanes-Oxley Act was enacted to regulate and structure a chaotic business environment. How did a field so highly respected lose the respect and trust of the public and deteriorate so rapidly? This deterioration was triggered by some of the most significant Transformation of the accounting profession changes including the actions taken by the Federal Trade Commission and the Department of Justice. These changes forced the profession to remove its bans against competitive bidding and direct marketing to clients. This resulted in increased competition for audit clients among the large firms. The increased competition led to saturation of the supply of auditing services and resulted in declining profits. The firms had to look elsewhere for the profit, growth, and global reach. They adopted services outside their natural core competencies including a variety of management consulting services. With ever-increasing pressure on partners from both the client and the accounting firm's senior management, audit partners were encouraged to achieve growth and profitability at any cost. The huge growth in consulting services brought into question the accounting firms independence and the due care diligence needed to perform audit work.

The profession is moving in the right direction. The Sarbanes-Oxley Act is addressing prevalent problems in the corporate and securities areas. The PCAOB has serious disciplinary powers; more importantly, it has serious quality control powers and rule-making powers. This authority given the PCAOB will make a significant difference in terms of restoring credibility and luster to the accounting profession (Holtzman, Y. ,2004). PCAOB is a private sector, non-profit corporation created by the Sarbanes-Oxley Act of 2002 to oversee the auditors of public business entities in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

Also, The AICPA is a voluntary member association representing the accounting profession, with members in 144 countries. Founded in 1887, the AICPA represents the CPA profession nationally regarding rule making and standard setting, and serves as an advocate before legislative bodies, public interest groups, and other professional organizations. The AICPA develops standards for audits of non-public entities; sets initial professional development (IPD), continuing professional development (CPD) and ethical requirements for its members; provides educational guidance materials to its members; develops and grades the Uniform CPA Examination; conducts quality assurance reviews for its members engaged in public practice for non-public entities; and establishes an investigation and discipline system to monitor and enforce compliance with the profession's technical and ethical standards.

In addition, The Institute of Management Accountants (IMA) is a voluntary membership association focused on addressing the needs of management accounting professionals. Qualified members of IMA hold the designation of Certified Management Accountant (CMA). Founded in 1919, the IMA states in its mission that its role is to provide a forum for research, practice development, education, knowledge sharing, and the advocacy of the highest ethical and best business practices in management accounting and finance. The IMA sets ethical as well as IPD and CPD requirements for CMAs, and maintains an investigation and discipline system to enforce ethics requirements(IFAC (2023).

THEME FIVE: CANADIAN ACCOUNTING SYSTEM

Introduction:

Foucault,M (1991, p. 93) comments that Canadian government involves employing tactics to arrange things in such a way that certain ends are achieved; furthermore he states that one of the targets of such techniques are the habits and customs of the population in question. From the late 1830s onward, we observe accounting techniques being used as a specific technology of government in the attempt to change the relationship of **indigenous peoples to land**. Also, to state that accounting functioned as a specific technology of government is not to imply the absence of resistance on the part of indigenous peoples(Neu, D. ,2000).

1- The History of Accounting in Canada:

The origin of Canadian accounting has its roots in the financial centres of Toronto and Montreal. Their services started mainly for bankruptcies in the 1840s but became more prominent as economy grew and stocks became more common. Number of bookkeepers also increased after the World War I as many companies were created with the economy boom and the need for bookkeepers for the entities naturally increased. The role of tax accountants was created in 1917. The Canadian government enacted the Income Tax Act which required businesses to keep accounting records as well as to file tax returns.

Canadian accounting principles were influenced by both Great Britain and the United States. It originally followed closely to the English, as they were the first generation of immigrants in Canada. However, in the late 1930s, Canada had increasing businesses with the United States. Therefore, accounting was more heavily influenced by the United States as many US based companies operated their subsidiaries in Canada. This convergence also resulted from the pressure of U.S. Securities and Exchange Commission (SEC) and other accounting regulation setters in the US that emphasized that both countries' accounting regulations should be closely related and interact.

In 1946, the Canadian Institute of Chartered Accountants began creating their own nation's bulletins on accounting regulations. These statements were combined into a loose-leaf binder, the Canadian Institute of chartered Accountant's Handbook, two years later. National Policy Statement No. 27 was issued by the Canadian Securities Administrators, which favoured the adoption of US regulations, Generally Accepted Accounting Principles, over in the Canadian Handbook in 1972. Later in 1975, under the Canada Business Corporation Act, all corporations and businesses were legally required to follow the US adopted regulations, GAAP (Lee, A. S. ,2018).

2- Standard setting in canada (1864-1992) :

The standard-setting process in Canada has evolved through six identifiable phases:

Phase I: Tradition, Common Law, and Commercial Necessity, 1864-1946

Prior to 1946, there was no central source of accounting standards in Canada. The accounting profession was forming and was driven by foreign influences, government intervention, and the internal needs of the early accounting firms. The concern for the legitimacy of accounting rules was, consequently, confined to a small group of accounting professionals and managers and did not include today's broad interested community. The accounting standards, which did exist in this phase, were primarily established by common law to satisfy commercial needs.

Phase II: The Rise of Technical Expertise, 1946-1967

By 1946, the primary role of establishing accounting standards began to revolve around the DACA, renamed the Canadian Institute of Chartered Accountants (CICA), with the emergence of its Accounting and Auditing Research Committee (AARC). The AARC's goal was to provide guidance to the CICA members on basic accounting and auditing principles.

From 1946 to 1967, the key elements of the structure followed the judicial model and used significant elements of common law to come to decisions. The AARC was made up of 14 appointed CAs who were primarily involved in large accounting firms, with additional representation from university professors. A subcommittee from Toronto and Montreal, which acted as a steering committee, dominated the AARC. It would propose areas of study and draft accounting proposals and then present the proposals to a full meeting of the AARC. A two-thirds majority vote of the AARC was needed for a proposal to be issued as a Bulletin.

Phase III: Codification and a Permanent Bureaucracy, 1967-1973

The issue of Bulletin No. 26 was soon followed by significant structural changes in the standard-setting process. The key feature of these changes was an attempt to broaden the representation of those affected by standards in the process. The CICA expanded the number of members on the AARC to 20, creating geographical sections-Eastern, Central, and Western-and appointing CAs who were not associated with large firms. Expanding the committee to include CAs from government and smaller accounting firms represented the first movement away from the close network of people appointed to the standard-setting structure.

However, neither members of other accounting designations nor non-accountants who were interested in accounting standards (such as financial analysts) were officially represented (Zeff, 1971). Thus, during this period, the standard-setting process was still geared to legitimation within the CA community. The introduction of regional representation, however, reflects both practical issues of proximity for committee work and recognition of the increasing diversity of the CA profession.

Phase IV: Expanding the Political Community, 1973-1981

By 1973, the role of the CICA as custodians of accounting standards on behalf of a wider community was becoming evident. This shift formally began with the Canadian Securities Commissions issuing National Policy Statement No. 27 in 1972, which required all public firms to follow the recommendations in the CICA Handbook (Murphy 1980). This was reinforced by the 1975 Canada Business Corporations Act, which required the filings of financial statements to be in accordance with the

Canadian Institute of Chartered Accountants Handbook for firms incorporated under this Act.

Phase V: The Expectations Gap, 1981-1990

Phase five is characterized by the continuation of the basic format of the previous standard-setting process during a period of structural review and internal criticism. In the beginning of the 1980s, there were two significant reviews of standard setting in Canada-the 1980 report of the Special Committee on Standard-setting (SCOSS), and the 1981 Clarkson Gordon Symposium on standard setting in financial accounting (Basu and Milbum 1982). These reviews became the basis for the changes, which occurred during 1981 to 1990. These modifications were not radical but were primarily additions to the past process.

The two major changes, which occurred, were the method in which exposure drafts were issued and the role of research groups. In addition, the ARC was renamed the "Accounting Standards Committee" (AcSC); however, its role remained the same for all stages of the process.

Phase VI: Improving Response Time, 1990-1992

In 1990, the CICA attempted to address the inadequacy of the system with a significant restructuring of the process. Adjustments to the responsibilities of the standard-setters to facilitate faster development through less direct work were the focus of the changes. Specifically, the AcSC was replaced by a small group, the Accounting Standards Board (AcSB), whose role now mirrors that of the preceding period's steering committee. In the current framework, the Board reviews proposals presented by different interested parties. If it accepts the proposal, it either creates an ad hoc task force or uses a greatly enhanced permanent staff to develop an exposure draft. The process by which an exposure draft is developed follows the process which occurred before; however, the responsibility for creation of the draft is completely removed from the responsibility of the AcSB (Baylin, G., et al,1996).

3- Choosing accounting standards in Canada:

Canadian companies have more flexibility than they realize when choosing which accounting standards to use. Ultimately, the decision depends primarily on the company's core business strategy. Companies may typically select from three options for their external financial reporting: Accounting Standards for Private Enterprises (ASPE); International Financial Reporting Standards (IFRS); and U.S. GAAP.

ASPE, IFRS, and U.S. GAAP all qualify as something called GAAP, or generally accepted accounting principles. GAAP is a set of accounting principles and rules that are used to prepare financial statements.

ASPE is the default financial reporting framework used by private companies in Canada. It is a made-in-Canada set of standards. This set of standards came into force in 2011, a watershed year for Canadian financial reporting. That year also saw the adoption of IFRS in Canada. Together, ASPE and IFRS now make up GAAP in Canada for private companies. ASPE was designed for private companies; IFRS is to be applied by public companies and other publicly accountable enterprises. However, private companies may choose to use IFRS. They should adopt IFRS when a business need requires it(BDO,2024).

4- **Merging the accounting Profession in Canada:**

The merger of the three professional accounting organizations in Canada—the Chartered Accountants (CA), Certified General Accountants (CGA), and Certified Management Accountants (CMA)—to create the Chartered Professional Accountants (CPA) associations across Canada is almost complete. It began with the merger of these associations in Quebec in 2012 and, as of late 2015; legislation to change the structure of the profession had been passed in 11 of 15 jurisdictions (including national, provincial, and territorial jurisdictions). The merger was initiated by the executives (staff) of the associations and required considerable work to overcome resistance by members who identified strongly with the legacy designations (Richardson and Jones, 2007; Guo, 2012; Richardson and Kilfoyle, 2012).

The merger was publicly justified on **six grounds**: (1) the new designation better reflects the broad range of expertise of members, (2) the single designation facilitates mutual recognition agreements and international mobility, (3) a common set of regulatory processes is created, (4) there will be economies of scale in providing member services, (5) more effective lobbying processes, and (6) more influence in global standard setting. The new structure unites over 190,000 practicing accountants and students in a single association(Richardson, A. J.,2017).

In 2019, a renewed player emerged – the Society of Professional Accountants of Canada. The SPAC had been offering its accounting designations APA (Accredited Professional Accountant (APA) and RPA (Registered Professional Accountant) since 1938 and 1978 respectively. However, starting in 2019, the RPA designation gained newfound relevance under the leadership of newly elected President and CEO, Mr. Zubair Choudhry, CMA (Australia), RPA, APA. The RPA designation was completely reformed to meet current industry needs and re-focused on small to medium-sized enterprise (SME) accounting.

During reformation, which included broad consultations with industry leaders, the academic community, and employment recruiters, RPA positioned itself as an across-the-board solution to meet the needs of small to medium-sized businesses and provide an alternative to students seeking to become an accountant in Canada. This included both college and university pathways, which was a unique innovation aimed at inclusivity. A modernized, technology-first training and certification program followed, launching in 2020, which has been well received by students and industry alike.

The success of the renewed RPA designation lies in its adaptability and commitment to meeting market demands. RPA professionals operate as management accountants, corporate controllers, or in public practice performing compilation engagement reports on financial statements and related services like tax and advisory(Cambridge Today,2023).

THEME SIX: BRITISH ACCOUNTING SYSTEM

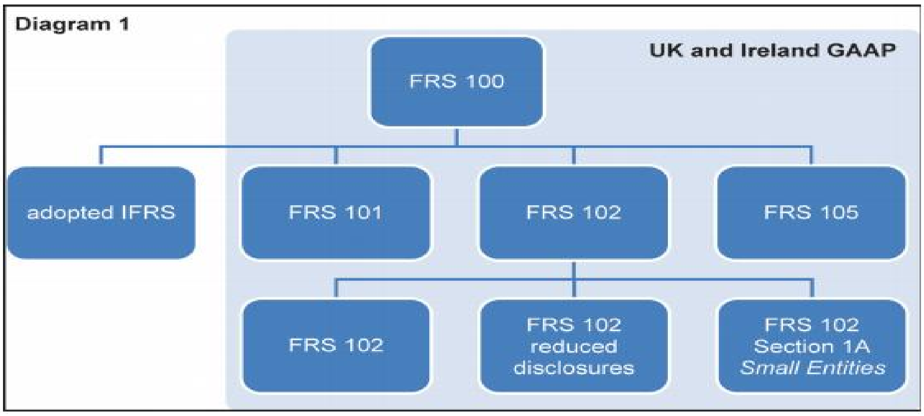
Introduction:

The British accounting system is a complex system, which has new characteristics after Britain left the implementation of the European Union regulations.

