

Microeconomics

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**HISTORY OF ORIGINS
AND DEVELOPMENT OF SYSTEM
OF INTERNATIONAL ACCOUNTING**

Abstract

This article considers evolution of the international system of accounting and suggests that it can be viewed in three stages covering the period from the end of XIX century until present day. Each of the stages is categorized according to its specific characteristics, and reasons for creation and further development of international accounting system are established.

Key words:

International system of accounting, international accounting standards, history, evolution, convergence.

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Introduction. Creation of international system of accounting was an objective process that was influenced by global economic development and was tightly connected to development of accounting as a science; formalization of theories of accounting and establishment of different schools of accounting and evolution of the entire economic profession. International system of accounting was envisioned as a solution to the problem of incompatibility of economic information across countries, economic entities and users of such information who are tasked with economic decision-making. Accounting, as the international language of business, should insure that information that is formed both on the level of individual business entities and economy as a whole is understandable, correct, sufficient and compatible.

Historical aspects of development of accounting have been studied extensively by many academic researches such as Butynets F. F., Dankiv J. Y., Druzhilovska T. Y., Luchko M. R., Mnyh E. V., Mizikovski Y. A., Ostap'yuk M. J., Paliy V. F., Pushkar M. S., Sokolov Y. V., Tkach V. I., Tkach M. V., Shvets V. G., Shturmina O. S., Ahmad S., Basoglu B., Goma A., Douppnik T., Mueller G., Perera H., Flasher D. to name a few. However, development of the international system of accounting has not been considered in a holistic way that would emphasize various stages of development and consider distinct factors that influenced accounting at those stages.

History of system of international accounting: According to F. F. Butynets, a system of accounting is not just a collection of interconnected elements but also a system that is interconnected with an environment within which it exists (Butynets, 2002, p. 17). That's why when analyzing origins of international accounting, most researchers consider them within the context of the history of development of accounting. In particular, V. I. Tkach and M. V. Tkach consider five main stages of development: trade stage – until 1800, entrepreneurial stage – up to 1900, organizational stage – until 1950, optimization stage – between 1950 and 1975, and strategic stage – since 1975. Y. A. Mizikovski and T. Y. Druzhilovska consider six main stages: Old Age, Medieval Age, XV–XVIII century, XIX century, first half of XX century and second half of XX century (Myzykovskyy, 2006).

Subdividing history of accounting into these periods is justified by developments in production, accounting thought, accounting practice, and economic decision-making. If we consider the stages of development of accounting (according to classification proposed by V. I. Tkach and M. V. Tkach), international system of accounting was a part of the organizational stage of development which lasted until 1950s.

Right around the end of XIX and at the beginning of XX centuries, occurred a series of significant events which have contributed to development of international system of accounting.

At the end of XIX, beginning of XX centuries, several countries passed laws that created a legal accounting framework. At the same time, several professional accounting associations have been created which later had a significant impact on establishment of an international system of accounting. Such associations include Institute of Accountants in Edinburgh and Glasgow (created in 1853), Society of Accountants in Aberdeen (1867), Manchester Institute of Accountants (1887), Scottish Institute of Accountants (1880), American Association of Public Accountants (1887), Canadian Institute of Chartered Accountants (1902), London Association of Accountants (1904) etc.

In 1904 the first International Congress of Accountants took place in St. Louis, Missouri (USA). At the congress were represented not only American accountants but also accountants from England, Scotland, Netherlands and Canada. This congress can be considered as a first significant event in establishing an international system of accounting. The main issues discussed at the congress were consolidation of accounting profession, growth of world economy, development of auditing firms, establishment of standards for calculating corporate profits (Dennis, 2004). During the congress, participants considered which accounting services are necessary for end users and what needs to be done to satisfy the needs of the users of accounting information.

Even though at this congress international aspects of accounting were not addressed directly, it laid the groundwork for productive discussion in this area. This was evidenced by the next congress which took place in 1926 in Amsterdam, where 370 attendees represented 15 countries. The goal of the congress was to share knowledge, experiences and methodologies from different countries, to seek universal treatment of cost accounting that would be acceptable internationally. At this congress, materials were translated into English, French and German. Most questions raised at the congress were closely tied to global economic development and internationalization. At this congress there was even a proposal to create an international prize similar to Nobel Prize for advances in accounting (Ahmad, 1975, p. 78).

