RESEARCH ON THE INTERNATIONAL ACCOUNTING HARMONIZATION PROCESS

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Abstract: During the last decades, the need of harmonization of the financial reporting frameworks has become more acute, mostly because the capital markets are not restricted anymore by country borders and capital movement has outlined the phenomenon of globalization and internationalism. A significant step in harmonizing the financial reporting was done in the process of normalization through different sets of rules and principles, recognized and applied in many states are the International Financial Reporting Standards (IFRS). The process of international recognition of these standards continues along with conceptual development which is based on epistemological research on specific markets, industries, economies open to international capital flows. In this context it becomes of interest to identify and understand generally accepted and applied accounting elements which carry forward the accounting harmonization process along with factors and circumstances that create diversity in nationally applied financial reporting frameworks.

JEL classification: M41, M48

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1. INTRODUCTION

In the year 1970, the International Standards for Accounting Council (ISAC) issued the first base standards, which were very simple and without controversies, but were very general and concentrated more on transparency and visibility of the elements and less on measuring them (Clare R. et. al., 2005)[1]. Currently, preparing financial statements is performed by means of numerous concepts, principles and rules, some of which are included in laws and reporting standards, but some of the foundation concepts are not included in any rules and are accepted as simple principles. (ACCA, 2010)[2].

There are very few states with similar accounting systems, and mostly these are geographically close and with related histories, but in some other cases where the

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[1] Clare Roberts, Pauline Weetman, Paul Gordon (2005) *International Financial Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain, page 26

[2] ACCA (2010) *Financial Reporting International*, Berkshire, Publisher Emile Woolf Publishing Limited, Great Britain, page 21

geographical area is large and there is a lot of cultural diversity, the identified differences are more fundamental. Differences between two accounting systems can exist at all levels, from rules to active treatment practices, and up to differences regarding to the importance shown to accounting principles. (Clare R. et. al., 2005)[3].

The harmonizing and uniformity of financial reporting on a worldwide scale is seen as essential in order for them to present an image closer to reality. There are theories which consider that accounting as a profession would lose its credibility if the entities would be allowed to elaborate financial reports with very different results regarding the presentation of the same phenomenon, due to applying a much diversified accounting policy (Barry E. et al, 2011)[4] and sustaining the global harmonization process. Also, Alinyemi O in his 2012 study, expresses the fact that the entities which apply international standards have the advantage of attracting foreign capital.[5] However the development of national standards is considered a great advantage due to unexpected high flexibility in dealing with problems and needs of users. (CPA Australia, 2012)[6].

It is essential to mention the fact that language barriers can affect the content of the standards and that the values reported by entities which operate and report on the territories of more than one country do not present different financial results due to the accounting principles from the state in which they have their headquarters. (Clare R. et. al., 2005)[7]. There are also other elements which question the international standards not in their essence but their form, like the ideal number of standards, the ideal length of a standard, the generality of the standards and the multitude of issuers. (Barry E. et. al., 2011)[8]

ISAB does not have the power to force the appliance of the standards, they must obtain the acceptance of the standards by the states and their national authorities, so they are focused on their quality. (Clare. et. al. 2005)[9]

Considering the fact that there are 195 jurisdictions in the world and 119 have embraced the International Financial Reporting Standards[10] (IFRS), with mandatory or permitted appliance, we can realize the importance that these standards have for most types of entities in the process of harmonizing the financial reports on a worldwide scale, also these standards being the main element of the financial report harmonizing process inside the European Union.

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[3] Clare Roberts, Pauline Weetman, Paul Gordon (2005) *International Financial Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain, page 145

[4] Barry Elliott, Jamie Elliott (2011) *Financial Accounting and Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain page 104

[5] Alinyemi Olumide Akindele (2012) *The impact of international financial reporting standards adoption on financial statements the case of Nigeria*, VAASA University of applied sciences, Nigeria, page 74

[6] CPA Australia (2012) *Financial Accounting and Reporting*, Publisher BPP Learning Media Ltd, Australia page 32

[7] Clare Roberts, Pauline Weetman, Paul Gordon (2005) *International Financial Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain, page 7