1- The Financial Reporting Framework :

UK and Irish company law each recognise two financial reporting frameworks adopted IFRS and a framework based on specific company law requirements and accounting standards set by a prescribed body(the FRC).The latter framework is UK and Ireland GAAP(generally accepted accounting practice). Publicly listed companies are required to apply adopted IFRS in the preparation of their group accounts but may choose between adopted IFRS, UK, and Ireland GAAP for the preparation of their individual parent accounts. Other entities have a choice between the two frameworks.

FRS100 Application of Financial Reporting Requirements sets out the overall framework, which can be illustrated as follows:



Source: IASB(2023).https://www.iasplus.com/en/jurisdictions/europe/uk 07-11-2023

For periods beginning on or after 1 January 2015, three **new Financial Reporting** Standards (FRS 100, 101 and 102) came into force marking the beginning of reporting under **"New UK GAAP"**. The new suite of standards was later extended and can be summarised as follows:

FRS 100 Application of financial reporting requirements. FRS 100 sets out the applicable financial reporting framework for entities preparing financial statements in accordance with legislation, regulations or accounting standards applicable in the United Kingdom and Republic of Ireland. FRS 101 Reduced Disclosure Framework. FRS 101 introduces a new reduced disclosure framework enabling most subsidiaries and parents to use the recognition and measurement bases of IFRSs in their individual entity financial statements, while being exempt from a number of disclosures required by full IFRSs. FRS 102 the Financial Reporting Standard Applicable in the UK and Republic of Ireland. FRS 102 is a single coherent financial reporting standard replacing old UK GAAP. Derived from the IFRS for SMEs, the Financial Reporting Council has made significant modifications to address company law requirements and incorporate additional accounting options. FRS 103 Insurance Contracts. FRS 103 contains specific accounting requirements for entities with insurance contracts.

FRS 104 Interim Financial Reporting. FRS 104 is intended for use in the preparation of interim financial reports for those entities that apply FRS 102 but may also be used as a basis for preparing interim reports by those entities applying FRS 101. The Standard is based on IAS 34 Interim Financial Reporting.

FRS 105 the Financial Reporting Standard applicable to the Micro-entities Regime. FRS 105 is based on FRS 102 but its accounting requirements are adapted to satisfy the legal requirements applicable to micro-entities and to reflect the simpler nature and smaller size of micro-entities(IASB,2023).As shown in Diagram 2, the financial reporting requirements of each standard get progressively more complex and comprehensive the further up the suite of standards you go. The increase in complexity correlates to the increasing size and complexity of the entities that are most likely to apply a given standard. In all cases, an entity may choose to opt up to a more comprehensive regime.

Source: https://www.iasplus.com/en/jurisdictions/europe/uk 07-11-2023

The selection of which regime to apply will depend on a number of factors including the following:

. Whether an entity is eligible to apply that particular regime. Eligibility criteria may include the type of financial statements (individual or group) being prepared, size thresholds and entity type.

. When a choice of regime exists, entities should consider which of the regimes is the most appropriate to the individual circumstances of the entity. Factors to consider will differ from entity to entity and may relate to certain characteristics or restrictions of a particular regime, the resources available and the information needs of users of the accounts, amongst others(Council, F. R. ,2022).

2- History and development of UK accounting standards:

The Taxation and Financial Relations (T&FR) Committee of the ICAEW was established in 1942 and was asked by the council of the ICAEW to 'consider and make recommendations to [the council] on certain aspects of the accounts of companies' and to publish 'approved recommendations for the information of members' (The Accountant, 12 December 1942).The first 'Recommendations on Accounting Principles' were published in December 1942 on the subjects of Tax Reserve Certificates and War Damage Contributions, Premiums and Claims. These recommendations, and those that followed, provided members of ICAEW with early guidance on accounting practice.

At a press conference on 11 December 1969 the ICAEW released a ‘Statement of Intent on Accounting Standards in the 1970s’ which expressed the determination of the council to advance accounting standards, setting out the steps the institute felt would be necessary to achieve this. The Accountant (‘Recte Numerare in the 70s’, 18 December 1969) commented that the importance of this development could be ‘likened only to the inauguration of the Institute's series of recommendations a quarter of a century ago.

The ICAEW established the Accounting Standards Steering Committee (ASSC) in January 1970 with ‘the object of developing definitive standards for financial reporting’ (‘History of the Accounting Standards Committee’, Accounting Standards).The Irish and Scottish institutes became members of the ASSC in the same year, followed by the Association of Certified Accountants (now the ACCA) and the Institute of Cost and Management Accountants (now CIMA) in 1971.

In 1990, the Government announced the establishment of a new Financial Reporting Council (FRC). The FRC was charged with promoting good financial reporting through two subsidiary bodies: the Accounting Standards Board, which replaced the ASC on 1 August 1990, and the Financial Reporting Review Panel (FRRP).On its creation, the Accounting Standards Board (ASB) adopted a number of SSAPs that had been issued by the ASC, so that they were brought within the legal definition of accounting standards according to the Companies Act 1985. All accounting standards developed by the ASB from 1990 were issued as Financial Reporting Standards (FRSs).

In November 2012, the FRC issued the following new standards as part of a new UK GAAP framework: FRS 100: Application of Financial Reporting Requirements; FRS 101: Reduced disclosure framework.in addition, The FRC published a further standard in March 2013 setting out new accounting and reporting requirements for unlisted entities: FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The FRC issued another standard in March 2014, to form part of the new UK GAAP: FRS 103: Insurance contracts. In 2015 The Financial Reporting Standards FRS 100, 101, 102, and 103 (known as the new UK GAAP) became effective from 1 January 2015. These FRSs replace previous standards, for reporting periods starting on or after 1 January 2015. During 2015, the FRC issued two more standards: FRS 104: Interim financial reporting (March 2015); and FRS 105: The Financial Reporting Standard applicable to the micro-entities regime (July 2015). As of 1 January 2016, the Financial Reporting Standard for Smaller Entities (FRSSE) is withdrawn, being replaced by Section 1A of FRS 102, and FRS 105. The FRSSE may still apply for accounting periods beginning before that date.

Following an Independent Review of the FRC led by Sir John Kingman, Business Secretary Greg Clark announced in March 2019 that the FRC will be replaced with a new regulator called the Audit, Reporting and Governance Authority (ARGA). Upon its establishment, ARGA will inherit responsibility for setting and maintaining UK accounting standards. In March 2023, the FRC stated that it expects ARGA to be created in 2024(ICAW ,2023).

3- **Définition of UK GAAP :**

UK GAAP (Generally Accepted Accounting Principles) refers to the set of accounting standards and guidelines used by companies in the United Kingdom. It provides a framework for the preparation and presentation of financial statements, ensuring consistency, comparability and transparency in financial reporting(Anna Hicks,2024).The United Kingdom was a member of the European Union from 1 January 1973 until 31 January 2020. A following transition period, during which UK listed companies continued to follow IFRSs as adopted by the EU, ended on 31 December 2020.

After the end of the transition period, the UK ceased to apply EU law. IFRSs as adopted by the EU as at 31 December 2020 were incorporated into Domestic UK law as IFRSs as adopted by the UK. UK incorporated groups with securities admitted to trading on a UK regulated market need to prepare accounts using UK-adopted international accounting standards for all financial years beginning on or after 1 January 2021.A new UK Endorsement Board was established that endorses and adopts new or amended IFRSs issued by the IASB.

In the **UK it is the Companies Act 2006** that is the primary legislation when it comes to financial reporting. This act has integrated European law, which since 2005 has required that all listed European companies adopt the IFRSs. Another aspect of the Companies Act is that it requires limited companies to file their accounts and financial statements with Registrar of Companies, who in turn make them publicly available.

GAAPs in the UK have seen a greater movement towards the principles of the IFRS, and this standardisation has meant the differences between the two have been greatly reduced. Unlisted companies in the UK have the choice of whether they wish to report under IFRSs or under UK GAAPs. Since 1 January 2015, there has been a change in the GAAPs in the UK. These developments have not affected companies previously subject to EU-IFRS laws and regulations. These companies continue to do so. On the other hand, companies who do not wish to follow the EU-IFRS standards can choose from FRS 100, 101, FRS 102, FRS 103, FRS 104, and FRS 105(I ONOS editorial team,2023).

4- The origin of management accountancy :

The techniques now used by management accountants to monitor and control the activities of departments, work groups, their managers and supervisors, originated as cost accounting in the nineteenth century or even earlier.

It is generally accepted that the development of a C/ MA literature, in Britain, dates from the late nineteenth century. Edwards (1937) and Solomons (1952) drew attention to the fact that only a small number of authors of early treatises gave any attention to costing matters (e.g. Collins, 1697; Dodson, 1750; Thompson, 1777). The most important early publications to pay attention to costing issues were those of

Hamilton (1777–1779).and the **agriculturalist Arthur Young** (Young, 1770, 1797). Nineteenth century works that addressed certain aspects of the problems faced by manufacturers, in a brief and rudimentary manner, include Cronhelm (1818), Jackson (1836), Krepp (1858) and Sawyer (1862) (Boyns et al., 1997).

Naturally, the costing and costing-relevant literature that did exist covered numerous issues, with the following problematic aspects of cost calculation receiving some attention: whether depreciation and imputed interest should be recognised; and how overheads should be apportioned and transfers of goods valued in a multi-product enterprise.Young's (1797) conviction of the need to provide farmers with 'an accurate record of all farm costs' caused him to recommend the inclusion of a charge for 'wear and tear expenses' (harness, blacksmith, wheelwright, etc.). He was also keen to 'divide them properly' across the produce of a farm applying differential absorption rates:

The need to account for imputed interest as a business cost, to produce a figure for residual income that is analogous to ROI, is stressed by Hamilton (1777–1779) (Boyns, T., and Edwards, J. R.,2006). Stone (1973) examined the accounts of a nineteenth century English textile mill which assigned labour costs to appropriate departments and concluded that there must have been a managerial purpose in doing this. H. T. Johnson (1980, p. 5) used this, together with American examples, to argue that these were the beginnings of management accountancy. If this is so, there is a continuous line of development between these early accounting contributions to the function of extracting surplus value and the later, more sophisticated and comprehensive methods of budgetary control.

However, McKendrick (1970), who found an even earlier cost accounting system used for wage fixing in the eighteenth century Wedgewood factory, remarks that later entrepreneurs not only failed to develop these systems but actually forgot them. If this is the case, the true genesis of the accountants' role in the extraction of surplus value lies in the sphere of realisation. When the slump of the 1880s coincided with trends towards increasing overheads, wider product ranges and the problems of tendering for one-offs in the engineering industry (Solomons, 1968, p. 18). The search for methods of rational pricing under these conditions resulted in a **costing renaissance**. However although an **institute of Cost and Works accountants** was formed, this only occurred after World War I when possibility had materialised the reintegration of cost accountancy with the **main body** of accounting knowledge.

To sum up, then, the situation in this country at the outbreak of the First World War was that many of the essential techniques of cost accounting had been pioneered, but that their adoption was proceeding **very slowly**. In addition, it was by no means certain at this time whether the new techniques would be incorporated into industrial engineering, **"mainstream"** accountancy or would give rise to a new professional specialism **independent** of either (Armstrong, P. ,1987).

5- **The Impact of Tax Rules on Financial Reporting in the UK:**

In the United Kingdom, as in Anglo-American countries in general, accounting is not influenced by tax rules. The measurements used in financial reporting are generally not binding for tax purposes and expenses do not have to be reported in financial accounting in order to be allowed for fiscal purposes .

The definition of taxable profit is mainly based on case law, and to a lesser extent on detailed codified tax law. It is not based on company law (Walton, 1995). One of the main reasons for this very different approach as compared to France and Germany lies in the fact that in Britain, income taxation had been in existence long before annual reporting appeared (Walton, 1995; Mumford, 1995; Lamb, 1996). Income tax was first introduced in the UK in 1799, and reformed substantially in 1803. Corporation tax was introduced later, but it is based on the tax rules of the 1803 Act for unincorporated business under Schedule D. The first accounting rules appeared only in 1844, and were directly related to the establishment of limited liability companies. Accounting developed further in the second half of the nineteenth century. When income tax was being elaborated, no set of accounting rules to refer to was established (Walton, 1995). Thus, a separate tradition had been created.

In continental Europe, the situation was reversed. In France, accounting appeared already in the Ordonnance de Commerce of 1673, known as the Savary law, and accounting rules were incorporated into the Napoleonic Commercial Code of 1807 in 1862, following the example of France, the duty of bookkeeping and annual accounting was codified in the German Commercial Code (Krieger, 1988). Taxation was introduced later: in France, it was introduced in 1917 and in Germany in 1874, which was also the year in which Maygeblichkeit was first established.

Even though company profits are not binding for tax purposes in the UK, in general, as a result of case law and administrative decisions without detailed statutory guidance, the audited and approved accounts are considered to be the most authoritative and serve as a starting point for calculating the taxable profit.