It was around this time when the first transnational corporation became reality. They were primarily focused on extraction of natural resources from colonial countries in Asia, Africa and Latin America and processing those resources at the facilities based in the colonizer countries (Poliakov, 2008, p. 46).

The next important milestone in development of international system of accounting according to V. F. Paliy, was a stock market crash of 1929 which led to subsequent global depression in developed countries. This crash exposed deficiencies in existing systems of accounting and financial reporting. There were deep differences in principles of financial reporting across countries and even

across companies within the same country. Reporting was not always perceived correctly by the users of accounting information. Information was not suitable for analysis of economic entities and led to erroneous and conflicting conclusions about business activities and financial conditions of companies (Paliy, 2008, p. 5). This point of view is also supported by O. S. Shturmina. She notes that it was the financial crisis in USA that led to creation of nationally recognized standards of accounting and reporting which were adopted by corporations whose stocks were traded on exchanges (Shturmina 2010, p. 12).

According to F. F. Butynets, at the beginning of XX century, it became clear that traditional accounting did not keep up with the needs of management in an increasingly competitive environment, rapidly changing technology and growing complexity of organization of production (Butynets, 2002, p. 23).

Therefore, the first stage of development of international system of accounting was marked by creation of a legal framework for accounting in some countries, establishment of professional accounting associations, rethinking of the role of accounting.

Interest in international system of accounting grew toward the end of 1950s due to the fact that following the end of World War II there was increasing global economic integration which also led to increase in capital flows, international trade and foreign direct investment. As noted by F. F. Butynets, since the middle of the XX century, due to expansion of international economic relationships, specialization and cooperation of production, creation of transnational corporations, the problem of incompatibility of accounting and auditing standards became of paramount importance (Butynets, 1999, p. 527).

During this time, Europe started its movement toward unification. In 1951, European Coal and Steel Community (ECSC) was created, in 1957 European Economic Community (EEC) and European Atomic Energy community are established (Euratom), and in 1960 European Free Trade Association is formed.

During the 1960s, there was period of international mergers and acquisitions, particularly between American and European companies. In April of 1963, Business Week carried out a study on new form of business organization which was named «Multinational Corporation». Such international trends strengthened the need for a meaningful comparison of financial reporting that originated in different countries (Zeff, 2012).

The middle of XX century could be considered the second stage of development of international system of accounting.

In 1962, under the aegis of American Institute of Certified Public Accountants (AICPA), the 8th International Congress of accountants took place in New York. The central issue in the discussions that took place was the impact of global economy on accounting. Many participants of the congress stressed the

urgency to make progress toward development of auditing and accounting practices as well as reporting standards on international level.

In the same year, AICPA established its own committee on international relations whose aim was to create programs for improving international cooperation between accountants of different countries and fostering exchange of information and ideas. In 1964 the committee published a survey of accounting standards of 25 countries (Professional Accounting in 25 Countries) that is considered to be the first attempt to research accounting, auditing and reporting standards on international level (Zeff, 2012).

An important step in development of international system of accounting took place in 1966 when Henry Benson, a senior partner at a British accounting firm Cooper Brothers & Co. (later Cooper and Lybrand and currently Price Waterhouse Coopers) who served at the time as a president of Institute of Chartered Accountants of England and Wales, visited United States and Canada. He and the presidents of AICPA and Canadian Institute of Chartered Accountants reached an agreement to create Accountants International Study Group (AISG) that would study accounting and audit in these countries.

AISG took shape in 1966–1967 when representatives of professional accounting associations from Canada, United Kingdom and United States joined forces in attempt to harmonize accounting and auditing practices and form a long-term strategy for creating a set of international accounting standards. AISG functioned for ten years and published twenty guidelines before ceasing its existence in 1977. Studies conducted by AISG further highlighted difference in accounting practices between these three countries and, naturally, lack of consistency in reporting standards on a global level.