[8] Barry Elliott, Jamie Elliott (2011) *Financial Accounting and Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain page 105

[9] Clare Roberts, Pauline Weetman, Paul Gordon (2005) *International Financial Reporting*, Harlow, Publisher FT Prentice Hall Financial Times, Great Britain, page 20

[10] International Financial Reporting Standards 2015, Publisher CECCAR, 2015

Analyzing the data offered by the International Accounting Standards Council regarding the appliance of International Financial Reporting Standards on a worldwide level, in the 2011-2016 period, we observed a growth in number of the states which make the appliance of the standards mandatory or permitted, mostly for the entities which are listed on the stock market.

2. METHODOLOGY

The purpose of documenting and critical analysis of the information regarding the applicable financial reporting frameworks, especially IFRS, was completed by a study based on the geographic area of their appliance, for the purpose of reaching the proposed objective regarding the international accounting harmonization process. We appealed to the selection of two types of major financial markets in the circuit of international capital flows: capital market and banking market.

To monitor the application of International Financial Reporting Standards (IFRS), and the evolution of this phenomenon, we conducted a comparative analysis of the existing situation in 2011 and 2016, considering it relevant to identify the differences regarding the applicability of IFRS standards on a 5 year range. We developed this research on two categories of entities from 162 jurisdictions of the 195 existing in the world, due to the fact that on a global scale, harmonizing the financial reporting of the entities which have financial reports of international interest is a priority. Also there were states which were not part of this study because their exact situation from this point of view hasn't been determined. To observe the International Financial Reporting Standards (IFRS) harmonizing level, applied with national accounting standards, we made a comparative analysis between aspects of convergence and divergence, detailing the study in particular on the divergence between IFRS and the reporting framework given by OMPF 1802/2014.[11]

3.1. HARMONIZING THE FINANCIAL REPORTING FOR ENTITIES WHICH ARE LISTED ON THE STOCK MARKET AND FINANCIAL ENTITIES

During the last decades, the economy evolved significantly and investors no longer circumspect in terms of investing their financial resources in entities from other countries. The listed entities are more open to IFRS and our conclusion is that this phenomenon is largely due to the global harmonization of financial reports and the fact that by releasing reports according to IFRS they have a larger chance to attract external investors.

In 2011, according to our research, 17 of the studied jurisdictions did not have a stock market, as it can be seen in Figure 1, these representing 12% of the total jurisdictions. The graphic representation in Figure 1 shows us that since those days the global harmonization was evolved, 57% of the total number of jurisdictions applying IFRS for the financial reports of the listed companies.

[11] The Official Gazette no. 963, 30th of December 2014

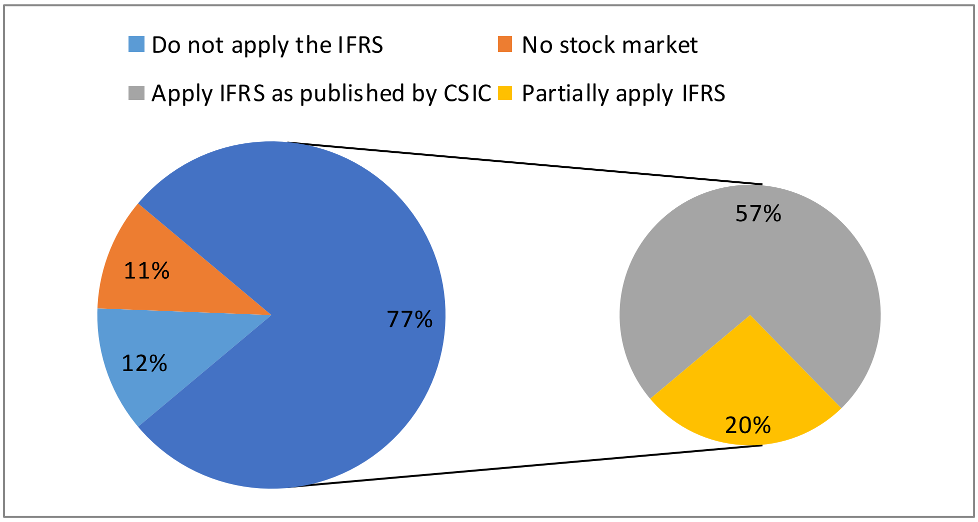

Figure no. 1 The situation of the harmonization of financial reports worldwide for entities which are listed on a stock market in 2011[12]

