ACCOUNTING SYSTEMS AND THEIR CONVERGENCES NOWADAYS

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Abstract:
The expansion of opportunities and the disappearance of country borders make the answering the question increasingly urgent that which country's or region's acts and customs as precedents the accounting created for measuring the economic performance should use in the future. The fact makes this question especially interesting that these acts and customs often differ from each other significantly even within a region. The objective of the study is to introduce the major accounting systems (US GAAP, EU directives, IFRS) and their supporting institutional background in a conception way with a special regard on compiling financial statements on the basis of IFRS. The accounts should include not only validity but the preciseness expected by both the owners and the creditors focusing on consistency, the usefulness, transparency and unambiguousness of the contained pieces of information. All these are especially important when a given enterprise or an enterprise-group represents itself in several countries or continents. The actuality of the topic is strengthened by the fact that more and more entities being interested even in abroad require to use a system based on internationally accepted standards as a basis when compiling annual accounts and consolidation for the sake of comparability.

Keywords: US GAAP, IFRS, EU directives, financial statements, accounting regulation

JEL classification: M41

Today the majority of companies carry out their activities in several countries, in this way they have to meet different requirements in cases. The following question arises: which country's regulation should the different entities of enterprises (branch, site, corporate seat) meet? Stakeholders are interested in the fact that what economic performance the whole company has reached together and what its capital, profit and financial conditions are. If the certain entities follow regulations of different legal authorities when compiling the accounts, the statements may be compared in a difficult way. Nowadays regarding the globalization the need for comparing statements has become increasingly urgent, which requires the harmonization of the regulations at different levels.
Systems of accounting striving for commonality and being outstanding from the aspects of their relevance and utilizations are the followings:

1. United States Generally Accepted Accounting Principles (US GAAP)
2. EU directives accepted by the member states of the European Union
3. Standards published by the International Accounting Standards Board (IASB), the so-called International Financial Reporting Standards (IFRS)

United States Generally Accepted Accounting Principles (US GAAP)

The US GAAP system though it is still of a great significance in the world shows a decreasing role regarding the tendency of the past years, but its system may be considered as the first prevailing, global sized accounting system used mainly in the USA. Independent experts worked it out for capital investors and owners without any state intervention. Its use is only compulsory for listed companies of New York Stock Exchange. It is an extremely regulated and strict system, which is taken as a precedent just like the legal system of the USA, which means that court decisions and judgments are determent (dr. Boros, 2013). Almost 10 years ago the systems of IFRS and the US GAAP fought spectacularly regarding the fact that the American Securities and Exchange Commission (SEC) did not accept IFRS as the replacing system of the US GAAP. They would have liked to think of it as a possible alternative. Their argument was legitimate from the aspect that the total capitalization of the two biggest European stock exchanges such as the Financial Times and Stock Exchange (FTSE) in London and the Deutscher Aktien IndeX (DAX) in Frankfurt do not exceed even the half of the capitalization of the New York Stock Exchange, on which basis the adaptation to the extremely significant volume even all over world was expected. The European counter-argument was naturally the fact that the reliability of the European accounting system is higher than that of the USA, on which basis an Enron-case would have never happened (Auditor Professional Extension Training, 2003).

EU directives accepted by the member states of the European Union

The accounting systems of the certain EU member states developed due to the EU law harmonization processes started in the 1970-ies. The following directives affected their national accounting acts:

- Directive 4th on Annual accounts of companies
- Directive 7th on Consolidated accounts
- Directive 8th on Qualifications of persons responsible for carrying out the statutory audits of the accounting documents

The Fourth Directive was accepted in 1978 with the aim of improving the comparability; furthermore, it was the first directive where the “real image” conception appeared. The objective of the Seventh Directive was the harmonization of making accounts in case of companies, as well as the fact that the company should reflect the financial and profit condition by the given calculation methods and exemption criteria as if it was a single enterprise. With its acceptance in 1983 it brought a relevant change to the certain member states as it made the construction of consolidated accounts compulsory everywhere. The Eighth Directive gave guidelines for the position, person, conflicts of interest, independency and qualification of the auditor by its acceptance in 1984 (Dr. Pál, 2010).
The essence of the concern account is the introduction of the joint capital, financial and profit conditions of enterprises of being independent from the legal aspect but affecting each other from the economic aspect, as if they operated as a single enterprise.
Table 1 shows the difficulties and the eventful journey of the law harmonization often lasting for decades. It means that the certain states joining the European Union could adapt the directives decided by the European Economic Community only after decades.

