Chapter 3—Comparative Accounting

Some nations’ accounting rules are based on tradition and evolve over time. Other nations’ rules are legislated and are part of commercial law. Accounting rules tend to mirror a country’s economic environment and reflect a number of country-specific factors such as history, culture, language, and commercial practices. In effect, the environment in a given nation will affect the following accounting factors:

Setting Accounting Standards

Within each nation, an organization is given the authority to set national accounting standards. The organization can be part of the private, public, or government sector of the economy. Nations differ not only in how they set accounting rules but also in who sets them. There are four categories of approaches and organizations that set accounting rules in various countries:

United States
United Kingdom

The accounting profession in the UK has a long and distinguished history. The role of the independent auditor is said to have originated here. The first accounting society to be recognized by the Crown is the Society of Accountants in Edinburgh in 1867. The Institute of Chartered Accountants in England and Wales was formed in 1880.

In the UK, there are two sources of accounting rules. The first consists of the various Companies Acts, which are commercial legislation that cover a number of topics, some of which directly relate to the information content of financial statements. Although the acts deal mainly with financial issues such as the incorporation of the firm, its management, administration, and dissolution, they also contain provisions concerning the issuance of financial statements and the disclosure of financial information. The acts require that firms keep proper records and that its directors present an income statement and balance sheet to its shareholders within a specific time period after the end of the year. The financial statements must be accompanied by an audit opinion.
Accounting Profession

The main nonlegislative source of accounting rules comes from the committees of the professional accounting bodies. An important source of accounting rules in the UK had been the Statements of Standard Accounting Practice (SSAPs) issued by the UK's Accounting Standards Committee. The ASC was set up in 1970 by the Institute of Chartered Accountants in England and Wales. By 1976, the Institute was joined by the Scottish and Irish Institutes. The ASC did not possess the authority to issue new standards at will. The process for approval of new standards was not effective and a new standard-setting process was established. Accounting standards are now developed and issued by an independent Accounting Standards Board.

Significant Accounting Practices

France

Although it is a highly industrialized nation and its people enjoy a high standard of
living, it does not have as many large companies as do some other developed nations. France is essentially a country of small, closely held or family-owned firms. A fairly significant portion of the labor force is involved in agriculture.

Centralized economic planning has been an important feature of the French economy. Many sectors of the economy, including transportation, coal mining, utilities, and communications are owned by the state. The main forms of business organization are corporations—SA (Societe Anonyme) and private limited companies—SARL.

Legislative and Other Financial Reporting Requirements

There are four main requirements governing accounting and reporting practices in France: the Code of Commerce, the Companies Act of 1966 and the related Decree of 1967, the detailed accounting guide (Le Plan Comptable), and tax regulations.

The Code of Commerce contains bookkeeping regulations, including the requirement that a firm once a year close its books and prepare an income statement and a balance sheet.

The French have long recognized the desirability of standardization in the presentation of financial information. The Plan Comptable was first introduced in 1947. The Plan Comptable prescribes the form and content of financial statements. It also contains a uniform chart of accounts that specifies the classification of items to be included in the financial statements. In addition, the Plan Comptable includes an explanation of terminology, principles of valuation, and cost accounting methods.

Income tax legislation generally requires that book deductions from income and
tax deductions be the same. Tax law, therefore, has a direct effect on the content of financial statements and affects asset valuation and the determination of net income.

The French Accounting and Auditing Profession

There are two main professional accounting organizations in France, namely, the Ordre des Experts Comptables et des Comptables Agrées (whose main function is that of business advisor rather than independent auditor), and the Compagnie Nationale des Commissaires aux Comptes (which is responsible for official independent statutory audits). French law requires that stock corporations required to publish consolidated financial statements be audited by two independent auditors. The auditors are appointed for six years.

Selected Significant Accounting Practices

In France, accounting practices differ between statutory and consolidated financial statements. Practices for statutory financial statements are primarily driven by tax law while those for consolidated financial statements are intended to present financial information in accordance with international standards.

The Netherlands

The Netherlands is a small nation with a population of just over 15 million. International trade is extremely important to the Dutch economy. The Dutch government has actively followed a policy of fostering private enterprise. However, the government has participated in certain industries because of reluctance by the private sector to venture into these areas. These include the coal mining industry, transportation, and communications. Commercial banks are mainly responsible for granting credit to business.

The Dutch Accounting Profession

The Netherlands Institute of Accountants was established in 1895. Its founders
adopted British practices to suit Dutch conditions. The Registered Accountants Act united the various accounting bodies in existence in the Netherlands under the Netherlands Institute of Registered Accountants. Only those accountants who possess qualifications from a Dutch university can be registered accountants. The Institute has the status of a public body. The act provides that only those accountants whose names are entered in the register may legally use the title of registered accountant. Statutory audits may only be done by registered accountants. In addition to the university requirement, a registered accountant must also pass a qualifying exam. Moreover, those seeking an accounting diploma from a Dutch university must first obtain a degree in economics. Most Dutch accountants are over 30 before their training is completed. The rigor of the entrance requirements has made Institute membership a prized possession and the exclusivity of membership has elevated the social status of accountants.

In 1970, the Act on Annual Accounts of Enterprises was issued, which made

One interesting provision of the Act is that it does not require any specific valuation base but implies generally that “the bases of valuation must comply with standards that are deemed acceptable in economic and social life.” This seems to leave open the use of valuation based on historical cost or current cost.

Some writers have speculated that one reason for what they see to be the high standard of financial reporting in the Netherlands is that there is little government or other restriction on financial reporting or on the profession. What are some of the major influences that have resulted in the accounting profession’s being so highly respected and its standards of reporting being among the highest in the world?

Although the Netherlands has a sophisticated capital market, its size is not large
enough to provide adequately for the financing needs of numerous giant corporations. These firms have had to look outside for financing. Emphasis has been placed on providing adequate information in financial statements for the purpose of raising capital from outside Holland.

Another influence on accounting is the National Institute of Registered Accountants.

Selected Accounting Policies

In most cases, finance leases are capitalized in both the lessee’s and lessor’s books.