It is stated in British literature that it is “generally not desirable” to have financial reporting decisions influenced by their potential tax impact. It is a “danger of conformity” when inclusion in financial accounts is a precondition for tax relief (Freeman, 1995). Moreover, it would lead to an increase in legislation and extra-statutory regulation and thus complexity, elements which are unknown to the UK accounting tradition(Eberhartinger, E. L. ,1999).

6- Accounting profession in the UK (professional accounting bodies (PABs) :

The UK accountancy bodies began to emerge in the middle/late 19th century (Brown, 1905; Stacey, 1954). Their quest for monopolies, markets and niches was facilitated by the patronage of the state. The accounting societies constituting the Institute of chartered accountants of Scotland (ICAS) began to obtain their Royal Charters in 1854. The Institute of Chartered Accountants in England and Wales (ICAEW), the UK’s largest accountancy body, obtained its Royal Charter in 1880. The Royal Charters enabled professional accountants to distinguish themselves from other occupational groups and secure status, niches and markets (Willmott, 1986).

The discriminatory policies of the established accountancy bodies persuaded some to form (in 1905) the London Association of Accountants. Subsequent mergers and amalgamations with other non-chartered accountancy bodies gave rise to the present form of the Association of Chartered Certified Accountants (Nelson, 1974). In contrast to the ICAS and the ICAEW, the ACCA did not enjoy a Royal Charter and felt disadvantaged by it. Eventually, on 25 November 1974, despite "strenuous opposition of the English and Scottish Institutes of Chartered Accountants" (Nelson, 1974, p. 580), the Association6 was granted a Royal Charter by Queen Elizabeth II. For all practical purposes, the 'grant of a Royal Charter of Incorporation creates a new legal person, comparable to the one created under the Companies Act, but created in the exercise of the Prerogative by the Queen on the advice of the Privy Council' (letter from the Privy Council Office to Austin Mitchell, 12 March 1992). As an instrument of incorporation, the "[Royal] Charters normally only specify the objects and powers of that body and deal with various internal constitutional matters. These include the qualifications for membership and certain rights and duties of members so admitted. The rights include certain categories of information" (letter from Privy Council Office to Austin Mitchell, 6 February 1990)(Mitchell, A., & Sikka, P.,2004).

The first attempt to define the meaning of terms used in accounting was made in the USA in 1909. Guidance on auditing procedures first appeared in 1917, followed by the first recommendation on accounting practice in 1918. Today, the American Institute of Certified Public Accountants publishes a comprehensive set of auditing standards and an independent body, the Financial Accounting Standards Board, publishes accounting standards. These standards are, with one notable exception, enforced by a US government agency, the Securities and Exchange Commission (SEC).

Historically, there have been periods of substantial merger activity among the professional institutes, most notably, although not exclusively, in the consolidator of various regional bodies in the 1880s to form the Institute of Chartered Accountants of England and Wales **(ICAEW)** (Matthews et al., 1998: 284-285). However, although several attempts at merger between subsets of the six professional **institutes** have been attempted in the post-war era, often supported by government agencies, only one, between the ICAEW and the Society of Incorporated Accountants (SIA), has thus far been successful, and that as long ago as 1957(Anderson-Gough, F.et al, 2002).

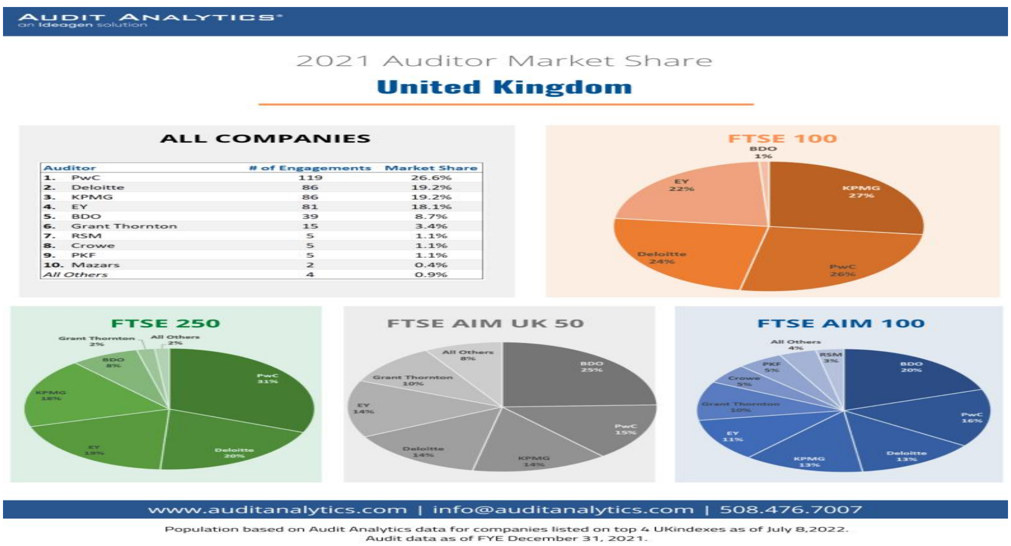
The Institute of Chartered Accountants in England and Wales (ICAEW) began to issue a series of 'Recommendations on Accounting Principles' in 1942. These recommendations were in no way mandatory and allowed alternative practices to be adopted. Many accountants were almost unaware that such recommendations existed. Public controversy about the inadequate state of accounting in the UK was aired in articles in The Times in 1969 by Professor Edward Stamp. Sir Ronald Leach, the then ICAEW President, records that he "was besieged by members demanding action from the Council to stem the mounting criticism in the press".

There are six different professional accountancy bodies in the UK, each with their own route to membership. This, according to Anderson-Gough et al. (2002, p.43f), is “an outcome of historical contingency reflecting not only specialisms but national identities (England and Wales, Ireland, Scotland), competitive pressures and, no doubt, basic historical accidents”. Four of those institutes (ICAEW, ICAS, ICAI, and ACCA) have the right to carry out statutory audits, and are engaged in similar and overlapping activities (Anderson-Gough et al., 2002). They also serve as statutory regulators for the auditing and insolvency industries in their respective jurisdictions.

The current self-regulatory nature of the accountancy profession in the UK is a product of historical development, which dates back to the second half of the 19th century. During that period, a number of important laws were passed (e.g., Bankruptcy Act 1831; Relief of Insolvent Debtors Act 1842; Companies Act 1862) that officially recognized and included a role for accountants and audits in such related matters (Paris, 2016). Accountants began to organize themselves into local and regional societies, and the first set of PABs were established in Scotland in the 1850s/1860s, followed by similar societies in England (Briston & Kedslie, 1997). This process led to the creation of the modern professional bodies with Royal Charters. The Institute of Chartered Accountants of Scotland (ICAS) obtained its

Royal Charter status in 1854. The Institute of Chartered Accountants in England and Wales (ICAEW) in 1880, the Institute of Chartered Accountants in Ireland (ICAI) in 1888 and the Association of Chartered Certified Accountants (ACCA) gained its Royal Charter in 1974 (Briston & Kedslie, 1997). The royal charter signifies their authority and legitimacy. It implies that they are allowed to regulate their own activities and enjoy certain privileges in the society. This also implies that they can determine the process of membership and decide their membership criteria (Adelopo, I., and Meier, F.,2022).

Overall, the Big Four firms retained 83.1% of the market share for the major UK indices in 2021. This is a slight decline from the 84.3% market concentration seen in 2020. While PwC signed opinions for 26.6% of major LSE index-listed firms, the rest of the Big Four dropped to 56.5% of the market. Relative to 2020, this drop represents a slight decline for KPMG, EY, and a slight increase for Deloitte. Outside the Big Four, BDO remained the leading auditing firm with an 8.7% share of the market. Grant Thornton declined to 3% of the market share. The remainder were audited by eight firms, with 1% or less of the market share held by each (Ideagen(2023).



Source: https://blog.auditanalytics.com/who-audits-public-companies-united-kingdom-2021/ 07-11-2023

- **Observation :**

National Professional Organisation in UK :

The Institute of Chartered Accountants in England & Wales (ICAEW) Chartered Institute of Management Accountants (CIMA) The Association of Chartered Certified Accountants (ACCA) The Chartered Institute of Public Finance and Accountancy (CIPFA) The Institute of Chartered Accountants of Scotland (ICAS).

THEME SEVEN: CHINESE ACCOUNTING SYSTEM

Introduction:

Direct government involvement in accounting regulation in China is a political tradition. The continuation of direct government involvement in accounting regulation is seen in the Chinese Accounting Standards Committee (CASC), established in 1998 as a consultative body largely controlled by the Ministry of Finance. In addition, Businesses operating in China are required to follow the Chinese Accounting Standards (CAS), also known as the Chinese Generally Accepted Accounting Principles.

Since 1992, the Chinese Ministry of Finance has worked on the gradual implementation of the Chinese Generally Accepted Accounting Principles, or China GAAP, also known as the Chinese Accounting Standards. When the People's Republic of China was **founded in 1949**, large private and state-owned enterprises used Western double-entry bookkeepinging while government and small enterprises adopted a Chinese bookkeeping method called Receipt (Shou)–Payment (Fu) (Regulator A).in addition, The authors agree that Chinese accounting formally originated in the **Western Zhou Dynasty.**

This divide gave rise to a political debate as to whether foreign bookkeeping methods should be adopted in China (Zhang, 1950a, 1950b). The focus of the debate, however, soon shifted to a consideration of whether accounting is inherently class-based. For example, **Xin and Huang** (1951, p. 12), two leading academics, argued in an article published in New Accounting (a leading accounting journal): ''**Capitalist accounting theory** ... is suited to and protects the capitalist economic system.'' Academic E suggested that the class-based view of accounting as a means of regulating production relations (such as property rights and class exploitation) was embraced by an overwhelming majority of those engaged in the debate because of the dominance of class struggle (a super signifier of Maoist ideology).He stated that ''**socialist accounting** should be based on Marxist political economy and therefore there was a need to address the questions of: Whose interest does accounting serve? And who controls accounting?''(Ezzamel, M.,et al, 2007).

1- **Accounting and audit framework in china:**

The Accounting Law of the People's Republic of China of 2017 stipulates the basic legal framework for accounting and corporate financial reporting requirements for companies in China. The law states that all corporate enterprises must prepare and present financial statements in compliance with the unified accounting system of the state. Under the Accounting Law, the Accounting Regulatory Department (ARD) of the Ministry of Finance (MoF) of China is responsible for setting accounting standards for business enterprises and public sectors entities. As part of the accounting standard-setting process, the MoF also established the Chinese Accounting Standards Commission (CASC), which is an advisory body to the government on accounting issues.

The ARD has issued two sets of accounting standards for mandatory application by corporate entities depending on their size. Listed, large, and medium-sized entities apply Accounting Standards for Business Enterprises, which are substantially converged with the IFRS.Since 2013; small companies may apply the Chinese Accounting Standards for Small Entities, which are based on the 2010 IFRS for SMEs. The CASC has translated the 2015 IFRS and 2010 IFRS for SMEs into simplified Chinese with the permission of the IFRS Foundation; however, the standards are not legally permissible to be directly applied.

The Law of the People's Republic of China on Regulation of and Supervision over the Banking Industry of 2003, and the Law of the People's Republic of China on Commercial Banks of 1995 establish additional accounting, auditing, and financial reporting requirements for all banks and similar financial institutions in China that are regulated by the China Banking Regulatory Commission.

Similarly, the Insurance Law of the People's Republic of China of 1995 and the Securities Law of the People's Republic of China of 2005 each respectively establish additional accounting, auditing, and financial reporting requirements for all insurance companies in China that are regulated by the Chinese Insurance Regulatory Commission and listed companies, which are regulated by the Chinese Securities Regulatory Commission.

The Company Law of 2013 and relevant securities regulations establishes audit requirements for listed companies and one-person limited liability companies. The Law on Chinese-Foreign Equity Joint Ventures, Law on Foreign-Owned Enterprises, and Law on Chinese-Foreign Cooperative Enterprises establish audit requirements for foreign investment enterprises. In addition, the Law on Commercial Banks requires commercial banks to release their audited financial statements.

The Chinese Institute of Certified Public Accountants (CICPA) has the legal authority to draft Chinese Standards on Audit (CSA) in accordance with the Law of the People's Republic of China on Certified Public Accountants, which are to be approved by the MoF. The CSA are converged with the 2010 ISA. The CSA comprise one basic standard for assurance engagements; 45 auditing standards; one standard for review engagement; two standards for other assurance engagements; two standards for related services; and one standard for firms' quality control. CICPA has is in the process of converging the CSA to incorporate changes from the new and revised audit reporting standards issued by the IAASB in January 2015. In addition, initiatives are underway to converge with ISA 610 and the IESBA NOCLAR standard and the Disclosures Project, estimated to be completed in 2018(IFAC,2023).

2- Development accounting system in china:

Prior to 1978, China's economy was dominated by SOEs, which were essentially production units to fulfil the states stipulated production quota. The accounting system at that time was primarily macro-oriented in that it assisted the state in economic planning, implementing state economic policies, and controlling the means of production (Ge and Lin, 1993; Ezzamel et al., 2007). The accounting standards used by commercial and industrial enterprises were rigid and uniform.

There are also uniform budgetary accounting for government agencies and non-profit organizations (Aiken and Lu, 1998).