Table 1: Adaptation of Accounting Directives by the Member States of the European Union

Accession countries	Year of EU accession	Adapting 4th Directive	Adapting 7th Directive
Belgium	1957	1983	1990
The Netherlands	1957	1983	1988
France	1957	1983	1986
Germany	1957	1985	1985

Italy	1957	1991	1991
Denmark	1973	1981	1990
United Kingdom	1973	1981	1989
Ireland	1973	1986	1992
Greece	1981	1986	1990
Portugal	1986	1989	1991
Spain	1986	1989	1989
Finland	1995	1998	1998
Sweden	1995	1995	1995
Austria	1995	1996	1996

Source: Own editing on the basis of Pál, 2010

Though the directives provided the opportunity for the commonality, certain EU member states realized that there were still giant differences in the methods of compiling accounts, thus they aimed at approaching the international standards altogether with the countries where accession negotiations had already been under way. (Szabó, 2013)

Act C of 2000 on Accounting in harmony with the directives of the European Union was one of the most important steps of Hungary in the past in its pathway towards the international accounting standards.

This act was born four years before Hungary's EU accession, which was modified for several times, but at the time of the accession, it did not change significantly, though it was expected. (Ladó et al, 2013)

The Act determines accounting rules which are in harmony with the directives of the European Union regarding this legal field, and take the international accounting principles into consideration, as well as it refers to the official issue of the European Union and the 1606/2002/EC regulation (Act C of 2000).

The aim of the Regulation of the European Parliament and the Council of July 19 in 2002 is to accept and utilize the International Accounting Standards in the European Union, to unify the financial information of companies in order that the accounts should become transparent and comparable (1616/2002 EC Regulation). Though since 2005 it has been compulsory for every listed company to compile its account according to the IFRS, the certain member states may allow the use of the system.

Standards by the IASB, the System of IFRS

The International Accounting Standard Committee (IASC) was formed in 1973 and turned to International Accounting Standard Board (IASB) in 2001. Their aim was to compile the International Accounting Standards (IAS). It is interesting that contrary the fact that the great rival, the US GAAP registered as an accounting standard had been formed since the beginning of the 20th century, there were countries from the American continent among the IFRS founders such as the USA, Canada and Mexico altogether with 101 other countries of the world. The basic standards were developed and supervised by 1998, which were called IAS then IFRS since 2001. The EU accepted these standards and made a proposal for their utilization since 2005. As a result every listed company has to compile its aggregate annual account in harmony with the IAS. Mainly capital markets strived for the unification. The foundation of the IFRS has information on 173 countries where their standards are used in case of listed and over-the-counter companies.

Table 2: Relations of Certain Countries to the System of the IFRS

IFRS in relation to the given country	In case of listed companies	In case of over-the- counter companies
Licensed	24	32
Unlicensed	25	45
Compulsory for certain companies	10	34
Compulsory for every company	94	27
There is no stock exchange	*20*	*X*
No information available	*X*	*35*
Total	**173**	**173**

Source: Own editing on the basis of IASPlus.com, 2013

The following aspects were focused on when the IFRS were compiled:

- Developing a standard package which is acknowledged and used all over the world, easy to understand, based on clear frame principles and shows high standard
- Taking needs of ambitious companies as well as small and medium-sized enterprises into consideration
- Advertizing IFRS as the standards and the interpretations of IASB and establishing the opportunity to take them over
- Taking more economic logic and different firm sizes into consideration

The Framework of IFRS is similar to the accounting principles set in the Hungarian Accounting Act; however, this Framework does not reflect such a strict regulation than the Hungarian regulation.

The Framework contains guidelines of conceptual type just like the certain recommendations, reports and institutional guidelines of the EU in the law harmonization processes. The aim in every case is that it should help in the work of legislative bodies of member states and in interpreting for the users of the standards. It is worth mentioning that the American Securities Exchange Commission accepts the aggregated (consolidated) accounts from companies listed in the USA compiled according to the IFRS instead of the US GAAP; furthermore, the American auditors may audit accounts compiled according to IFRS (Dr. Pál, 2010). The main difference between the two systems is the fact that while IFRS prefers the interests of creditor; the US GAAP concentrates on the interests of owners and capital investors. IFRS uses theoretical approaches and lets experts decide and make judges, the US GAAP concentrates on cases and focuses on details. The common point of the systems is the fact that according to the founders of the standards their own system is better (MKVK, 2003).