From the total of the researched jurisdictions, the ones who did not have a stock market system and did not publish information about entities who could have placed their stocks on an international market. Such cases are those of: Afghanistan, Angola, Belize, Gambia and others. Albania is in a similar situation because even if they have implemented a stock market, now it is inactive. This situation is illustrated in Figure 2 compared to the other situations concerning the process of harmonization, such as: applying IFRS as they are published in the International Accounting Standards Council, applying rules harmonized with IFRS and not applying standards referring to IFRS at all.

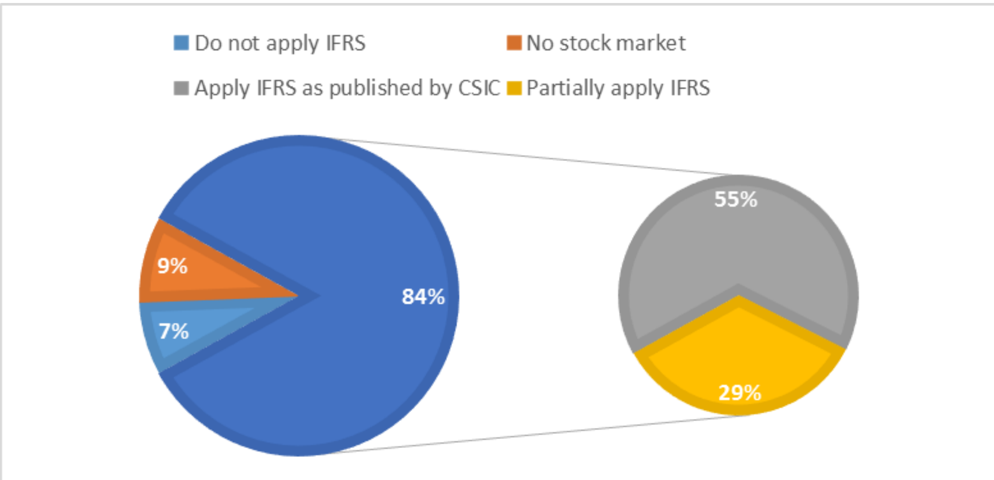

Figure no. 2. The situation of the harmonization of financial reports worldwide for entities which are listed on a stock market in 2016[13]

[12] Realized with information gathered and analyzed from: http://www.pwc.com/ -IFRS adoption by country, pages 1 - 258; and http://www.iasplus.com/ -IFRS Pocket 2011, pages 19-33

According to our analysis only 7% of the jurisdictions apply rules or national standards regarding financial reports, such as: Bolivia, Indonesia, Thailand, Vietnam, Egypt, Senegal, Niger, Ivory Coast and others. Even if inside these states IFRS is not applied, there are exceptions such as Bolivia which permits their foreign entities branches to use financial reporting according to IFRS supplementary to reports according to national standards. This state also has adopted a program to progressively adopt the international accounting standards. Indonesia for example has national accounting standards that are harmonized with the IFRS standards published at January the 1st of 2009, this jurisdiction took the engagement to update their internal standards so they will be at the same level as IFRS published on January the 1st 2014. (Paul Pacter, 2016)[14]. Thailand has harmonized their internal standards with IFRS published at January 1st 2009, such as Indonesia, but with some exceptions:

- IAS 4 Insurance contracts
- IAS 41 Agriculture
- IAS 32 Financial instruments – presentation and description
- IAS 39 Financial instruments – recognition and evaluation
- IFRS 7Financial instruments – given information
- IFRS 9 – Financial instruments. (Paul Pacter, 2016)[15]

Unlike the first two examples, Egypt's financial reporting standards are harmonized with the IFRS standards published in 2005, but the norms say that IFRS should be used if there are no internal rules to deal with a certain situation.

Currently, the most states applying IFRS as published by the International Accounting Standards Council are the states of the European Union.