In 1967, was published the first textbook on international accounting that was written by Gerhard G. Mueller. His biographer, Dale L. Flesher, considers Mueller to be the father of international accounting and claims that it was Mueller who, through his academic work, spurred development of international accounting as a research field, and his impact was felt in both among theorists and practitioners. Muller was the first professor to offer international accounting as a field in a graduate school. He prompted development of research in international accounting in two directions: first he focused on importance of differences among international accounting and their significance for accounting profession and businesses who take part in international trade; second, he emphasized importance of learning about differences in how accounting is taught in different educational institutions (Flesher et al., 2010).

In 1972, at the 10th International Congress of Accountants in Sidney, representatives of AISG met to discuss a proposal to create an International Accounting Standards Committee (IASC). The committee was formed in London in 1973 with participants from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, Great Britain, Ireland and United States. This entity was an inde-

pendent, non-profit, non-government organization aimed at developing unity in accounting standards that would be used all over the world. Henry Benson was elected as the first chairman of IASC. A unique feature of this committee was that it was created by professional associations directly involved in accounting rather than governments of respective countries. A year later, representatives of Belgium, India, Israel, New Zealand, Pakistan and Zimbabwe joined association as associate members. The first IASC standard about transparency of accounting policy was issued in January of 1975.

On October 7th, 1977, at the 11th International Congress of Accountants in Munich, the International Federation of Accountants was founded. This organization was created with the aim of strengthening of accounting profession in the world in the interest of society. The organization was responsible for creation of high-quality international standards of auditing and accounting of private and government sector, development and implementation of ethics and education for professional accountants, fostering cooperation among members and with other international organizations, serving as international representative of accounting profession.

Thus, an important event in the second stage of development of international system of accounting was creation of two organizations: International Accounting Standards Committee and International Federation of Accountants. These two organizations had similar yet different goals: While IASC Was responsible for developing standards for accounting and reporting, IFAC functioned as a global organization of accounting profession and dealt with problems of accounting and audit.

Following creation of these two organizations, development of international accounting was focused on development of international standards and their gradual implementation marked by further recognition of IASC and IFAC as the primary global institutions of account professions that were in close cooperation with other leading global organizations.

In 1980, several major multinational corporations expressed their support of IASC. In particular, General Motors, Exxon and FMC stated that their annual reporting largely follows International Accounting Standards (Zeff, 2012, p. 813).

In 1981, IASC Consultative Group was formed and it included representatives from the World Bank, United Nations, Organization for Economics Cooperation and Development and other members of world community. In 1987 International Organization of Securities Commissions joined the group, and in 1990 European Commission and Council of Financial Accounting Standards Board (USA) joined in observer status.

From 2000, International Organization of Securities Commissions recommended using IAS by transnational corporations and on the world financial markets. Developing countries used IAS as a basis for developing their own account-

ing standards. Lebanon and Zimbabwe, for example, legally required international standards to be used by banks and publically traded companies. Developed countries such as Belgium, France, Italy and Germany also passed laws allowing publically traded companies to present their consolidated financial statements using IAS without resorting to domestic accounting standards. At the end of 1990s, IAS were approved by G7 countries (USA, Japan, Germany, Great Britain, France, Italy and Canada), Basel committee on Banking supervision and Bank for International Settlements (Veron and Nikolas, 2007, p. 11).

By 2000, 143 professional accounting organizations from 104 countries joined IASC and membership of IFAC grew from 63 founding organizations from 51 countries to 173 full and associate members from 129 countries and jurisdictions (IFAC History).

From 1973 to 2003, IASC issued 41 standards under the common name International Accounting Standards as well as a Conceptual Framework.

In the first years of its existence, IASC focused its efforts on creation of international accounting standards. However, their implementation had little success because most major developed nations continued to use their own accounting standards, commonly known as Generally Accepted Accounting Principles. Although members of IASC pledged to cooperate with and facilitated the development of IAS, at the end of the day they did not treat these standards as their nationally accepted standards. The reasons for the lack of support for IAS have been studied extensively. For example, Basoglu and Goma note that a) international accounting standards were not sufficiently complete b) international accounting standards were excessively flexible. The standards allowed for too many alternative calculations and interpretations and that was unacceptable for accounting practitioners in most countries (Basoglu and Goma, 2002).

Douplik and Pererra pointed out the IASC activities were perceived as lacking legitimacy: There was inadequate support for its founders; IASC was not sufficiently independent; some committee members were believed to lack required expertise (Douplik and Perera, 2007, p. 26–142).

After careful consideration, in 2000 IASC changed its name to International Accounting Standards Board (IASB) and the standards developed by this entity were also given a new name after 2001 – International Financial Reporting Standards (IFRS). This name change came with a fundamental change in the structure of the organization as well as its mission: Instead of striving for harmonization of accounting standards, the goal was stated as «convergence» of national accounting standards with international standards of financial reporting.

Therefore, at the turn of XXI century, efforts to harmonize accounting systems across the world morphed into a broader concept of «international convergence».

In 2002, European Union legislated the use of IFRS for financial reporting by publically traded companies starting in 2005. At the same time, EU decided to use its own «European» version of IFRS whose standards have been approved by the European Commission. IFRS and their interpretations that were accepted by EU were made available in all official languages of EU and are published in an official journal of EU. This decision to make IFRS the official standards influenced their further proliferation into more countries. According to Veron Nicholas, gradual modification of national standards of accounting and their gradual convergence with IFRS, namely in developed countries, would have been unlikely to occur if it wasn't for adoption of IFRS by EU (Veron and Nicolas, 2007, p. 16).

Almost simultaneously with EU's decision, Financial Reporting Council (FRC) of Australia announced its acceptance of IFRS by January 1 2005.

In December of 2002, Financial Accounting Standards Board (USA) and IASB conducted a joint meeting in Norfolk, Connecticut (USA) and pledged future cooperation in moving IFRS and GAAP toward a common set of standards. Representatives of FASB recognized the need for high-quality international accounting standards to be used for financial reporting by multinational corporations (IFAC History). Taking into account the fact that GDP of USA is more than 20% of the world GDP, support for such standards would have a substantial impact on the success of their implementation.

Therefore, starting in 2000, international system of accounting receives global support and spreads into many countries all over the globe.

Today, according to information published by IASB and Deloitte and Touche Tohmatsu Limited, implementation of IFRS can be described as follows:

Table 1

Implementation of IFRS in the world

Requirement for Using IFRS	Number of countries	
	Listed companies	Unlisted companies
IFRS not allowed	24	32
IFRS allowed	25	45
IFRS required for some companies	11	34
IFRS required for all companies	92	27
No stock exchange	21	–
No information	–	35
Total	173	173

Source: 12.

It should be noted that it could be hard to gauge true level of proliferation of IFRS, partly due to conflicting or absent information. When analyzing information from 173 countries, Deloitte and Touche noted that some countries that use their own accounting standards still state that their standards are either based on, comparable to or even correspond to IFRS. In addition to that, there are substantial differences in terminology, classification of accepted standards, the deadline for their adoption. Sometimes IFRS are adopted only partially. Therefore, IFRS is used «as is» probably in even fewer countries (Use of IFRS by jurisdiction).

Summarizing information presented above, we note that today IFRS is either permitted or required for either full or partial use by publically traded companies in 128 countries in the world and by unlisted companies in 106 countries. Such widespread use of IFRS demonstrated global acceptance of international system of accounting.

Conclusion: This paper identifies three major stages of development of international system of accounting.

First stage: From the end of XIX century/beginning of XX century until the middle of XX century. This stage is characterized by inception of the idea of having an internationally accepted set of accounting standards, adoption of legislation in various countries codifying their accounting principles, emergence of professional accounting associations, rethinking of the role of accounting in the system of management, and internationalization of information exchange among accounting professionals.

Second stage: From the middle of the XX century until the end of XX century, international system of accounting begins to take shape. During this period appear first international accounting standards, and the process of harmonization of accounting systems across countries begins. Two international bodies – IASC and IFA are formed, and their activity is gradually recognized and supported by major international institutions.

Third stage: From the end of XXs century, until present day, the efforts to harmonize accounting systems evolved into a broader concept of «international convergence». International accounting standards are official accepted in many countries and a larger portion of global economy moves toward using IFRS. International system of accounting moves toward becoming a global system of accounting.

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