Characteristics of the Anglo-Saxon and the Continental Accounting Systems

The diversification of the accounting systems in our present world is represented in the following Table.

Table 3: Differences Between Accounting Systems

Anglo-Saxon model	Continental European model
Financing: capital market	Financing: bank credits
Unwritten law	Written law
Strong capital market	Weak capital market
Strong trade organizations of great independence	Weak trade organizations of smaller independence
Investor view	Creditor view
Transparency	Discretion, secrecy
The financial account and tax regulations differ	The financial account and tax regulations are harmonized
True and fair	Legal and fair
Principle of faithfulness	Principle of conservatism
Depreciation during useful life	Depreciation on the basis of tax rules
No legal creation of provisions	Legal creation of provisions
Narrower provision	Greater provision
No hidden reserves	There are hidden reserves
Opportunity for capitalization of development costs	Accounting for development costs as costs
Percentage of completion method of long term contracts	Completeness method of long term contracts

Source: Own editing, 2014

A Few Fields of the Harmonization of Accounting Statements on the Basis of IFRS

The aim of the harmonization of certain accounting systems is to provide useful information for stakeholders, to compile general statements which may be interpreted in the same way. The next figure illustrates its elements.

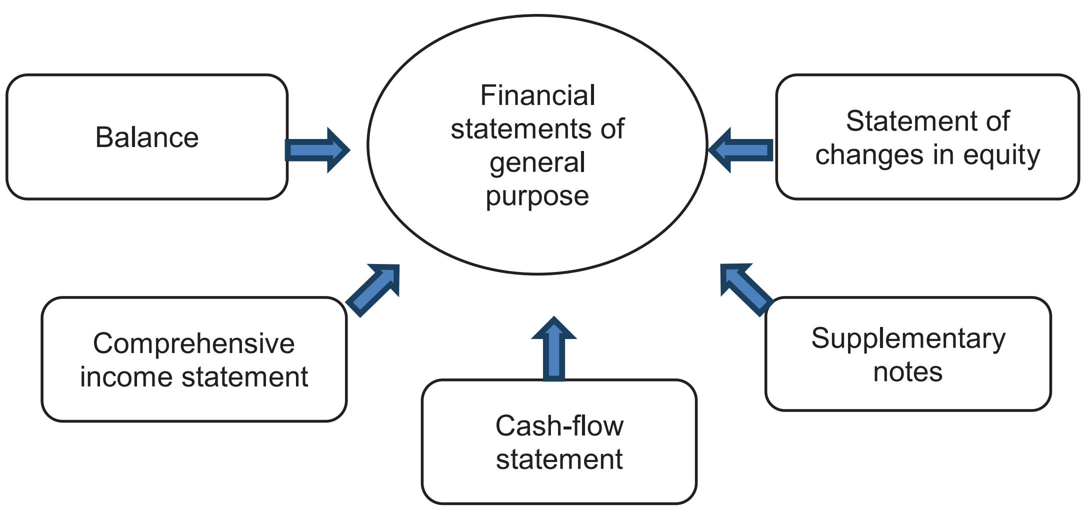

Figure 1: The Elements of Financial Statements of General Purposes
Source: Lakatos et al., 2013

The statement above is the results of compiling a financial statement of general purposes. Besides financial statements entities report accounting information of general purposes, such as overviews. On the basis of the Framework the financial statements of general purposes compiled for external users are just subsets of the accounting. The standard creators take the capital insurers to be the stakeholders to whom the financial statements are compiled, at the same time they have to be compiled from the aspect of the entity. The Framework gives a broader interpretation on the capital insurers: they include owners and creditors interpreted in a broader way (lenders, suppliers, potential investors in the future etc.)
It is doubtless that further data requirements and stakeholders may be interpreted; however, the statements compiled for primary users may be useful for these groups as well. For example the data requirement of the management may be satisfied by the statements of general purposes; however, any important pieces of information relating to the entity are available for this group thus it is not necessary to help them through regulation.