There are cases such as Brazil which, even if they apply the IFRS standards as they were published by the International Accounting Standards Council, they have excluded parts of it, in this situation being the reevaluation of the tangible assets in IAS 38. Some states allow the application of both IFRS and the generally accepted accounting principles (GAAP), these states being included in the group of jurisdictions which partially apply IFRS. Turkey has brought modifications and additions to the standards: IAS 1, IAS 18, IAS 2, IAS 3, IAS 16, IAS 38, IAS 36, IAS 39, IAS 27 ȘI IAS 28.[16]

Making a comparative analysis of the situations in these two years (2011 and 2016) we can see a decrease of the percent of jurisdictions who apply IFRS, as published by the International Accounting Standards Council. This phenomenon is due to the fact that in the 5 year period, a number of jurisdiction who did not apply IFRS are now partially applying it. It must be also noted that there were jurisdictions which opened a stock market in this period of time, such as Aruba, Guatemala, Belarus and Greenland.

Starting from this year, the appliance of IFRS is mandatory for entities which are listed on the stock market, in all of the states of the European Union. A more visible

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[13] Realized with information gathered and analyzed from: http://www.ifrs.org/ - IFRS Guides 2016,pages 32-172

[14] Paul Pacter, (2016) *IFRS Guide: Global language for financial reports*, London, CSIC, Great Britain page 92

[15] Paul Pacter, (2016) *IFRS Guide: Global language for financial reports*, London, CSIC, Great Britain page 158

[16] Oğuzhan Bahadıra , Volkan Demira , Aslı Gül Öncel, (2016) *IFRS implementation in Turkey: benefits and challenges*, Accounting and Management Information Systems Vol. 15, No. 1, pp. 5-26

modification can be seen at banking entities, where in the analyzed time period 16 states have implemented the mandatory application of IFRS for these types of entities.

In the banking market, the jurisdictions where banking entities issue financial statements according to IFRS standards are more numerous compared to the listed entities case.

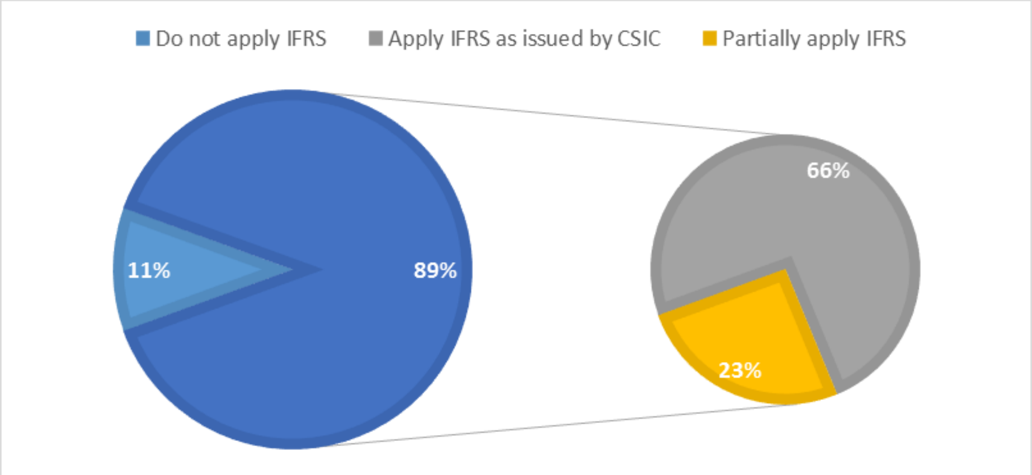

Figure No. 3. The Situation Of The Harmonization Of Financial Reports Worldwide For Banking Entities In 2016[17]

Among the states who do not apply IFRS for these types of entities there are Bolivia and Iran who made an engagement that by the end of 2018 will introduce accounting standards according to IFRS for banking entities. Same as in the previous case, there are states who have just partially harmonized the reporting system with IFRS, like Suriname for example, whose national accounting standards are partially harmonized with the IFRS standards published by International Accounting Standards Council in 2013. Colombia excludes use of the fair value option from the standard IAS 39 by the banking entities. (Paul Pacter, 2016)[18].

