

International Harmonisation of Accounting

I will begin by making just a brief comment on international harmonisation of accounting, following this I will put forward arguments both for and against the harmonisation of accounting.

The aim of accounting harmonisation is to make the financial statements of companies comparable with the financial statements of companies in other countries. There certainly is no question that a standardised single set of international rules is needed. The harmonisation of accounting sets out a common set of standards, so that analysts, users of financial statements, people who make economic decisions, investment decisions have, in a sense, the same or equivalent information and they can compare the information that they have therefore enabling them to make those decisions.

As with any set of rules there will always be arguments both for and against and accounting harmonisation is no different. I will now present arguments for both cases.

Obviously when we speak of international harmonisation, businesses with multi-national dealing will be the main targets for any changes, reasons why they desire a standardised single set of rules include, accounting harmonisation is important because companies want to operate in a business environment in which they can trade, raise capital, list their securities and attract investors in different countries. Investors also want to seek new investment opportunities throughout the world. *The problems of analysing accounts from different countries that use different accounting methods increase finance costs in international capital markets. Cecchini (1988) reports on a survey of European multinational companies showing that different national accounting systems caused between 10% and 30% of the total accounting costs. H1 (Professor Oriol Amat Universitat Pompeu Fabra)*

Accounting harmonisation will assist companies and investors and, consequently, the efficient operation of capital markets. The cost of an accounting system within a multinational is increased both by the cost of designing and running different accounting systems in different countries, and the cost of adjusting accounts from different countries to the accounting system of the country of the holding company for consolidation purposes. *Accounting harmonisation is an important issue. For the Single Market there can be no doubt that everything must be done to lower the cost of capital, to increase investment and*

to reduce unemployment. If harmonisation can contribute to these objectives by facilitating the access of European companies to the capital market, there is a lot to say in favour of such harmonisation. H1

Given the fact that we would like to have harmonisation, and that we think it's critical to have a single set of rules and regulations, there are some concerns. Probably the most important argument against that I would mention is that, the accounting rules that we have must be capable of constant interpretation. That is, within the company, a given set of transactions, or a single transaction, ought to be evaluated the same way, all the time. If we want accounting harmonisation to be totally world wide, we have to take into consideration lesser developed economic countries, education standards are in general of a lot lower level in comparison to the more economically developed countries so there is a lot of education to be done, the international accounting standards have to be effectively communicated to the world. In some cases extraordinary lengths have to be reached to train and educate people about the international standards.

Despite the efforts of governments throughout the European Union, and the accounting profession through the IASC (International Accounting Standards Committee), substantial variations in accounting rules and practice continue to arise between different European countries, these variations give rise to both financing and compliance costs for European multi-nationals

In conclusion I think harmonisation of accounting is important, we need a single set of standards for everyone to follow, accounting harmonisation can help lower the cost of capital, increase investment and reduce unemployment, these points need to be addressed in order to support the Single Market, but for harmonisation to work consistent interpretation, a rigorous and internationally consistent enforcement mechanism and audit ability are three important issues that we need to keep in mind.