After the open-door policy started in 1978, gradual change in ownership structure caused the importance of the state-owned dominance to decrease and non-state-owned enterprises to increase. In response to the increasing opportunities of foreign direct investment, China's accounting reform commenced in 1985 with the establishment of the Accounting Regulations for Joint Ventures using Chinese and Foreign Investment. These regulations provided basic accounting guidelines for joint ventures operating in China and for attracting further foreign investment thereafter (Xiang, 1998). From an accounting perspective, these regulations for the first time introduced Western accounting practice, which was a radical deviation from the traditional accounting (Chow etal., 1995).

State enterprises, once the production units in the centrally planned economy, are now endowed with a substantial degree of managerial autonomy and a separation of management from ownership (Xiang, 1998). In response to these changes and the opening of the stock markets in 1990, a new accounting regime, summarized in Table, is emerging.

The accounting reform can be roughly divided into three periods after the establishment of equity market, according to the three sets of basic accounting standards issued in 1993, 2000 and 2006 separately.

China initiated its accounting reform in 1992 with the enactment of Accounting Regulations for Experimental Listed Companies by the MoF. It applied to all share capital-based companies, including the listed companies, and was enacted as a response to the corporatization drive of the SOEs. After the issuance, preparation of the balance sheet should list equities separately, and report the capital increment in income statement. The new regulation was the first set of rules to incorporate international accounting practices into reporting requirements for China's domestic enterprises (Huang, Dai ,2009).

Table 2: development of accounting law in china

The National People's Congress	The Accounting Law (1985, revised in 1993, 1999)	All enterprises
	The Audit Law (1994)	SOEs
	The Law on Certified Public Accountants (1993)	Auditing profession
	The Company Law (1993)	Share capital-based companies
	The Law for State-owned Industrial Enterprises (1988)	SOEs
	Byelaw of Enterprises' Financial Accounting Reports (2000)	All enterprises
The State council	Tentative Regulations on the Management of the Issuing and Trading of Securities (1993)	Share capital-based companies
	Provisional Byelaw of Stock Issuance and Exchange(1993)	Public issuing companies
	Enterprise Financial Reporting Regulation (1999)	Public issuing companies
Ministry of Finance	the Accounting Regulations for Joint Ventures Using Chinese and Foreign Investment (1985)	Joint ventures
	Accounting Regulations for Experimental Listed Companies (1992)	Public issuing enterprises
	Accounting Standards for Business Enterprises (1993)	All enterprises
	Independent Auditing Standards (1995)	All enterprises

	Accounting Regulations for Listed Companies (1998)	Public issuing companies
	Enterprise Accounting System (2000)	All enterprises
	Provisional Regulations on Accounting Treatments of Assets Sale Among Related Parties (2001)	Public issuing companies
	Accounting Standards for Business Enterprises (2006)	All enterprises
China Securities Regulatory Commission	Implementing Rules on Information Disclosure by Public Issuing Companies (Trial) (1993)	Public issuing companies
	Standards of Contents and Formats of Information Disclosure by Public Issuing Companies (revised in 1994, 1997, 1998, 1999, 2001, 2003)	Public issuing companies
	Answers to the Information Disclosure Regulations of Public Issuing Companies (2001)	Public issuing companies
	Regulation for Corporate Governance in listed Companies (2002)	Public issuing companies
	Preparing Rules of Information Disclosure by Public Issuing Companies issued (2002)	Public issuing companies
	Regulations on Information Disclosure of Listed Companies (2006)	Public issuing companies

Data source: Xiao (1999); CSRC (2006).

3- A comparison of the old and new accounting regulatory systems:

Prior to July 1993, the accounting regulatory system in the PRC consisted of two major components: Accounting Law of the PRC enacted by the National People's Congress in 1985 and more than 40 accounting systems prescribed by various governmental authorities. The Accounting Law broadly stated the functions of accounting, the organization of accounting work and the powers and duties of accounting personnel as well as their legal responsibilities. Detailed accounting methods and procedures at the operational level and financial reporting requirements were prescribed by different government agencies in the form of accounting systems to be followed by enterprises operating in different industries and having different forms of ownership. Each accounting system specified a chart of accounts, the items to be included in each account, and the format of the financial statements. Accounting entries for different types of transactions were illustrated.

The promulgation of the EAS foreshadowed the unification of accounting practices in the PRC and harmonization with international practices (Chen& Tran, 1995; Yang, 1994). Unification refers to the objective that all enterprises, regardless of the industries in which they operate or of the forms of their ownership, eventually follow the same body of accounting standards set by the MoF. Harmonization or internationalization means that the Chinese accounting standards will be brought into harmony with international accounting standards and practices, so that foreign investors can understand financial reports produced by PRC enterprises. The EAS has caused structural change to the accounting regulatory framework in the PRC. The current regulatory framework can be divided into three levels: the Accounting Law, accounting standards, and prescribed accounting systems as illustrated in Figure 1.

The arrows in the figure indicate the direction of control. At the top level, the Accounting Law of the PRC, amended in December 1993, remains the major law with which all accounting standards and systems must comply. The 1993 amendment broadens the scope of application of the Law to cover all enterprises and organizations, whether or not owned or controlled by the state. At the second level, accounting standards are formulated in accordance with the Accounting Law and are applicable to all enterprises established within the PRC.

Accounting standards fall into two categories, fundamental and practical standards. The EAS is the fundamental standard that sets the basic assumptions and general principles of accounting, provides the definition, classification, recognition, and measurement rules for six elements of accounting, and prescribes the basic format of financial statements. The EAS is similar to the conceptual frameworks in the US and Australia but in a much cruder form (Chen& Tran, 1995).

Figure 7 : Current accounting regulatory framework in china

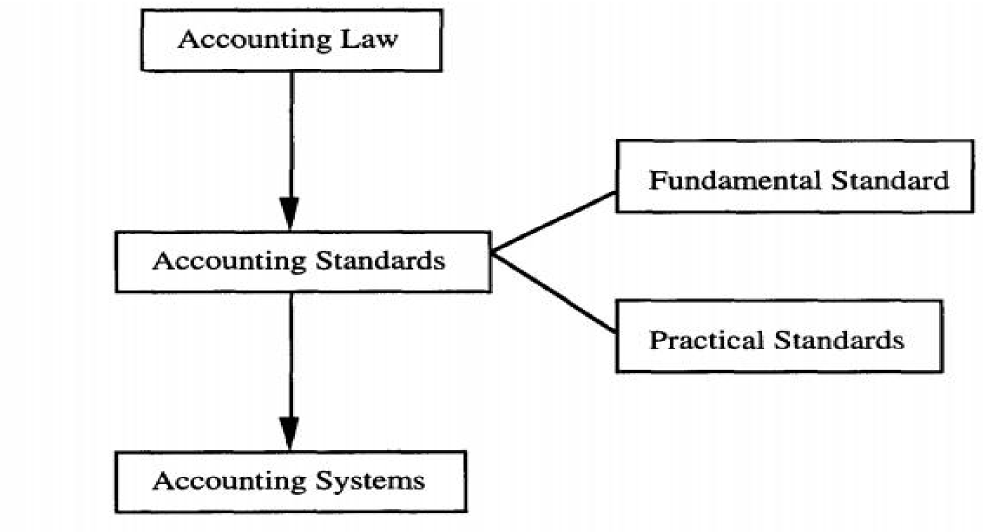


Figure 1. Current Accounting Regulatory Framework

Source: Chen, Y., Jubb, P., & Tran, A. (1997). Problems of accounting reform in the People's Republic of China. The International Journal of Accounting, 32(2), 139-153.

Following promulgation of the EAS, the 40-odd accounting systems were replaced by 12 industry-based and two ownership-based accounting systems as listed in Table 3. These systems are all prescribed by a single authority, the MoF, and are compatible with the EAS. According to the MoF's original plan, these 14 accounting systems are transitional measures only and will be replaced eventually by practical $accounting standards(Chen, Y.,et al,1997).

Table 3 : Currently Prescribed accounting systems in china

Table 1. Currently Prescribed Accounting Systems

Systems
Industry-Based Systems
• Industrial Enterprise Accounting System
• Commercial Enterprise Accounting System
• Communication and Transportation Enterprise Accounting System
• Communication and Transportation (Railways) Enterprise Accounting System
• Communication and Transportation (Aviation) Enterprise Accounting System
• Communication and Transportation (Postal Services and Telecommunication) Enterprise Accounting System
• Hospitality Enterprise Accounting System
• Construction Enterprise Accounting System
• Real Estate Development Enterprise Accounting System
• Agricultural Enterprise Accounting System
• Financial Institution Accounting System
• Insurance Enterprise Accounting System
Ownership-Based Systems
• Foreign Economic Cooperation Enterprise Accounting System
• Experimental Share Capital Enterprise Accounting System

Source: Chen, Y., Jubb, P., & Tran, A. (1997). Problems of accounting reform in the People's Republic of China. *The International Journal of Accounting*, *32*(2), 139-153.

4- The Enterprise Accounting System(EAS) and Accounting Standards for Business Enterprises in china (ASBE):

The introduction of the Enterprise Accounting System (1992) is part of a continuous regulatory response to 'an accounting information crisis' (Li, 2001). Extensive false reporting and earnings management by companies have discredited accounting information and hampered the development of the capital market. To tackle this issue, the Accounting Law was amended in 1999 to stress the importance of 'true and complete' accounting information. In 2000, the State Council issued an Enterprise Financial Reporting Regulation, redefining the elements of financial statements in line with the conceptual framework of the IASC and stipulating responsibilities and liabilities for parties involved in accounting, auditing and reporting. The revised definitions aim to reduce the scope for manipulation that can take place under the looser definitions provided in the **ASBE**. These definitions are elaborated in the Enterprise Accounting System. Although industry-specific UASs had been stipulated to enable a smooth adoption of the **ASBE**, the growing complexity of business organizations and diversification have made it difficult for companies to select the appropriate UAS. Thus Li (2001), then Assistant (now Deputy) Minster of Finance, expects the Enterprise Accounting System to enhance the comparability of information. **The Enterprise Accounting System** has three parts .Part 1 defines basic concepts, elements of financial statements, recognition and measurement principles, permissible accounting methods, structures and content of the main financial statements. Part 2 prescribes a chart of accounts and financial statements. Part 3 exemplifies accounting treatments of the main elements of financial statements.

Others have suggested that the Enterprise Accounting System achieves the desired purpose of harmonizing Chinese accounting regulation with IAS although it adopts the form of a **UAS** in order to suit the needs of Chinese accountants and auditors (Liu, 2001c). Regulator A, however, responded that if it is the form that makes it different, perhaps the form should be dropped(Zezhong Xiao, J., Weetman, P., & Sun, M. ,2004).

On 15 February 2006, the Ministry of Finance of the People's Republic of China issued a new set of Accounting Standards for Business Enterprises (ASBEs), which are substantially converged with IFRSs. All companies listed in China must apply ASBEs for the preparation of their financial statements. Application of IFRSs as issued by the IASB is not permitted. Further convergence with IFRSs is an ongoing project. Based on the Roadmap for Continuing Convergence of Chinese Accounting Standards for Business Enterprises with International Financial Reporting Standards released by the Ministry of Finance of China in April 2010, ASBEs will be revised and improved in accordance with the revision and improvement of IFRSs, in order to continue convergence.

Chinese companies whose securities trade on the Stock Exchange of Hong Kong may choose among IFRS, Hong Kong Financial Reporting Standards (HKFRS), and Chinese Accounting Standards (ASBE) for purposes of financial reporting to Hong

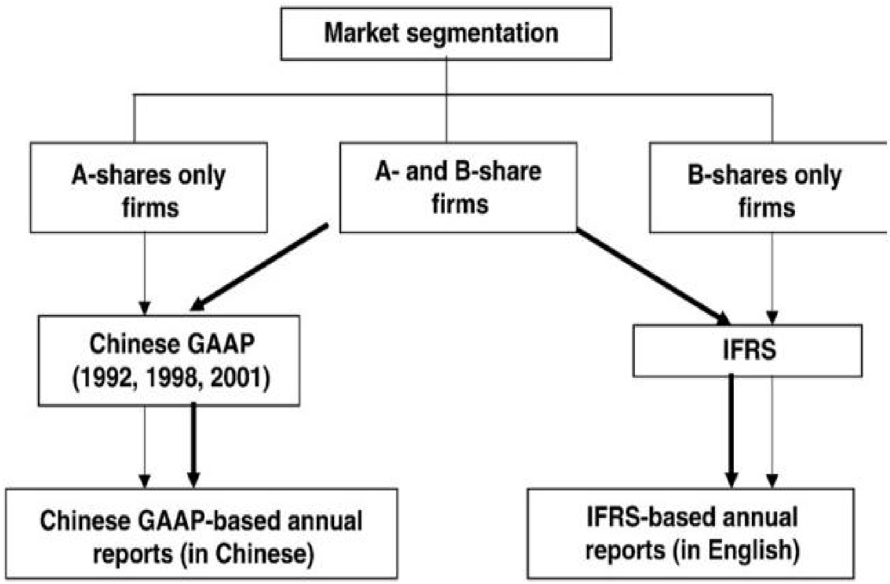
Kong investors. However, those financial reports are in addition to the ASBE financial reports that the Chinese companies issue within mainland China(IASB,2023).The Accounting System of the People's Republic of China for Enterprises with Foreign Investment - 1992(Promulgated by the Ministry of Finance of the People's Republic of China on June 24, 1992).

Contents

5- What accounting standards are adopted in China:

The accounting regulations applicable to a Chinese listed firm depend on the type of security issued, A- or B-shares or both. Firms that issue A-shares are required to comply with Chinese GAAP, while firms that issue B-shares are required to comply with IFRS. Firms that issue both A- and B-shares are required to issue two sets of annual reports, one based on Chinese GAAP and the other based on IFRS. The IFRS-based annual report must be audited by an **internationally** recognized auditor, but not necessarily a Big 4 firm, while the Chinese GAAP-based annual report may be audited by **local accounting firms**. Both sets of annual.

Figure 8 : Market segmentation in china



Source:Peng, S., Tondkar, R. H., van der Laan Smith, J., & Harless, D. W. (2008). Does convergence of accounting standards lead to the convergence of accounting practices?: A study from China. The International Journal of Accounting, 43(4), 448-468.

Reports must be released to the public simultaneously and any difference in net incomes between Chinese GAAP and IFRS must be reconciled and presented in the financial statement footnotes (Peng, S., et al,2008).

China has its own accounting rules referred to as the Chinese Accounting Standards (CAS). Despite substantial convergence between CAS and the International

Financial Reporting Standards (IFRS) that most western investors are used to, practical implementation and interpretation differences remain.

The CAS framework is based on two standards: Accounting Standards for Business Enterprises (ASBEs); and Accounting Standards for Small Business Enterprises (ASSBEs). The ASBE standards are significantly converged with the International Financial Reporting Standards (IFRS) and all listed companies in China must comply with the ASBEs for the preparation of their financial statements. Most foreign invested entities also generally follow the ASBEs.

The ASSBEs is a counterpart of the ASBEs, providing unified standards for small-size enterprises. The ASSBEs use the ASBEs as a reference but are more similar to tax laws in terms of their tax calculation methods, which simplify the process of making adjustments between accounting standards and tax rules. Small-scale enterprises can choose to adopt either the ASBEs or ASSBEs.

In addition to the CAS framework introduced above, some enterprises adopt the Accounting System for Business Enterprises. The Accounting System for Business Enterprises constitutes 14 chapters that outline the basic principles, methods and rules for accounting and financial reporting in China. It applies to all types of medium and large companies except for listed companies and financial and insurance companies.

Compared to CAS, the Accounting System for Business Enterprises is targeted at enterprises in specific industries, while CAS is targeted at specific economic businesses (transaction or event) or a specific reporting item. With a growing number of companies voluntarily adopting the CAS framework, the **Accounting System for Business Enterprises** is becoming less common even if it is China-specific and easy to implement.

Further, starting January 1, 2021, several accounting standards regarding revenue, leases, and financial instruments, has applied to all entities that adopt the CAS. These new standards include:

- Chinese Accounting Standards for Business Enterprises No.14 – Revenue (2017) (CAS14);

- Chinese Accounting Standards for Business Enterprises No.21 – Leases (2018) (CAS21);

- Chinese Accounting Standards for Business Enterprises No.22 – Recognition and Measurement of Financial Instruments (2017) (CAS22);

- Chinese Accounting Standards for Business Enterprises No.23 – Transfer of Financial Assets (2017) (CAS23);

- Chinese Accounting Standards for Business Enterprises No.24 – Hedge Accounting (2017) (CAS24); and

- Chinese Accounting Standards for Business Enterprises No.37 – Presentation of Financial Instruments (2017) (CAS37).

After January 1, 2022, the following accounting standard and interpretations are in force:

- Chinese Accounting Standards for Business Enterprises Interpretation No.15 (2021);

- Chinese Accounting Standards for Business Enterprises Interpretation No.16 (2022); and

- Chinese Accounting Standards for Business Enterprises No.25 – Insurance Contract (2020) (CAS25) (effective date: 1 January 2023).

RMB is the base currency for ledgers and financial reports. For enterprises using currencies other than RMB in their business transactions, foreign currencies can be used as the functional currency; however, financial reports are required to be presented in RMB. Furthermore, accounting records must be maintained in Chinese. FIEs can choose to use only Chinese or a combination of Chinese and a foreign language(.china briefing,2023).

6- Regulation and organization of accountants in China:

Political events in China, as interpreted and influenced by the state, along with **foreign influence**, have changed, directed, and shaped the development of Chinese accounting. The twentieth century in China can be divided into three main periods of foreign influence on accounting as illustrated in the time line (Figure 9) in the early twentieth century; **colonialists** employed their own accounting systems in the enterprises they set up in China.

A number of Chinese **students returning from Western countries** introduced Western accounting principles to Chinese banks and other enterprises, while Chinese traditional **bookkeeping methods** were still used in many firms and other organizations. As a result, Chinese accounting and Western accounting were **simultaneously practised** in China **before 1949**. During this period, a public accountancy profession began to develop, and a self-regulating accountancy community may have eventually evolved along broadly Western lines. From 1949, the new China embraced the **socialist system** and a **planned economy**. **Soviet Union's influence** became important. Community and market principles were obliterated as the **state-dominated**. The system of professional public accounting was interrupted - under the **planned economy**, there were no public accountants.

Figure 9 : foreign influence on accounting as illustrated in the time line

Source : Ping Hao, Z. (1999). Regulation and organisation of accountants in China. *Accounting, Auditing & Accountability Journal*, *12*(3), 286-302.

The adoption in 1978 of the policy of reform and of **opening** up to the outside world brought Chinese accounting practice into a period of international influence. It was felt that China should reject any one overly dominant foreign influence and that international accounting conventions should be followed. Furthermore, accounting practices and ways of organising practitioners in different countries should be studied and compared, with the most suitable elements being adapted to Chinese conditions.

- **Accounting profession in China before 1949:**

Chinese professional accountants can be traced back to **1918 when Mr Xie Lin** was granted the title of ` `certified accountant' ' by the government. It could be said that the appearance of a public accounting system in China resulted from Western public accountants coming to China along with their clients. The early CPA firms in some large cities came mainly from countries such as America, England, and France, following Western capital and traders (Guo, 1988, p. 422).

The demand for public accounting emerged as national industries grew rapidly from the beginning of the twentieth century. In the early years, foreign public accountants were often invited by Chinese business enterprises to undertake liquidation, evaluation, and auditing work. Some patriots believed that China's own professional accounting system should be established for the **protection of Chinese industrial and commercial enterprises** (Guo, 1988, pp. 422- 3). One of them, Mr. Xie Lin **(The modern accounting founder in China)**, submitted a proposal to the then government for the establishment of a **public accounting system in June 1918** and then drew up the Provisional Regulations for Public Accountants for the government. The Regulations were promulgated in September, and Mr Xie Lin received the number one certificate of public accountant. The number of certificate holders increased gradually.

First Association of certified accountants was founded in Shanghai. Others followed in Guangzhou, Wuhan, Jiujiang, Nanjing, Chongqing, Beijing, and Tianjin, as well as some provinces. A national united association was formed in December 1946 (Li and Wang, 1989, p. 147). But the 1949 revolution brought an end to any further development. There is insufficient material to show the relationship between **certified (public) accountants and salaried accountants during the pre-1949**

period. The latter were usually employed through three channels, embodying a combination of community, market, and state (hierarchical) principles. These three channels were recommendation, internal selection, and public recruitment. Some government organizations and private enterprises regarded accountants as important staff who had to be very reliable and therefore appointed those who were recommended by or related to senior officers. Other government organizations and companies selected their accountants internally from non-accounting clerks or workers. In the 1930s and 1940s, the public recruitment method (embodying the market principle) was increasingly employed by a number of government departments and enterprises (Zheng, 1988). These salaried accountants did not organize occupationally.

- **Accountants under the planned economy :**

Under the centrally planned economy, China had only one category of accountants with several ranks in various organizations. There **were no professional public accountants** and auditors, and **no external markets existed for accounting services**.

The requisition of accountants was incorporated into the national plan. The education and training plan for accountants was based on the demands of all kinds of organizations, the capabilities of universities and colleges, the balance between various majors or specialties, and other considerations. Graduates were allocated directly from universities and colleges to different types of organizations based on organizations' requirements in light of the national plan. If there were shortages of accountants in an organization, an internal selection method was used. Those selected were either sent to universities or colleges for training, took part in short courses, or simply started to learn bookkeeping from senior accountants while on the job. Soviet influence spread rapidly in the 1950s. Russian accounting experts came to China to educate and train Chinese accountants who had held accountancy or bookkeeping positions before 1949. Russian experts also assisted in developing the accounting program in universities. For example, in July 1950, Russian experts entered the

People's University of China, which was the first university to focus on social sciences, established just after the foundation of the new government. They helped to set up the accounting group in the Department of Finance. Within the next two years, more than 2,000 accounting students graduated from the People's University of China (Gao, 1985, p. 159), which became one of the centers and main sources for the dissemination of Soviet accounting theory and technology.

- **The post-1978 era**

Since 1978, the predominance of state hierarchical control has begun to break down, leaving room for the other two principles of market and community. This is because the state has begun to implement policies of economic reform and openness to the outside world, which have had a significant impact on various aspects of business and accounting practices. The economic reform resulted in the construction of a socialist market economy, and the policy of openness absorbed a great amount of foreign direct investment into China.

The accounting transformation came about under the influence of foreign direct investment in China. A separate accounting system for joint ventures following the international standards of public accounting was designed, and an independent auditing system for joint ventures was established. The joint venture accounting system implemented in 1985 was regarded as very successful and was believed to have assisted in the promotion of foreign investment in China. The auditing arrangements prompted the Chinese government and accountants to consider extending the public accounting system to enterprises other than joint ventures.

Although economic reform and accounting reform are ongoing, traces of the influence of the planned economy era and Chinese tradition remain. The number of Chinese CPAs and the influence of their professional organization, the Chinese Institute of Certified Public Accountants (CICPA) are growing but the profession, as a whole has not yet stabilized. The balance between the state, market, and community principles is being altered through new regulations. Further reform embodying a tendency to expand the roles of the market and community is in train.

- **Re-emergence of the accounting profession**

In many Western countries, the accounting profession has been promoted by practitioners and professional associations that are reasonably autonomous from the state. Even when the associations entered into ` `corporatist' ‘ arrangements with the state to regulate accounting practitioners or accounting practices, they did so as autonomous entities. It is important to understand that in China the situation is very different. It is the state that is bringing public accountants back into the limelight. The public accounting profession resumed under government arrangements due to the appearance of foreign direct investment. In September 1980, the Standing Committee of the National People's Congress issued the ` `Income Tax Law for Sino-foreign Joint Ventures '. Then on 14 December in the same year, the Ministry of Finance promulgated the ` `Detailed Principles for implementation of Income Tax Law for Sino-foreign Joint Ventures' ', in which it was stipulated for the first time that an auditor's report signed by a Chinese CPA is required for a tax return (article 20). Shortly thereafter, the Ministry of Finance issued another document, the ` `Provisional Regulations Concerning the Establishment of Accounting Consultancies' ', on 23 December 1980. The firm of Shanghai Certified Public Accountants (then called Shanghai Accounting Consultants), set up on 1 January 1981, became the first CPA firm to emerge as part of the revival of the public accounting system. More CPA firms were established in other large cities and provinces within the next few years.

- **Salaried accountants in public and private sectors**

In most Western countries, governments do not try to specify the qualifications of salaried accountants. They allow the market principle to work. In China, however, the state regulates such accountants by means of threshold qualifications for almost all accountants and a rating system that applies principally to those employed by state-owned organizations. This differentiates China from the West and the Czech Republic.

Since competition is getting keener in the accounting labour market, those qualifications are coming to be seen as more desirable by accountants. Thus, the supply side of the market principle is in operation. However, the community principle is still underdeveloped with respect to salaried accountants, as they are not organised into a self-regulating community. Further details are supplied below.

In 1990, the Ministry of Finance issued a regulation called ` `Administration of Accountancy Certification' ', applicable to state-owned enterprises, non-profit and government organisations. It established the Accountancy Certificate (AC) as the basic qualification for those seeking accountancy posts in those organisations. In 1996 a revised ` `Administration on of Accountancy Certification' ‘ extended the AC system to all organisations, including enterprises with foreign investment. The Ministry of Finance is responsible for designing and printing the AC and local or industrial financial bureaus are responsible for its issuance and administration the ` `Trial Regulations of Professional Accounting Work Duties' (issued in 1986) established a rating system applicable to salaried accountants in government organizations, non-profit institutions, and state-owned enterprises.

The system established a range of professional titles divided into the following four tiers: senior accountant, accountant, assistant accountant, and junior accountant. The Ministry of Finance was responsible for implementing the Regulation. Applicants were assessed by committees according to the conditions stipulated in the Regulation. The committees were organized once a year and their members were composed of top management and senior titleholders in the particular organisations. Qualified applicants were given professional titles linked to specific accounting positions. Two or three-year college graduates on one year's probation and subject to other requirements could apply for the title of junior accountant. Four-year university graduates on one year's probation and subject to other requirements could apply directly for the title of assistant accountant. The criteria for senior accountant included a minimum experience requirement, the ability to control the whole accounting system in an organization and mastery of a foreign language. The method of assessment by committee was replaced in 1992 by national examinations, held once a year (Ministry of Finance and Ministry of Personnel, 1992). The AC has become a condition for applying to take part in the exams for professional titles (Ping Hao, Z. ,1999).

Observation:

- Accounting System for Business Enterprises

called OLD PRC GAAP (1992)

- Accounting Standards for Business Enterprises (ASBE) called NEW PRC GAAP (2006)

THEME EIGHT: JAPANESE ACCOUNTING SYSTEM

Introduction:

Accounting Regulatory Framework in Japan An unusual feature of the post-war accounting regulatory framework in Japan is its dual nature (Oguri and Hara, 1990) in which listed companies produce one set of accounts based on the requirements of the Commercial Code (CC) and a second set based on the provisions of the Securities and Exchange Law (SEL). The important difference is that the CC accounts are primarily to protect creditors and current investors whereas the SEL accounts are more shareholder oriented (JICPA, 1991). The requirements of the SEL apply to all companies that have issued securities to the public (in the main those corporations with a listing on a Japanese stock exchange) and they affect about 3,000 corporations out of a total of about 1.1 million joint stock corporations. Corporations subject to the requirements of the SEL represent a significant proportion of economic activity(Cooke, T. E. ,1993).

International accounting firms such as Ernst & Young and Pricewater Cooper were wary of placing trust in the Japanese accounting system and attached a proviso, stating that such financial statements were prepared according to local rules.the private corporate accounting standards have been greatly changed, which has been often called, '**Big Bang Reforms of Accounting Standards**'. Concretely in the business year beginning on **April 1 1999** private large companies have been supposed to disclose consolidated financial statements as formal documents, and also introduce consolidated statements of cash flows and tax consequences accounting. Originally, the changes of accounting standards have aimed at enabling investors at home and abroad to grasp returns and risks of investments towards Japanese enterprises and compare with those of investments towards other companies. For this purpose, the new accounting standards have been made consistent with IAS in principle. In addition to these initial purposes, the changes of accounting standards have repercussion effects on the management style of Japanese enterprises(Asami, Y., 2006).

1- **Definition of Japen's accounting system:**

The Japanese Commercial Code, along with the Securities Exchange Law and Tax Law, exerted a significant influence on the country's corporate accounting system. While these three legislations were closely related to each other as regards the corporate accounting system, their purposes are quite different. The primary objective of the Commercial Code is the protection of creditors, while that of the Securities Exchange Law and the Tax Law is the protection of investors and the collection of taxes, respectively. Japanese firms' financial statements, based primarily on the Commercial Code, were prepared to Japanese standards, which were significantly different from International Accounting Standards (IAS) and US accounting standards. IAS and US standards today exert such a strong influence on other countries that they have virtually become global standards.

The main aim of the IAS is to provide investors with useful information on the business performance, financial condition and changes in the financial condition of a firm, so that they can make a rational economic decision about whether or not to invest. The European Union has already resolved to adopt IAS and has made it obligatory for EU firms to prepare IAS-based consolidated financial statements by 2005. Previously, EU member countries had used various accounting standards, reflecting the business practices and capital markets of the respective member countries; this made cross-country comparisons difficult.

The harmonization and unification of an accounting system in the EU will have a substantial effect on firms in other countries as well. The EU has resolved that non-EU firms will have to prepare financial statements based on the IAS from 2007. This decision may affect Japanese firms seeking to raise capital in the EU. The EU has yet to decide whether it will accept the new accounting standards of Japan.

The Japanese accounting system did not provide investors with very much instrumental information, compared with the IAS or US accounting system. The quality of such information was poor, and so naturally investors' confidence in the financial statements was low. In particular, the Japanese accounting system provided misleading information on consolidation, R&D costs, consolidated statements of cash flows, retirement benefits, definitions of subsidiaries and affiliates, financial instruments, business combinations and impairment of assets(Mizuno, M.,2004).

The **first source of regulation** is the Companies Act of 2005, which includes the requirements of the former Commercial Code. This is administered by the Ministry of Justice and applies to all kabushiki kaisha. It has its roots in the German Commercial Code of the nineteenth century, which was first adapted by the Japanese in 1890. However, the German influence has diminished over time as amendments have been made in Japan.

The second source of regulation is the Financial Instruments and Exchange Act of 2006, formerly the 'Securities Law', which applies only to those KKs that are publicly traded. The Securities Law was first enacted shortly after the Second World War when General MacArthur was responsible for the Allied administration of Japan (Chiba, 2001). The MacArthur regime took the US system of accounting regulation as the model for the revised Japanese system. The main US influences on the Japanese Securities Law were the Securities Act of 1933 and the Securities and Exchange Act of 1934. This Japanese Securities Law was administered by the Ministry of Finance until 2000 and now by the Financial Services Agency (FSA). Consequently, the functions and powers of these arms of government about financial reporting are similar in many respects to those of the US Securities and Exchange Commission. A Japanese SEC was established by the US occupying administration in 1947 but it was dismantled when the Americans left in 1952.

A KK is publicly traded subject of government influence. Consequently, it must prepare two sets of financial statements: one for the shareholders (not for the public), by the requirements of the Companies Act; and one for filing, by the requirements of the Securities Law(Nobes, C., and Parker, R. H. ,2008).

2- Domestic Accounting Standards and International Accounting Standards :

Historically, Japanese accounting standards have been quite distinct from International Accounting Standards (IASs) which have been perceived as being modeled on British–American accounting standards. However, in the 1990s, after the publication of E32 in 1989 and the IASC-IOSCO Agreement in 1995, the Business Accounting Deliberation Committee (BADC), the standards-setting body in Japan, pursued a policy of harmonization with IASs. Accounting standards relating to consolidated financial statements of companies that make cross-border offerings of securities or operate worldwide are being revised drastically(Kikuya, M.,2001).

In August 2007, the Accounting Standards Board of Japan (ASBJ) and the International Accounting Standards Board (IASB) announced the Tokyo Agreement, whereby the Japanese standard setter committed to achieving major convergence with IASB standards by 2011. This is a significant step for the international convergence of accounting standards as it is the first time that the ASBJ has given specific scope and timing for convergence. However, arriving at this point has not been straightforward. In terms of convergence in Japan, 2005 was a critical year and Japanese securities analysts were key stakeholders. Considering Japanese GAAP financial statements at 2005, we provide an analysis of the issues that are relevant to achieving convergence.

In November 1996, then Japanese Prime Minister **Ryutaro Hashimoto** announced a plan of financial system reform, which aimed to make Tokyo financial markets as competitive as London and New York by 2001. This has become known as the 'Japanese big bang' (Maki 1997). From **1997 to 2002,** there were major changes in Japanese accounting standards, with many issuances and revisions. A second phase of change was introduced in July 2001 with the setting up of the Financial Accounting Standards Foundation **(FASF)** and an independent, private sector standard-setting body the **ASBJ**, based on the FASB/IASB model. The ASBJ has subsequently issued standards or guidance on share based payment, business combinations, presentation of financial statements, revenue, employee benefits, foreign currency translation, related parties, and earnings per share, impairment and financial instruments with the aim of making Japanese standards more compatible with US GAAP and IFRS.

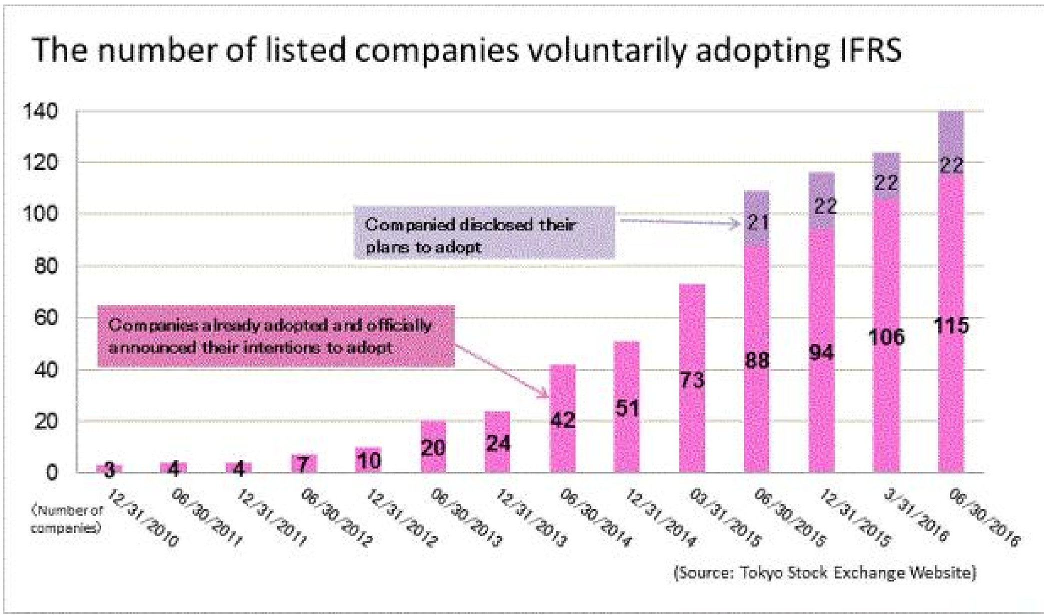
The accounting system was also in need of revision because of the increasing globalization of the economy and the integration of capital markets. It has become a prerequisite for Japanese firms that conduct their business globally, tapping international capital markets and expanding their business through such activities as mergers and acquisitions, to gain the complete confidence of the international business world in the Japanese accounting system.

The new accounting system is expected to contribute greatly to a reduction in the information asymmetry that exists between the Japanese firms and investors. It should also facilitate international comparison between Japanese and foreign firms. At the same time, the disclosure of information other than accounting information, such as corporate strategy and the utilization of intangible assets, is needed for the sake of transparency and international comparison(Kaneko, S. I., and Tarca, A.,2008).

Financial statements are prepared, in principle, in accordance with accounting principles generally accepted in Japan (J GAAP) as issued by the ASBJ. For consolidated financial statements of listed companies, use of IFRS Standards ('Designated IFRS'), Japan's Modified International Standards **(JMIS)** and US GAAP is also permitted. JMIS are the new set of accounting standards inaugurated by ASBJ in 2015 and developed based on the endorsement process of accounting standards and interpretations issued by the International Accounting Standards Board (IASB). With the introduction of JMIS, there are four accounting frameworks that the listed companies in Japan may use, but the voluntary application of IFRS Standards is continuously expanding.

According to the Tokyo Stock Exchange, as of June 30, 2016, the number of listed companies voluntarily adopting IFRS Standards (including those that officially announced their intention to adopt) is 115, and an additional 22 companies have disclosed that they are planning to adopt IFRS Standards in their earnings reports. The number of voluntarily adoption IFRS is consistently increasing in Japan(https://jicpa.or.jp,2023).

Figure 10:



Japanese Accounting Standards ('Japanese GAAP') are developed by the Accounting Standards Board of Japan (ASBJ), which was established in 2001. Under an agreement between the ASBJ and the International Accounting Standards Board (IASB) entered into in August 2007, known as the Tokyo Agreement, the ASBJ had been working towards converging the requirements of Japanese Accounting Standards with International Financial Reporting Standards (IFRSs). The achievements under the agreement were jointly announced in June 2011 by the ASBJ and the IASB.

Japanese GAAP is not identical to IFRSs but have been found to be equivalent to IFRSs as adopted by the European Union (EU) by the EU since 2008.Voluntary adoption of IFRSs by public companies Since 2010, eligible listed companies in Japan have been permitted to use IFRSs as designated by the Financial Services Agency of Japan (FSA) in their consolidated financial statements, in lieu of Japanese GAAP.

On 20 June 2013, the Japanese Business Accounting Council (BAC) released its final report titled "The Present Policy on the Application of International Financial Reporting Standards (IFRS)". The report recommended a number of measures to contribute to greater, but not mandatory, use of IFRSs in Japan(IAS,2023).The following table explains the European Financial Reporting Advisory Group (EFRAG) -ASBJ Meeting:

Table 4 : The European Financial Reporting Advisory Group (EFRAG) -ASBJ Meeting

Category	Approx. # of Companies	Consolidated F/S	Non-Consolidated F/S
Listed companies	3,900	Japanese GAAP US GAAP IFRS JMIS	Japanese GAAP
Other public companies	500		
Other companies subject to statutory audit under the Companies Act[*1]	5,000	No statutory reporting requirement	
All other companies	2,500,000		Guideline for accounting of SMEs Accounting guide for SMEs

Subject to statutory audit

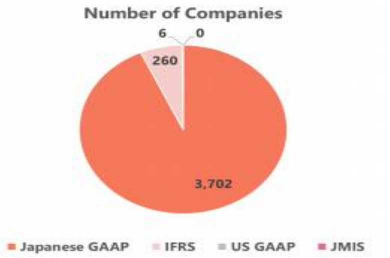
*1 Companies with stated capital over JPY 500 million (approx. GBP 3.1 million) or total liabilities over JPY 20 billion (approx. GBP 125.7 million)

Source : https://www.iasplus.com 05-12-2023

Table 5: accounting standard in japan

(as of December 31, 2022)

Accounting Standard	Number of Companies Adopted	Share based on Number of Companies	Market Cap. (in JPN tn)	Share based on Market Cap.
Japanese GAAP	3702	93.2%	367.8	52.1%
IFRS	260	6.6%	322.1	45.7%
US GAAP	6	0.2%	15.6	2.2%
JMIS*	None	-	-	-



* Japan's Modified International Standards

Source : https://www.iasplus.com 05-12-2023

Disclosure system in Japan is in line with the International Disclosure Standards (IDS) set by IOSCO in 1998. In March 2003, the disclosure system was further strengthened to include enhanced disclosure of risk information and governance-related information such as internal control system as well as improved MD&A (Management's Discussion and Analysis) disclosure. **Corporate governance system** in Japan conforms to the "OECD Corporate Governance Principles." The corporate governance regimes have recently been strengthened, in particular, by enhanced measures including the introduction of an option of audit committee system in the Commercial Code and the Securities and Exchange Law and self-regulations established by the Japan Business Federation(IAS,2023).

3- Accounting profession in Japan :

Japanese accountants are of interest for several reasons. Firstly, Japan, with one of the leading economies in the world, is an influential non-western country. This economic prominence creates large and continuing interest in Japan on the part of multinational corporations and their multinational accounting firms. Secondly, recent 'Big Bang' economic reforms have created new opportunities for investment in Japan, again increasing the demand for accounting services and professional accountants in Japan. Thirdly, drastic changes in accounting requirements in Japan have increased the scope and influence of Japanese accountants who are being presented as a critical component of the nation's plans to reform its economy. Finally, the accounting profession in Japan is considered to be woefully understaffed.

It is said that Western-style double-entry bookkeeping was first introduced in Japan in 1865 during the Edo Period (Shimme, 1937, p. 291). It was properly adopted after the carrying out of the National Bank Regulations in 1872 and the publication of Ginko Boki Seiko (Bank Bookkeeping Method) by the Ministry of Finance (Someya, 1996, pp. 12-4). In 1878, stock exchanges were opened in Tokyo and Osaka, and then many joint stock companies were established in rapid succession. In 1890, the old Commercial Code was promulgated, making it an obligation to produce and show to the public an inventory of assets and a balance sheet. The establishment of this Commercial Code was the factor that created professional accountants in Japan.

The Tax Law also played a major role in the birth of professional accountancy in Japan. Income tax was inaugurated in 1896, leading to the appearance, particularly in Osaka, of tax agents who made their living giving advice related to taxes. In this way, two types of accountant one who undertook corporate bookkeeping and account closing on behalf of companies, and one who acted as a tax agent appeared in Japan, almost at the same time, as a natural phenomenon(Sakagami, M., et al,1999).

In Japan, the accounting profession in the form of certified public accountants (CPAs) began approximately 50 years ago. The enactment of the Certified Public Accountant Law in 1948 established more rigorous requirements for certification, including one or more examinations and completion of a three-year apprenticeship. A primary function of the profession is dictated by the Securities and Exchange Law, which requires publicly traded companies to submit financial statements that have been audited by independent auditors. The success of these companies, both domestically and internationally, combined with the emerging influence of the Japanese securities market has increased the importance of the role played by Japanese CPAs.

The public accounting profession today consists of approximately 13,000 Japanese CPAs and 150 auditing firms who are responsible for auditing over 4,500 companies that are required to have an annual audit by an external audit firm. The profession is dominated by the four largest CPA firms, which are affiliated with four of the Big Five international CPA firms(Yamamura, J. H., et al,2004).

The accountancy profession in Japan practices with the title of a Certified Public Accountant ("CPA") under the Certified Public Accountants Law legislated in 1948.The Certified Public Accountants Law provides key matters relating to the accountancy profession such as examinations, qualifications, registrations, duties and responsibilities of CPAs and Junior CPAs, audit corporations, Certified Public

Accountants and Auditing Oversight Board("CPAAOB"), Japanese Institute of Certified Public Accountants ("JICPA"),and penalties(https://www.hp.jicpa.or.jp,2023).

Japanese auditing systems have also been revised to become equivalent to the international level. To begin with, the Auditing Standards and the Implementation Guidance in Japan (Japanese GAAS) have become equivalent in substance to and consistent with the International Standards on Auditing ("ISAs") as a result of the establishment of the new Auditing Standards in January 2002, in which emphasis on discovering fraud and the treatments of "going concern" were clearly covered and "risk approach" thoroughly introduced and implemented. Accordingly, if foreign securities issuers are audited in accordance with ISAs, such audit is accepted in Japan.

In addition, in view of the international initiatives to strengthen the auditing regime in line with the U.S. Sarbanes-Oxley Act of 2002, the Certified Public Accountants Law ("CPA Law") was revised in May 2003 and will be effective in April 2004. This revision incorporates prohibition of providing certain non-audit services contemporaneously with audit services and requirement of audit partner rotation in order to enhance auditor independence. The CPA Law also incorporates establishing "the CPA and Auditing Oversight Board" ("CPAAOB") in order to enhance auditor oversight(IAS,2023).

Table 6: The review of accounting standard in Japan

Table 1 continued

Group	Standards	Year of review
Group 7	Leasing	
	IAS 17 Leases	4
	IFRIC 4—Determining whether an Arrangement Contains a Lease	4
	IFRIC 12—Service Concession Arrangements	4
	SIC 15—Operating Leases—Incentives	4
	SIC 27—Evaluating the Substance of Transactions Involving the Legal Form of a Lease	4
	SIC 29—Disclosure—Service Concession Arrangements	4
Group 8	Financial instruments	
	IAS 32 Financial Instruments: Presentation	4
	IFRS 7 Financial Instruments: Disclosures	4
	IFRS 9 Financial Instruments	4
	IFRIC 2—Members' Shares in Co-operative Entities and Similar Instruments	4
	IFRIC 19—Extinguishing Financial Liabilities with Equity Instruments	4
	IFRIC 16—Hedges of a Net Investment in a Foreign Operation	4
Group 9	Foreign currency	
	IAS 21 The Effects of Changes in Foreign Exchange Rates	5
	IAS 29 Financial Reporting in Hyperinflationary Economies	5
	IFRIC 7—Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	5
Group 10	Income taxes	
	IAS 12 Income Taxes	5
	SIC 25—Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	5
Group 11	Provisions	
	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	5
	IFRIC 1—Changes in Existing Decommissioning, Restoration and Similar Liabilities	5
	IFRIC 5—Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	5
	IFRIC 6—Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	5
Group 12	Insurance	
	IFRS 4 Insurance Contracts	5
Group 13	Mineral assets	
	IFRS 6 Exploration for and Evaluation of Mineral Assets	5
Group 14	First-time adoption	
	IFRS 1 First-time Adoption of IFRS	5

Table 2 Order of principal statements

Saudi accounting standards (Saudi GAAP)	IFRS [IAS 1.10]
Balance sheet	Statement of financial position (balance sheet)
Statement of income	Statement of profit or loss and other comprehensive income for the period (presented as a single statement, or by presenting the profit or loss section in a separate statement of profit or loss, immediately followed by a statement presenting comprehensive income beginning with profit or loss)
Statement of cash flows	Statement of changes in equity
Statement of changes in shareholders' equity	Statement of cash flows
Notes to the financial statements	Notes to the financial statements

THEME NINE: SAUDI ARABIA ACCOUNTING SYSTEM

Introduction:

Middle East countries have begun to implement economic reforms to stimulate private investment, promote economic growth and support the transition to market economy. Although, it is difficult to define the direct impact of the accounting system reform on economic transformation, as there are many other conditions that have influence on the transition process. However, with the central position of financial reporting and control in the economic system based on market economy, it is reasonable to assume that countries that are more effective in reforming the accounting system would move faster toward economic transformation.

In February 2012, the Saudi Organisation for Certified Public Accountants (SOCPA) formally approved the transition to IFRS "through a Project for the Transition to International Accounting and Auditing Standards", to be completed by 2017 (IFRS, 2017). This raises questions firstly, about the comparability of financial statements between companies using IFRS and GAAP and secondly, about the reasons why the transition to IFRS has been only partial.

1-Accounting Regulations in Saudi Arabia:

Islam is the official religion of Saudi Arabia, and all aspects of life are based on Islamic teachings. Islam is the official religion of Saudi Arabia, and all aspects of life are based on Islamic teachings. Accounting and accounting policies in a country like Saudi Arabia are therefore influenced by Islamic Sharia law. According to Lewis (2001), Islam has a major role, based on the Sharia, in how business should be conducted, how accounting ought to be undertaken and how banking and finance should be organized. Table 7 Main variations between Islamic and Western accounting systems Characteristics Western Financial Accounting Systems Islam.

The first joint stock company, the Arab Automobile Company, was established in Saudi Arabia in 1943. By 1975, there were 17 public companies, but at this time, there were no regulations (Basheikh, 2002). This number increased rapidly during the economic boom of the 1970s, when many large corporations and joint venture banks were set up, but the market remained informal until the early 1980s, when the government began a rapid development programme. In 1983, the Saudi Arabian Monetary Agency (SAMA) was given the responsibility of regulating the market (Basheikh, 2002).

Table 7: Comparison between western and Islamic accounting system

Characteristics	Western Financial Accounting Systems	Islamic Corporate Report
Philosophical viewpoint	Economic rationalism	Unity of God
Principles	Secular	Religious
	Individualistic	Communal
	Profit maximization	Reasonable profit
	Survival of fittest	Equity
	Process	Environment
Criteria	Based on modern commercial law; permissive	Based on ethical law from Quran
	Limited disclosure	Full disclosure
	Personal accountability	Public accountability

(Source: Baydoun and Willett, 2000, p.82).

The Capital Market Authority (CMA) in Saudi Arabia was established on 16th June, 2003, in the wake of the Capital Market Law. The CMA's primary aim is to oversee and develop the capital market in Saudi Arabia. It is also able to issue regulations for investors in Saudi Arabia. Four Saudi academics were selected to work in the CMA. Their recent decisions include the division of each share into ten parts, with a limit of a 5% increase or decrease of the value of each share every day. Most investors in Saudi Arabia have accepted this (CMA, 2006).

The Saudi Arabian government has introduced several laws and regulations to respond to the changing requirements of Saudi society. Among these laws, those which concern accounting include the Income Tax and Zakat Law, the Companies Law, the Law of Certified Accountants, and the Foreign Investment Law The Saudi government formed the Saudi Organization for Certified Public Accountants (SOCPA) in 1992 to serve and organize accounting needs.

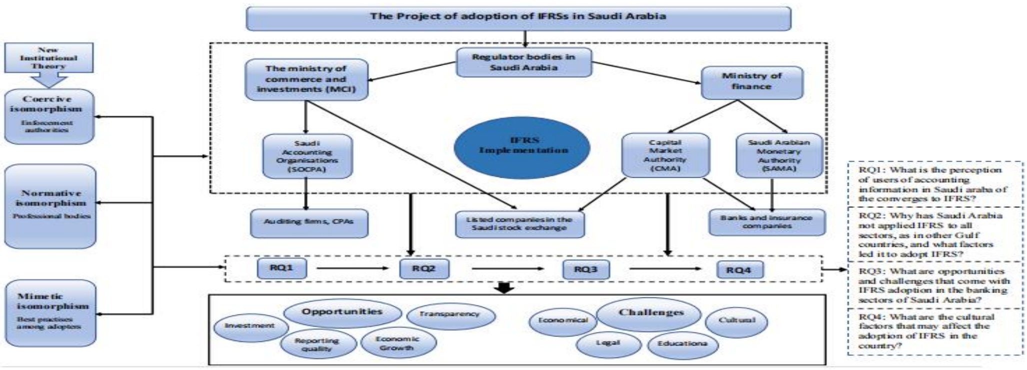
The Companies Law, first issued by the Saudi Ministry of Commerce in 1965, is generally held to be the main authoritative reference for the accounting profession. It was amended in 1982, and again in 1992 (Al-Rumaihi, 1997; Al-Mogbel, 2003). The Companies Law recognizes eight types of business organizations: General Partnerships; Limited Partnerships; Partnerships Limited by Shares; Limited Liability Companies; Joint Ventures; Joint Stock Companies; Variable Capital Companies; and Cooperative Companies. The Companies Law thus contains a legal basis for the accounting profession (Ministry of Commerce, Companies Law).There are 234 articles in the Companies Law. These concern formation, registration processes, partners and directors, etc., but there are in fact few guidelines on accounting and auditing regulations (Ministry of Commerce, 2007). For instance, Article 120 states that a company's board of directors must issue a statement at the end of every financial year.

In 1974, the Accountants Law, comprising thirty-five articles, was introduced by Royal Decree No. 43 (SOCPA, 2007). These articles contained the specifications and requirements for external auditors to be registered as licensed public accountants. Article 14 contained a declaration of the establishment of a committee to be called the 'High Committee of Accounting', which would work with the Ministry of Commerce in a consultative role. The main functions of the Committee were laid out in Article 16, these being to offer advice and suggestions for methods of developing accountancy in Saudi Arabia (Alkhtani, S. S. ,2010).