In the internal norms of financial reporting of El Salvador, even though they are harmonized with GAAP, it is specified that for differences between GAAP and IFRS, notes for the statement must be issued. In other jurisdictions which are in the same situation, the national accounting standards have a guide which present the differences between the two international standards to make it easier to interpret the financial reports. (Paul Pacter, 2016)[19].

Austria is currently the single country in the European Union, who makes distinction between banking entities who trade values on standardized markets, these being required to issue financial reports according to IFRS, and the ones who do not make such transactions, who can choose to issue financial reports according to IFRS or the national standards. We conclude that inside the European Union, IFRS is the main

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[17] Realized with information gathered and analyzed from: http://www.ifrs.org/ - IFRS Guides 2016,pages 32-172

[18] Paul Pacter, (2016) *IFRS Guide: Global language for financial reports*, London, CSIC, Great Britain page 62

[19] Paul Pacter, (2016) *IFRS Guide: Global language for financial reports*, London, CSIC, Great Britain pages 32-172

financial reporting framework, and even if there are national standards they are harmonized with IFRS. European directives and rules also work inside of the European Union.

In 2011, only 22 jurisdictions have been identified to certainly apply IFRS standards, 14 did not have any initiative regarding this matter, and 3 have issued national accounting standards according to IFRS for the financial reports of the banking entities. Due to the fact that information about the other 121 jurisdictions has not been found, the analysis are inconclusive.

3.2 HARMONIZING IFRS WITH THE FINANCIAL REPORTING FRAMEWORK IN ROMANIA

Due to Romania's membership to the European Union, it is among the jurisdictions who have harmonized their accounting standards to IFRS[20]. Nadina A. and Ioana P. (2016)[21] years sustain the evolution of the convergence between IFRS and the national standards with up to 80% compared to the year 2005 in their longitudinal study on a period of ten. Following our analysis we observed a high convergence between the two standards regarding all the considered aspects, but especially in the area of reporting events that are subsequent to the date of approval of the annual financial reports.

The comparative analysis of several aspects regarding the divergence between IFRS and the national accounting standards published in OMFP 1802/2014 is presented in Table 1, aspects presented as being relevant by Ernst&Young in the analysis of the worldwide harmonization of financial reporting standards. (Ernst&Young, 2015)[22].

Table 1. Divergences between IFRS and OMFP 1802/2014

	IFRS	OMFP 1802
Presenting the financial statements		
Balance Sheet and Profit and Loss Account	IFRS standards do not require standard aspects for presenting, but have a minimum necessary of elements which are to be presented in the balance sheet and the profit and loss account.	OMFP 1802 specifically requires standard aspects for the balance sheet in all its forms and all forms of the profit and loss account
Balance sheet – presenting current debts and long term debts	In case of long-term debts regarding which there has been committed a violation of the agreements must be presented as current debts, excepting the case when an agreement was made before the balance sheet date.	Long-term debts regarding which there has been committed a violation of the agreements must be presented as current debts, including the situation in which the creditor has agreed that before the date of the balance sheet, not to demand payment for the violation.[23]

[20] Dănescu Tatiana, Spătăcean Ovidiu, Mateiu (Man) Mihaela (2013) *Research on transition to IFRS investment firms*, Audit, Audit Financiar. Dec 2013, Vol. 11 Issue 108, pages 25-36, pag.12

[21] Nadina Albu, Ioana Pălărie, (2016) *Convergence of Romanian accounting regulations with IFRS. A longitudinal analysis* , Financial Audit, XIV, Nr. 6(138), pages 634-641

[22] Ernst& Young,(2015) *US GAAP versus IFRS* http://www.ey.com/publication/vwluassetsdld/ifrsbasics_bb3119_22december2015/$file/ifrsbasics_bb3119_22december2015.pdf?OpenElement

[23] OMFP 1802/2014, Art. 361 paragraph (1), Published in the Official Gazette no 963 at 30.12.2014