When compiling the IFRS the financial statements of general purposes of profit-oriented enterprises were concentrated.

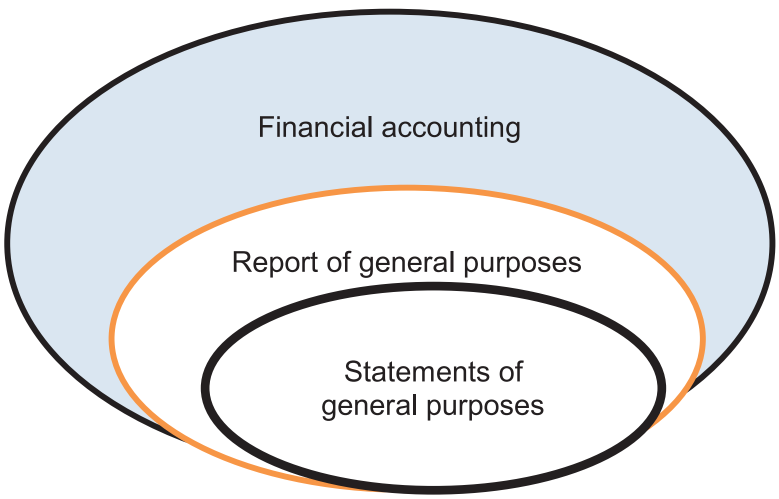

Figure 2: The Border of the Framework in the Set of the Accounting
Source:Lakatos et al, 2013…

Conclusions

In harmonizing with the accounting regulation Hungary has walked a long way in order that it should meet the requirements and regulations of both the national and international stakeholders. The technical development has brought the opportunity of the acceleration of accounting and making it more precise. The continuous calculation of time value of money and other assets, evaluating it to valid values, making estimates were unimaginable earlier in enterprises without computer techniques and other achievements of the modern age. (Molnár, 2013)

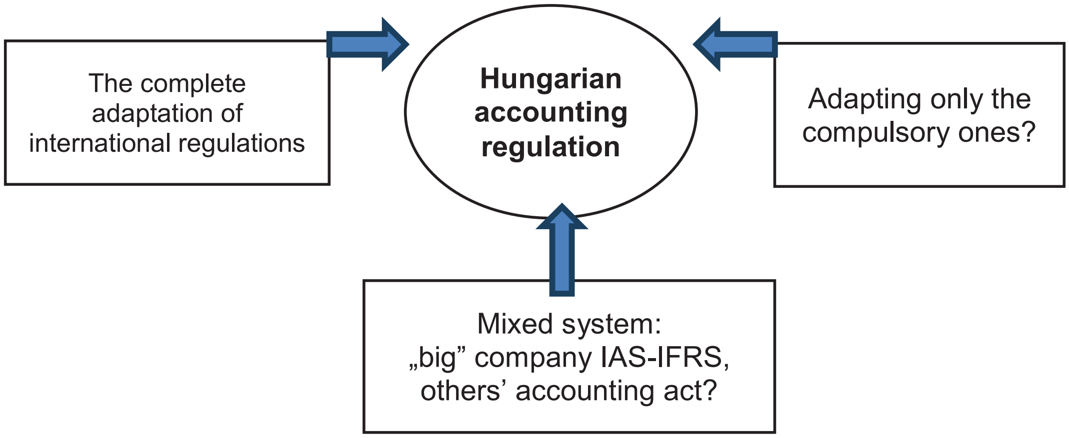

Figure 3: The Possible Future of the National Standards
Source: Own editing on the basis of Mészáros, 2013; Molnár 2013.

Figure 3 demonstrates the opportunities that what ways a national regulation being similar to the Hungarian one may choose during its own development. Those who are for fully harmonization say that this model is the most suitable one for ensuring the comparability; furthermore surplus costs will not occur for international enterprises during the consolidation. It is doubtful, however, that to what rate this model is suitable for expanding it for smaller, national enterprises, as they are interested in allowing the release of the detailed account. Only the national regulation is not a sustainable way in the world of the globalization naturally, which problem may be solved by introducing the national standards as trading principles ensuring a middle way. The question is that what weight and internal ratio the certain types of regulations should represent in the case of the different views.

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