2-Conceptual Framework accounting system :

The literature (Irvine, 2008; Albu et al., 2011; Ibrahim, Stanton and Rodrigs, 2014; Lasmin, 2011; Hassan, 2008; Nurunnabi, 2015) illustrates how external pressure from the World Bank, the IMF and the Big Four accounting firms influences developing countries to adopt IFRS, and how adoption is challenged by internal factors such as the legal system, government regulations and cultural factors. All of these conflicts between external and internal forces could impact the adoption of IFRS in Saudi Arabia. Furthermore, the decision to implement full adoption by 2017 may have been useful to SOCPA in reshaping Saudi Arabia’s accounting system in the long term as relevant and comprehensive annual reports could help the Saudi economy. According to SOCPA’s 2017 annual report, the rationale that underpins a full adoption of IFRS in Saudi Arabia is to achieve the Saudi Vison 2030(SOCPA, 2017). Figure1 below identifies the challenges (economic, legal, educational and cultural) that face Saudi Arabia on its path towards adoption and the benefits (higher-quality financial reporting, increased capital investment, improved transparency and economic growth) that it could bring. Taken in isolation, the opportunities outweigh the challenges of IFRS adoption. But the pull-push of internal and external forces in Saudi Arabia has led to adoption being delayed in comparison to other GCC states such as the UAE. The fact that there are several regulators in Saudi Arabia (e.g. SAMA, CMA and SOCPA) makes it difficult to say precisely who is responsible for monitoring and enforcing reporting standards(Almansour, M. S.;2019).

Figure 10 : The project of adoption IFRS in Saoudi Arabia



Source: Almansour, M. S. (2019). Challenges and opportunities from adopting IFRS in Saudi Arabia: the case of the banking sector. Nottingham Trent University (United Kingdom).

3- IFRS Adoption in Saudi Arabia:

The role of the accounting in the Persian Gulf states including Saudi Arabia (SA) has received relatively little attention, despite being among developing economies experiencing high economic, as well as international business links and direct international investments up to early 1990s. The Ministry of Commerce as the major role player in SA issued the first two national accounting standards in SA in 1986, which became effective in 1990. These standards are (1) Objectives and Concepts of Financial Accounting; and (2) General Presentation and Disclosure Standard. Two years later in 1992, the Saudi Organization for Certified Public Accountants (SOCPA) was established (Halbouni, 2006). The establishment of SOCPA is deemed as a remarkable milestone in the history of the profession not only due to its recognition as an authorized quasi-independent professional institution but also reflects the fundamental shift in the profession's regulatory system from the government to a closer self-regulatory form (Roszaini and Hudaib, 2007)

The Accounting Standards Committee of SOCPA conducted a comprehensive study on previously issued standards, which included the objectives and concepts of financial accounting and presentation and general disclosure standard. It also decided which items are considered important to be covered by accounting standards, and started to revise prior standards as well as preparing some more standards during years 1996 to 1999. The committee studied enquiries received and issued relevant interpretations and opinions. Table 8 includes issued standards(BARZEGARI, K. J. ,2011).

Table 8: list of issued standards until 1999 in Saudi Arabia

Table 1: List of issued standards till 1999

Standard No.	Standard	Date of Issue
1	Presentation and general disclosure	1990 updated 1996
2	Foreign currency	1997
3	Inventory	1997
4	Related parties' transactions	1997
5	Consolidation and mergers	1997
6	Revenue recognition	1998
7	General and administrative expenses and sale and distribution expenses.	1998
8	Research and development expenses	1998
9	Investment in equity securities	1998
10	Interim reports	1999
11	Zakat and income tax	1999

Source; Saudi Organization for Certified Public Accountants (SOCPA) website

Today, all companies in Saudi Arabia are required to use accounting standards as issued by the SOCPA. Prior to the establishment of SOCPA, due to the absence of local accounting standards, annual reports of Saudi Arabian companies followed diverse accounting practices, as neither the Companies Law nor the Income Tax and Zakat Regulations specify any particular accounting guidelines as to be followed. Accordingly, the accounting principles adopted by companies depended largely on the educational background and professional experience of their accountants (Al-Rehaily, 1992), resulting in a mixture of international standards, UK GAAP and US GAAP (Al-Rumaihi, 1997).

SOCPA was established under Royal Decree No. M12 in 1991, which authorized the new Certified Public Accountants Act granting the SOCPA the authority to review, develop and approve accounting and auditing standards (SOCPA, 2015). The establishment of the SOCPA, operating under the supervision of the Ministry of Commerce, was deemed as a remarkable milestone in the history of the profession not only because of its recognition as an authorized quasi-independent professional institution but also reflects the fundamental shift in the profession's regulatory system from the government to a closer self-regulatory form (Haniffa and Hudaib, 2007). The Ministry of Commerce and Industry and the Financial Market Authority are authorized to enforce a specific financial reporting framework.

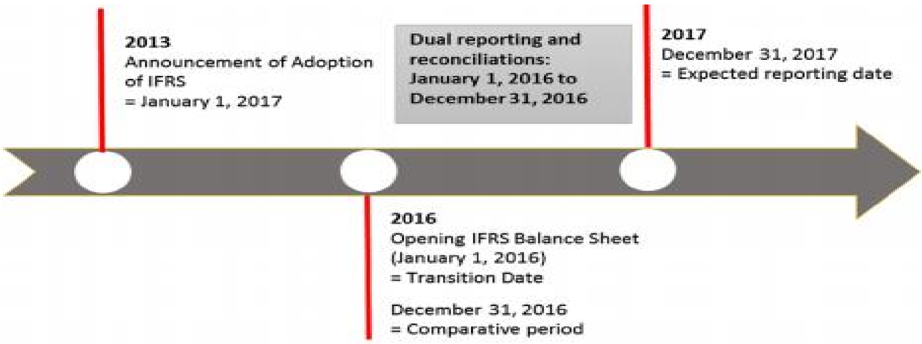
The Financial Market Authority has allowed banks and insurance companies to use IFRS Standards, as they are regulated by the Saudi Arabian Monetary Authority (SAMA-the Saudi Arabian central bank) and are already required to comply with IFRS. From 1997, SOCPA issued several standards on presentation and disclosure of accounting information. Additionally, Saudi listed firms were required to prepare their financial statements in accordance with US GAAP in the absence of a local standard. However, in the wake of such accounting scandals as Enron and WorldCom and recognizing the need to participate in the opportunities offered by globalization, on May 25, 2002, SOCPA's board of directors revised its decision on the use of US GAAP. The board of directors issued resolution number 5/2/1 requiring the use of IFRS for topics not covered by local standards or professional opinions issued by SOCPA (Oraby, 2017).

The IFRS Convergence Plan called “SOCPA Project for Transition to International Accounting and Auditing Standards” started in 2012, to assure their suitability to the Saudi environment through SOCPA’s independent standard-setting process. In 2016, SOCPA adopted all of the IFRS Standards (including Interpretations) based on the IFRS 2017 **Red Book**, without amending any requirements in those Standards. However, SOCPA did add disclosure requirements to several standards, mainly to reflect Sharīʿah or local law. SOCPA has also endorsed the recent IFRS Standards including IFRS 9, IFRS 15 and IFRS 16, encouraging early adoption (IFRS Foundation, 2017). In 2014, the IASB issued IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which became effective from January 1, 2018, and IFRS 16 Leases, issued in 2016 and effective from January 1, 2019, all of them with early adoption permitted.

In addition, SOCPA has adopted the 2015 version of the IFRS for small and medium-sized entities (SMEs) Standard. The only modifications made by SOCPA were to add some disclosures, mainly to reflect Sharīʿah or local law. SOCPA adopted the IFRS for SMEs Standard to be effective in 2018 for use by all non-publicly accountable entities. SMEs that are part of a listed group are permitted to elect early adoption in 2017 (Nurunnabi, M., et al, 2020).

The decision to move toward convergence with IFRS standards in Saudi Arabia was agreed by the SOCPA Board in February 2012. Its transition plan, SOCPA Project for Transition to International Accounting and Auditing Standards, aims to achieve convergence with IFRS by 2017. The SOCPA’s stated goal for the project is to make a transition toward IFRS standards after assuring their suitability to the Saudi environment through SOCPA’s independent standard-setting process (SOCPA 2015).Fig. 11 IFRS adoption in Saudi Arabia: convergence timeline.

Figure 11: IFRS adoption in Saudi Arabia: convergence timeline



The names and the order of the financial statements differ between Saudi GAAP and IFRS (see Table 2). For instance, under Saudi GAAP, there is only one income(Nurunnabi, M.,2017).

Table 9: SOCPA IFRS transition

Table 1 SOCPA IFRS transition: thematic groups

Group	Standards	Year of review
Group 1	Presentation of financial statements	
	IAS 1 Presentation of Financial Statements	1
	IAS 7 Statement of Cash Flows	1
	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1
	IAS 10 Events after the Reporting Period	1
	IAS 24 Related Party Disclosures	1
	IAS 33 Earnings Per Share	1
	IAS 34 Interim Financial Reporting	1
	IFRIC 10—Interim Financial Reporting and Impairment	1
	IFRS 8 Operating Segments	1
	IFRIC 17—Distributions of Non-cash Assets	1
Group 2	Employee benefits	
	IAS 19 Employee Benefits	2
	IAS 26 Accounting and Reporting by Retirement Benefit Plans	2
	IFRS 2 Share-based Payment	2
	IFRIC 14—IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	2
Group 3	Non-current assets—I	
	IAS 2 Inventories	2
	IAS 16 Property, Plant and Equipment	2
	IAS 23 Borrowing Costs	2
	IAS 38 Intangible Assets	2
	SIC 32—Intangible Assets—Web Site Costs	2
Group 4	Group accounts	
	IAS 27 Separate Financial Statements (revised)	2
	IAS 28 Investments in Associates (revised)	2
	IFRS 10 Consolidated Financial Statements	2
	IFRS 11 Joint Arrangements	2
	IFRS 12 Disclosure of Interests in Other Entities	2
	IFRS 3 Business Combinations	2
Group 5	Non-current assets—II	
	IAS 40 Investment Property	3
	IAS 36 Impairment of Assets	3
	IAS 41 Agriculture	3
	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	3
	IFRS 13 Fair Value Measurement	3
Group 6	Revenue recognition	
	IAS 11 Construction Contracts	3
	IAS 18 Revenue	3
	IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	3
	IFRIC 13—Customer Loyalty Programs	3
	IFRIC 15—Agreements for the Construction of Real Estate	3
	IFRIC 18—Transfers of Assets from Customers	3
	SIC 10—Government Assistance—No Specific Relation to Operating Activities	3
	SIC 31—Revenue—Barter Transactions Involving Advertising Services	3

Table 1 continued

Group	Standards	Year of review
Group 7	Leasing	
	IAS 17 Leases	4
	IFRIC 4—Determining whether an Arrangement Contains a Lease	4
	IFRIC 12—Service Concession Arrangements	4
	SIC 15—Operating Leases—Incentives	4
	SIC 27—Evaluating the Substance of Transactions Involving the Legal Form of a Lease	4
	SIC 29—Disclosure—Service Concession Arrangements	4
Group 8	Financial instruments	
	IAS 32 Financial Instruments: Presentation	4
	IFRS 7 Financial Instruments: Disclosures	4
	IFRS 9 Financial Instruments	4
	IFRIC 2—Members' Shares in Co-operative Entities and Similar Instruments	4
	IFRIC 19—Extinguishing Financial Liabilities with Equity Instruments	4
	IFRIC 16—Hedges of a Net Investment in a Foreign Operation	4
Group 9	Foreign currency	
	IAS 21 The Effects of Changes in Foreign Exchange Rates	5
	IAS 29 Financial Reporting in Hyperinflationary Economies	5
	IFRIC 7—Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	5
Group 10	Income taxes	
	IAS 12 Income Taxes	5
	SIC 25—Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	5
Group 11	Provisions	
	IAS 37 Provisions, Contingent Liabilities and Contingent Assets	5
	IFRIC 1—Changes in Existing Decommissioning, Restoration and Similar Liabilities	5
	IFRIC 5—Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	5
	IFRIC 6—Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	5
Group 12	Insurance	
	IFRS 4 Insurance Contracts	5
Group 13	Mineral assets	
	IFRS 6 Exploration for and Evaluation of Mineral Assets	5
Group 14	First-time adoption	
	IFRS 1 First-time Adoption of IFRS	5

Table 2 Order of principal statements

Saudi accounting standards (Saudi GAAP)	IFRS [IAS 1.10]
Balance sheet	Statement of financial position (balance sheet)
Statement of income	Statement of profit or loss and other comprehensive income for the period (presented as a single statement, or by presenting the profit or loss section in a separate statement of profit or loss, immediately followed by a statement presenting comprehensive income beginning with profit or loss)
Statement of cash flows	Statement of changes in equity
Statement of changes in shareholders' equity	Statement of cash flows
Notes to the financial statements	Notes to the financial statements

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