Profit and loss account and classifying expenses	Entities may present expenses classified by purpose or nature (ex salaries, depreciation). However, if the destination is selected criteria, some information about the nature of the costs are to be included in the notes.	The expense categories are classified by nature as they are mentioned in the norms[24]
	Consolidated financial statements	
Issuing the general consolidated financial statements	Necessary, although there are some exceptions such as whether the parent company is itself a subsidiary; if the parent entity is not listed.	Necessary if it exceeds at least two of the three size criteria: Total assets: 24,000,000€; Net turnover 48 million €; Average number of employees 250[25]
Consolidated financial statements - and different reporting periods of the parent company and its subsidiaries	The financial statements of a parent company and its subsidiaries are issued on the same date. If the parent company and its subsidiary have different dates for the end of the reporting period, the subsidiary prepares additional statements in order to consolidate at the same time as those of the parent company. If that is not possible, when the difference between the end dates of the reporting period of a parent company and the subsidiary is three months or less, the subsidiary's financial statements can be adjusted to reflect transactions and significant events, and it is not necessary to prepare additional statements at the reporting date of the parent entity.	The financial statements of a parent company and its subsidiaries are issued on the same date, but they can also be made at another date taking into account the balance sheet date for the most numerous or the most important of the entities included in the consolidation.[26]
	Segmented reporting	
Determining segments	All public interest entities determine segments based on the management approach, regardless of their organization form.	Large, medium and public interest entities determine segments and declare in financial statements notes the turnover for the segments.
Reporting segment debts	If the entities are the above presented type, segment debts are necessary to be reported.	The entities are not compelled to present segment debt elements.

Source: Comparative synthesis of the information obtained from bibliographic references[27]

[24] OMFP 1802/2014 Art. 132, Published in the Official Gazette no 963 at 30.12.2014
[25] OMFP 1802/2014 Art.12 paragraph (2) Published in the Official Gazette no 963 at 30.12.2014
[26] OMFP 1802/2014 Art.513 paragraph (2) Published in the Official Gazette no 963 at 30.12.2014
[27] Ernst& Young, *US GAAP versus IFRS* 2015 and OMFP 1802/2014 Published in the Official Gazette no 963 at 30.12.2014

The aspects which were analyzed in Table 1 differ, in a certain amount in the main international standards which regulate financial statements, from Romania's national standards, IFRS and OMFP 1802/2015 more precisely. Generally, the national accounting standards are convergent to IFRS, exceptions from this point of view exist also in the accounting standards of other states.

4. Conclusions

We conclude that the harmonization process is not uniform, some countries choose a gradual harmonization and with a big time gap between the moment of IFRS publication and the moment of adoption, others chose a partial harmonization of the IFRS excluding certain items.

One of the standards most avoided by the states which did not totally adopt IFRS is IAS 39 Financial Instruments, both regarding listed entities and banking entities. We also identified the exclusion of other IFRS elements such as IFRS 4 Insurance Contracts, IAS 41 Agriculture, IAS 32 Financial instruments – presentation and description, IAS 39 – recognition and evaluation, IFRS 7 Financial Instruments – Disclosures and IFRS 9 Financial Instruments.

A high convergence level is noticed regarding the harmonization of the accounting standards in Romania with the IFRS, some of the divergences that were found can be considered additions which bring a clearer image to the information from the financial statements and the performance, like for example the divergence regarding the standard aspects of the balance sheet form. There are also situations where the IFRS are taken up only partially as in the case of expense in the profit and loss account. Other differences, however, are polar opposites to the IFRS such as those seen in the presentation of current debt and long term debt in the balance sheet. In the analysis there were issues which were addressed in the IFRS more complex than in the OMPF 1802/2014 such as interim report statements.

Sustained efforts for the appliance of IFRS can be observed, regarding financial reports, but the convergence level is different, depending on the jurisdiction, based on certain economic, social and administrative elements which can accelerate or slow the convergence process. In Romania and in other European countries such as Czech Republic or Poland, the harmonization of the national standards with the IFRS was mostly made with exceptions which, in our opinion, are meant to protect certain interests of the national entities of these states.

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14. *** — IFRS adoption by country https://www.pwc.com/us/en/issues/ifrs-reporting/assets/ifrs_country_adoption.pdf

15. *** — IFRS Pocket 2011 http://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs